

SUNLIGHT TECHNOLOGY HOLDINGS LIMITED

深藍科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1950)

GLOBAL OFFERING

Sole Sponsor



Joint Global Coordinators



Joint Bookrunners and Joint Lead Managers



IMPORTANT

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

SUNLIGHT TECHNOLOGY HOLDINGS LIMITED

深藍科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares	:	250,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	25,000,000 Shares (subject to reallocation)
Number of International Placing Shares	:	225,000,000 Shares (subject to reallocation and the Over-allotment Option)
Offer Price	:	Not more than HK\$0.60 per Offer Share and expected to be not less than HK\$0.50 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	US\$0.0005 per Share
Stock code	:	1950

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Lead Managers



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

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

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Tuesday, 3 March 2020 and, in any event, not later than Tuesday, 10 March 2020. The Offer Price will be not more than HK\$0.60 and is currently expected to be not less than HK\$0.50. Applicants for the Offer Shares are required to pay, on application, the maximum Offer Price of HK\$0.60 for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$0.60.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters, and with our consent) may reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, 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 Tuesday, 3 March 2020, cause to be published on our Company's website at www.slkj.cn and the website of the Stock Exchange at www.hkexnews.hk notices of the reduction in the number of Hong Kong Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Further details are set out in the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for the Hong Kong Offer Shares" of this prospectus. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us by Tuesday, 10 March 2020, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

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

The Offer Shares have not been and will not be registered under the US Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in accordance with any applicable US securities laws.

The obligations of the Underwriters under the Underwriting Agreements to subscribe for, and to procure applicants for the subscription for, the Offer Shares, are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such grounds are set out in the section headed "Underwriting – Underwriting arrangements and expenses – Hong Kong Public Offering – Grounds for termination" of this prospectus. It is important that you refer to that section for further details.

EXPECTED TIMETABLE^(NOTE 1)

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

Hong Kong Public Offering commences and
WHITE and **YELLOW** Application Forms

available from. 9:00 a.m. on
Thursday, 27 February 2020

Latest time for completing electronic applications under
the **HK eIPO White Form** service through one
of the below ways (Note 4):

- (1) the designated website at www.hkeipo.hk; or
- (2) the **IPO App**, which can be downloaded
by searching “**IPO App**” in App Store or Google Play Store
or downloaded at www.hkeipo.hk/IPOApp or
www.tricorglobal.com/IPOApp (note 4) 11:30 a.m. on
Tuesday, 3 March 2020

Application lists for the Hong Kong Public Offering
open (note 2).....

11:45 a.m. on
Tuesday, 3 March 2020

Latest time for lodging **WHITE** and **YELLOW** Application Forms
and giving electronic application instructions to HKSCC (note 3).....

12:00 noon on
Tuesday, 3 March 2020

Latest time to complete payments for **HK eIPO**
White Form applications by effecting internet
banking transfer(s) or PPS payment transfer(s).....

12:00 noon on
Tuesday, 3 March 2020

Application lists close (note 2)..... 12:00 noon on
Tuesday, 3 March 2020

Expected Price Determination Date (note 6) Tuesday, 3 March 2020

Announcement of the Offer Price, the indications of the
level of interest in the International Placing, the level of
applications in the Hong Kong Public Offering, and the basis of
allocation of the Hong Kong Offer Shares to be published
at the websites of the Stock Exchange at www.hkexnews.hk
and the Company at www.slkj.cn
on or before (note 7)

Wednesday, 11 March 2020

EXPECTED TIMETABLE^(NOTE 1)

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. (See "How to Apply for the Hong Kong

Offer Shares – 11. Publication of results") from..... Wednesday, 11 March 2020

Results of allocations in the Hong Kong Public Offering

to be available at www.tricor.com.hk/ipo/result

(alternatively: www.hkeipo.hk/IPOResult) or available

at "Allotment Result" function in the **IPO App**

with a "search by ID" function from..... Wednesday, 11 March 2020

EXPECTED TIMETABLE^(NOTE 1)

Despatch of share certificates in respect of wholly
or partially successful applications pursuant to the Hong Kong
Public Offering on or before (*notes 5 & 8*)..... Wednesday, 11 March 2020

Despatch of **HK eIPO White Form** e-Auto Refund payment
instructions/refund cheques on or before
(*notes 7, 8, 9, 10 & 11*)..... Wednesday, 11 March 2020

Dealings in Shares on the Main Board of the
Stock Exchange to commence on.....Thursday, 12 March 2020

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure and Conditions of the Global Offering”.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above and/or Extreme Condition in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 3 March 2020, the application lists will not open and close on that day. Further information is set out in the section headed “How to Apply for the Hong Kong Offer Shares – 10. Effect of bad weather and/or extreme conditions on the opening of the application lists” of this prospectus. If the application lists do not open and close on Tuesday, 3 March 2020, the dates mentioned in this section headed “Expected Timetable” may be affected. An announcement will be made by us in such event.
- (3) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed “How to Apply for the Hong Kong Offer Shares – 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” of this prospectus for details.
- (4) 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 an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (5) Share certificates for the Hong Kong Offer Shares will become valid certificates of title at 8:00 a.m. on Thursday, 12 March 2020, provided that (i) the Global Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates or before the share certificates become valid certificates do so entirely at their own risk.
- (6) The Offer Price is expected to be determined on or about Tuesday, 3 March 2020 but in any event, the expected time for determination of the Offer Price will not be later than Tuesday, 10 March 2020. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators, on behalf of the Underwriters, and our Company by Tuesday, 10 March 2020, the Global Offering will not proceed and will lapse.

EXPECTED TIMETABLE^(NOTE 1)

- (7) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, the refund cheque.
- (8) Applicants who apply for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have provided all information required on their Application Forms may collect any refund cheque(s) and/or share certificate(s) 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, may do so in person from 9:00 a.m. to 1:00 p.m. on Wednesday, 11 March 2020. Applicants being individuals who apply for 1,000,000 Hong Kong Offer Shares or more and eligible for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Hong Kong Offer Shares or more and eligible for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chop. Identification and (where applicable) authorisation documents acceptable to our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, must be produced at the time of collection.
- (9) Applicants who apply for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have provided all information required by their Application Forms may collect their refund cheque(s), where applicable, in person but may not elect to collect their share certificate(s), which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheque(s) for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants specified in note (8) above.
- (10) Applicants who apply for Hong Kong Offer Shares via **HK eIPO White Form** should refer to the section headed "How to Apply for the Hong Kong Offer Shares – 13. Refund of Application Monies" of this prospectus.
- (11) Uncollected share certificate(s) and refund cheque(s) will be despatched by ordinary post at the applicants' own risk to the addresses specified on the relevant applications. Further details are set out in the section headed "How to Apply for the Hong Kong Offer Shares – 14. Despatch/collection of share certificates and refund monies".

For details of the structure of the Global Offering, including the conditions thereof, please refer to the section headed "Structure and Conditions of the Global Offering".

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IMPORTANT NOTICE TO INVESTORS

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

You should rely only on the information contained in this prospectus and the related Application Forms to make your investment decision. Our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, any of their respective directors or affiliates or any other persons or parties involved in the Global Offering have not authorised anyone to provide you with information that is different from what is contained in this prospectus and the related Application Forms. Any information or representation not made or contained in this prospectus or the related Application Forms must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, any of their respective directors or affiliates or any other persons or parties involved in the Global Offering. The contents of our website at www.slkj.cn do not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in our Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this section are defined or explained in the sections headed “Definitions” and “Glossary” of this prospectus.

OVERVIEW

We are an established faux leather chemicals manufacturer in the PRC principally engaged in the research and development, manufacturing and sale of coating agents and synthetic resins under our established brand of “**深藍科技**”. According to the CIC Report, we had a market share of approximately 0.75% in terms of revenue in 2018 in the faux leather chemicals manufacturing industry in the PRC, and ranked the fourth in the faux leather coating agents market in the PRC in terms of revenue in 2018, with a market share of approximately 1.9%.

Faux leather can be generally categorised into PU leather and PVC leather and has wide applications in different industries, including apparel, footwear, automobile interior decoration and home furnishings. Faux leather chemicals are chemicals used in the production process of faux leather. For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our revenue amounted to approximately RMB151.2 million, RMB157.6 million, RMB167.3 million and RMB130.1 million, respectively, and our net profit amounted to approximately RMB25.4 million, RMB35.0 million, RMB30.8 million and RMB15.2 million, respectively.

We are committed to enhancing and improving our research and development capabilities. Our research institute, Zhejiang Sunlight Synthetic Leather Special Materials Research Institute* (浙江省深藍合成革用特種材料研究院), was recognised by the Department of Science and Technology of Zhejiang Province* (浙江省科學技術廳), Development and Reform Commission of Zhejiang Province* (浙江省發展和改革委員會), and Zhejiang Provincial Economic and Information Commission* (浙江省經濟和信息化委員會) as an Enterprise Research Institute at Provincial Level* (省級企業研究院) in 2017. In addition, we have been collaborating with academic institutions to enhance the functionality, features and varieties of our existing products and develop new technologies to be used in our products. As at the Latest Practicable Date, we owned 36 patents and have made five patent applications in China. Over the years, we have also been awarded with a number of honours and recognitions for our products, such as “National Torch Plan Industrialisation Demonstration Project*” (國家火炬計劃產業化示範項目), “Zhejiang Excellent Industrial New Product*” (浙江省優秀工業新產品) and “Provincial Key High-tech Product*” (省重點高新技術產品).

OUR COMPETITIVE STRENGTHS

Our Directors believe that our success can be attributed to the following competitive strengths: (a) we are an established and active market player in the faux leather chemicals manufacturing industry in the PRC; (b) we possess strong research and development capabilities

SUMMARY

which allow us to offer a wide spectrum of portfolio of products; (c) we have established long-term business relationship with our major customers; and (d) we have an experienced management team with prominent industry expertise. Further information is set out in the section headed “Business – Our competitive strengths” in this prospectus.

OUR BUSINESS STRATEGIES

We strive to maintain sustainable growth of our business and strengthen our market position in the faux leather chemicals manufacturing industry by (a) further expanding our production capacity for existing products; (b) continuing to strengthen our research and development capabilities and further expanding our product portfolio and geographical coverage; and (c) enhancing automation of our existing production facility and information management system. Further information is set out in the section headed “Business – Our business strategies” in this prospectus.

OUR PRODUCTS

We offer a wide range of faux leather chemical products, including colourants, namely, colour paste and colour chips, finishes, additives and synthetic resins, for the manufacturing of PU leather and PVC leather.

Synthetic leather is a four-layered structure comprising, from the bottom to the top, the base layer, the wet layer, the dry layer and the surface layer. Our synthetic resins products may be applied to the dry layer of synthetic leather and its upper structures to connect the wet layer with the dry layer and to achieve certain properties such as to maintain the colour and textures of the faux leather, while our coating agents, namely colourants, finishes and additives products, are used for colouring faux leather or giving faux leather the ideal texture, patterns and other effects.

The table below sets out the breakdowns of our revenue, gross profit and gross profit margin by product type for the Track Record Period:

	For the year ended 31 December																	
	2016						2017						2018					
	Revenue	% of total	Sales volume	Average selling prices	Gross profit		Revenue	% of total	Sales volume	Average selling prices	Gross profit		Revenue	% of total	Sales volume	Average selling prices	Gross profit	
	RMB'000	revenue	(tonne)	(RMB'000/tonne)	RMB'000	%	RMB'000	revenue	(tonne)	(RMB'000/tonne)	RMB'000	%	RMB'000	revenue	(tonne)	(RMB'000/tonne)	RMB'000	%
Coating agents																		
Colourants																		
- Colour paste	69,540	46.0	4,531	15.3	27,558	39.6	72,382	45.9	4,749	15.2	22,821	31.5	82,553	49.3	5,303	15.6	24,868	30.1
- Colour chips	-	-	-	-	-	-	-	-	-	-	-	-	3,459	2.1	164	21.1	545	15.8
Colourants sub-total	69,540	46.0	4,531	15.3	27,558	39.6	72,382	45.9	4,749	15.2	22,821	31.5	86,012	51.4	5,467	15.7	25,413	29.5
Finishes	65,396	43.3	3,467	18.9	22,411	34.3	63,954	40.6	3,187	20.1	22,288	34.9	55,906	33.4	2,909	19.2	19,021	34.0
Additives	2,777	1.8	102	27.2	971	35.0	3,069	1.9	114	26.9	1,123	36.6	2,908	1.8	91	32.0	1,112	38.2
Coating agents sub-total	137,713	91.1	8,100		50,940	37.0	139,405	88.4	8,050		46,232	33.2	144,826	86.6	8,467		45,546	31.4
Synthetic resins	13,447	8.9	799	16.8	4,230	31.5	18,236	11.6	1,020	17.9	4,546	24.9	22,481	13.4	1,332	16.9	5,142	22.9
Total	151,160	100	8,899		55,170	36.5	157,641	100	9,070		50,778	32.2	167,307	100	9,799		50,688	30.3

SUMMARY

	For the nine months ended 30 September											
	2018						2019					
	Revenue RMB'000 (unaudited)	% of total revenue	Sales volume (tonne)	Average selling prices (RMB'000/ tonne)	Gross profit RMB'000 (unaudited)	Gross profit margin %	Revenue RMB'000	% of total revenue	Sales volume (tonne)	Average selling prices (RMB'000/ tonne)	Gross profit RMB'000	Gross profit margin %
Coating agents												
Colourants												
– Colour paste	58,229	47.8	3,902	14.9	15,986	27.5	54,947	42.2	3,061	18.0	19,771	36.0
– Colour chips	1,850	1.5	103	18.0	188	10.2	9,179	7.1	506	18.1	1,475	16.1
Colourants sub-total	60,079	49.3	4,005	15.0	16,174	26.9	64,126	49.3	3,567	18.0	21,246	33.1
Finishes	42,739	35.1	2,246	19.0	14,137	33.1	45,170	34.7	2,241	20.2	18,114	40.1
Additives	2,159	1.8	68	31.8	790	36.6	1,993	1.5	65	30.7	680	34.1
Coating agents sub-total	104,977	86.2	6,319		31,101	29.6	111,289	85.5	5,873		40,040	36.0
Synthetic resins	16,764	13.8	1,006	16.7	3,515	21.0	18,825	14.5	1,027	18.3	5,431	28.8
Total	121,741	100	7,325		34,616	28.4	130,114	100	6,900		45,471	34.9

The table below sets out the breakdown of our revenue by geographical location for the Track Record Period:

	For the year ended 31 December				For the nine months ended 30 September			
	2016		2017		2018		2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000 (unaudited)	% of total revenue
PRC								
– Zhejiang Province	63,947	42.3	67,469	42.8	68,293	40.8	52,313	43.0
– Guangdong Province	28,879	19.1	30,868	19.6	33,260	19.9	22,766	18.7
– Fujian Province	19,468	12.9	26,321	16.7	32,054	19.1	22,083	18.1
– Jiangsu Province	15,257	10.1	11,542	7.3	10,810	6.5	8,055	6.6
– Other provinces and cities ^(Note 1)	22,250	14.7	20,138	12.8	19,212	11.5	14,168	11.6
Sub-total	149,801	99.1	156,338	99.2	163,629	97.8	119,385	98.0
Overseas ^(Note 2)	1,359	0.9	1,303	0.8	3,678	2.2	2,356	2.0
Total	151,160	100	157,641	100	167,307	100	121,741	100

Note:

1 Other provinces and cities mainly represent Henan Province, Anhui Province, Shanghai etc.

2 This represents Brazil, Mexico, Turkey and Vietnam.

Further information regarding the breakdown of our revenue by geographical location is set out in the section headed “Financial Information – Principal components of consolidated statements of profit or loss and other comprehensive income – Breakdown of revenue by geographical location” in this prospectus.

SUMMARY

Further information regarding our products is set out in the section headed “Business – Our products” in this prospectus.

OUR PRODUCTION FACILITIES

During the Track Record Period and as at the Latest Practicable Date, our production facility was located at Jiande County, Hangzhou City, Zhejiang Province, the PRC* (中國浙江省杭州市建德市), with a gross floor area of approximately 22,490 sq. m.. As at the Latest Practicable Date, our Jiande Production Plant had 29, three and four production lines under operation for the production of our colour paste, colour chips and synthetic resins, respectively. In addition, we had nine production lines which can be used interchangeably to manufacture finishes and additives.

For the year ended 31 December 2016, 2017 and 2018, and for the nine months ended 30 September 2019, the utilisation rates of our production lines for colour paste were approximately 84.6%, 90.6%, 96.3% and 86.5%, respectively; those for finishes and additives were approximately 43.2%, 40.7%, 34.9% and 37.7%, respectively; and those for synthetic resins were approximately 27.8%, 32.7%, 37.5% and 39.0%, respectively. The utilisation rates of our production lines for colour chips, the commercial production of which commenced in March 2018, were approximately 25.0% and 100.0% during the year ended 31 December 2018 and the nine months ended 30 September 2019. For details of our Jiande Production Plant and its production capacity, please refer to the section headed “Business – Production facility” in this prospectus.

We expect the demand for our faux leather chemicals products will continue to increase. Moreover, we consider that the utilisation rates of our production facility for colour paste during the Track Record Period have reached a high level. As such, we plan to increase our production capacity to meet the anticipated increasing market demand.

To achieve this objective, we intend to build 12 additional production lines for our colour paste, which will be located in our New Production Plant. Further information regarding our expansion plan is set out in the section headed “Business – Production facility – New production facility” in this prospectus.

OUR CUSTOMERS

Our customers include manufacturers of synthetic leather, trading entities and distributors. The table below sets out the breakdown of our revenue by customer type during the Track Record Period:

	For the year ended 31 December						For the nine months ended 30 September			
	2016	2017		2018			2018	2019		
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000 (unaudited)	% of total revenue	RMB'000	% of total revenue
Manufacturers	124,270	82.2	122,428	77.7	133,190	79.6	95,522	78.5	105,930	81.4
Trading entities	18,177	12.0	24,802	15.7	27,056	16.2	20,453	16.8	19,274	14.8
Distributors <i>(Note)</i>	8,713	5.8	10,411	6.6	7,061	4.2	5,766	4.7	4,910	3.8
Total	151,160	100	157,641	100	167,307	100	121,741	100	130,114	100

Note: This refers to the sales to the PRC distributors which have entered into a distributorship agreement with our Group

Our customers are mainly manufacturers of synthetic leather in the PRC, which are mainly located in Zhejiang, Guangdong, Fujian and Jiangsu Provinces. During the Track Record Period, we also had certain overseas customers located in Brazil, Mexico, Turkey and Vietnam.

During the Track Record Period, sales to our five largest customers accounted for approximately 36.6%, 37.3%, 40.8% and 37.7% of our total revenue, respectively. During the Track Record Period and up to the Latest Practicable Date, none of our Directors, their respective close associates or any Shareholders who owned more than 5% of our issued share capital as at the Latest Practicable Date, to the best knowledge of our Directors, had any interest in any of our five largest customers.

SUMMARY

Pricing policy

Our pricing policy aims to facilitate our profitable and sustainable growth strategy. In determining the prices of our products, we take into account a number of factors including costs of raw materials, labour costs and the specification requirements of the products. The prices of our products are generally determined on a “cost-plus” basis, comprising mainly the costs of raw materials, labour costs and our profit margin.

SALES AND MARKETING

During the Track Record Period we mainly directly marketed our products to customers through our sales department. Our sales department is responsible for business development and cooperates with our research and development department to carry out marketing campaigns when necessary. Further information regarding our sales and marketing activities is set out in the section headed “Business – Sales and marketing” in this prospectus.

OUR SUPPLIERS

For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our purchase from our five largest suppliers amounted to approximately RMB22.8 million, RMB23.1 million, RMB29.8 million and RMB19.8 million, respectively, representing approximately 26.7%, 23.5%, 27.0% and 23.5%, respectively, of our total purchase for the same periods. During the Track Record Period and up to the Latest Practicable Date, none of our Directors, their respective close associates or any Shareholders who owned more than 5% of our issued share capital, to the best knowledge of our Directors, had any interests in any of our five largest suppliers.

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

SUMMARY OF KEY FINANCIAL INFORMATION

The tables below are summaries of our consolidated results for the Track Record Period, which were extracted from the Accountants’ Report as set out in Appendix I to this prospectus.

Consolidated statements of profit or loss and other comprehensive income

	For the year ended 31 December			For the nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
				(Unaudited)	
Revenue	151,160	157,641	167,307	121,741	130,114
Cost of sales	(95,990)	(106,863)	(116,619)	(87,125)	(84,643)
Gross profit	55,170	50,778	50,688	34,616	45,471
Profit before tax	29,644	38,486	35,307	21,813	18,587
Profit after tax	25,406	34,950	30,790	19,202	15,204

During the Track Record Period, our revenue was principally derived from the sales of coating agents and synthetic resins in the PRC.

SUMMARY

Our revenue was mainly derived from the sales of coating agents and synthetic resins. The sales of coating agents remained the largest portion of our revenue.

Our revenue increased from approximately RMB151.2 million for the year ended 31 December 2016 to approximately RMB157.6 million for the year ended 31 December 2017, which was mainly due to (i) the increase in the sales of coating agents which was mainly due to the increase in the sales of our colour paste as a result of the commencement of sales to Customer F in 2017; partially offset by (ii) the decrease in sales of finishes as a result of the decrease in sales to Customer C, Customer E, Customer B and a customer which ceased operation in October 2016; and (iii) the increase in the sales of synthetic resins as a result of the increase in sales to Customer A and a faux leather manufacturer. Along with the increase in our revenue, our cost of sales increased from approximately RMB96.0 million for the year ended 31 December 2016 to approximately RMB106.9 million for the year ended 31 December 2017, primarily due to the increase in the cost of raw materials, which was in line with the increase in our overall sales volume. Our gross profit decreased from approximately RMB55.2 million for the year ended 31 December 2016 to approximately RMB50.8 million for the year ended 31 December 2017, which was mainly due to the decrease in the gross profit of our coating agents from approximately RMB50.9 million for the year ended 31 December 2016 to approximately RMB46.2 million for the year ended 31 December 2017, which was mainly due to the decrease in the gross profit of our colourants as a result of the increase in our average purchase prices of major raw materials for the production of colourants. Despite the decrease in our gross profit, our net profit increased from approximately RMB25.4 million for the year ended 31 December 2016 to approximately RMB35.0 million for the year ended 31 December 2017, which was mainly due to the combined effects of (i) the decrease in administrative and general expenses; and (ii) the gain on disposal of a subsidiary amounted to approximately RMB11.0 million for the year ended 31 December 2017.

Our revenue increased from approximately RMB157.6 million for the year ended 31 December 2017 to approximately RMB167.3 million for the year ended 31 December 2018, which was mainly due to (i) the increase in the sales of coating agents which was mainly due to the increase in the sales of our colour paste to Customer F and the commencement of the sales of our colour chips in March 2018; partially offset by (ii) the decrease in sales of finishes as a result of the decrease in sales volume of our high-performance finishes during the year; and (iii) the increase in the sales of synthetic resins as a result of the increase in sales to Customer A, Customer E and two other faux leather manufacturers. Along with the increase in our revenue, our cost of sales increased from approximately RMB106.9 million for the year ended 31 December 2017 to approximately RMB116.6 million for the year ended 31 December 2018, primarily due to the increase in the cost of raw materials, which was in line with the increase in our overall sales volume; partially offset by the decrease in direct labour costs for the year. Our gross profit remained relatively stable at approximately RMB50.8 million and RMB50.7 million for the year ended 31 December 2017 and 2018, respectively, which was mainly due to the increase in gross profit of our colourants as a result of the increase in sales volume and average selling prices; partially offset by the decrease in gross profit of our finishes as a result of the decrease in sales volume of our high-performance finishes. Our net profit decreased from approximately RMB35.0 million for the year ended 31 December 2017 to approximately RMB30.8 million for the year ended 31 December 2018, which was mainly due to absence of the one-off gain on disposal of a subsidiary for the year ended 31 December 2018.

SUMMARY

Our revenue increased from approximately RMB121.7 million for the nine months ended 30 September 2018 to approximately RMB130.1 million for the nine months ended 30 September 2019, which was mainly due to (i) the increase in the sales of coating agents which was mainly due to the increase in the sales of our colour paste for the production of microfibre leather which we commenced commercial production in December 2018 and the increase in the sales of our colour chips which we commenced commercial production in March 2018; and (ii) the increase in the sales of synthetic resins driven by our sales of newly developed synthetic resins products which provided better stability or other functionalities and had relatively higher selling prices. Despite the increase in our revenue, our cost of sales decreased from approximately RMB87.1 million for the nine months ended 30 September 2018 to approximately RMB84.6 million for the nine months ended 30 September 2019, primarily due to the decrease in the cost of raw materials, which was mainly due to the decrease in the average purchase prices of polymers and solvents during the period. Our gross profit increased from approximately RMB34.6 million for the nine months ended 30 September 2018 to approximately RMB45.5 million for the nine months ended 30 September 2019, which was mainly due to (i) the increase in gross profit of our colourants as a result of the increase in sales of colour paste for the production of microfibre leather and sales of colour chips; and (ii) the increase in gross profit of our synthetic resins as a result of the increase in sales volume and average selling price. Despite the increase of our gross profit, our net profit decreased from approximately RMB19.2 million for the nine months ended 30 September 2018 to approximately RMB15.2 million for the nine months ended 30 September 2019, which was mainly due to the Listing expenses of approximately RMB11.3 million.

For more detailed discussion of the fluctuation of our key financial data during the Track Record Period, please refer to the section headed “Financial information” in this prospectus.

NON-IFRS MEASURES

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also presented the adjusted net profits, adjusted EBITDA and adjusted net profit margin as non-IFRS measures, which is not required by, or presented in accordance with, IFRS. We believe that these non-IFRS measures facilitate comparison of operating performance from period to period by eliminating potential impacts of items that we do not consider to be indicative of our operating performance, including one-off disposals and the Listing expenses.

The table below sets out the adjusted net profit, adjusted EBITDA and adjusted net profit margin in each respective period during the Track Record Period:

SUMMARY

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profits for the year/period	25,406	34,950	30,790	19,202	15,204
Add/(Less):					
– Gain on disposal of a subsidiary ^(Note 1)	–	(11,017)	–	–	–
– Gain on disposal of property ^(Note 2)	–	–	(1,913)	(1,913)	–
– Listing expenses	–	–	–	–	11,285
Adjusted net profit for the year/period (before adjustment of tax effect)	25,406	23,933	28,877	17,289	26,489
Add:					
Interest expense	630	484	530	398	484
Income tax expense	4,238	3,536	4,517	2,611	3,383
Depreciation and amortisation	8,377	8,392	7,019	5,218	5,117
Adjusted EBITDA for the year/period	<u>38,651</u>	<u>36,345</u>	<u>40,943</u>	<u>25,516</u>	<u>35,473</u>
Adjusted net profit for the year/period (after adjustment of tax effect)	25,406	23,933	29,164	17,576	26,489
Adjusted net profit margin for the year/period ^(Note 3)	16.8%	15.2%	17.4%	14.4%	20.4%

Notes:

1. This represented the non-recurring gain on disposal of a subsidiary, Deqing Hongsheng, to two Independent Third Parties in February 2017. For further details, please refer to the section headed “Financial Information – Principal components of consolidated statements of profit or loss and other comprehensive income – Gain on disposal of a subsidiary” in this prospectus.
2. This represented the non-recurring gain on disposal of property to Hangzhou Qiyue, one of the then shareholders of Zhejiang Sunlight, in 2018. For further details, please refer to the section headed “Business – Properties” in this prospectus.
3. Adjusted net profit margin is calculated by dividing adjusted net profit for the year/period (after adjustment of tax effect) by revenue for the same year/period.

SUMMARY

We believe that these non-IFRS measures provide useful information to investors and others in understanding and evaluating our results of operations in the same manner as our management and in comparing financial results across accounting periods. The use of these non-IFRS measures has limitations as an analytical tool, as such, they should not be considered in isolation from, or as substitute for analysis of, our consolidated statements of profit or loss or financial condition as reported under IFRS. In addition, the non-IFRS financial measures may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures presented by other companies.

Consolidated statements of financial position

	As at 31 December		As at 30 September	
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	114,990	113,227	80,691	80,046
Current assets	88,170	84,220	95,100	115,154
Total assets	203,160	197,447	175,791	195,200
Total equity	111,828	146,778	127,168	135,144
Non-current liabilities	–	1,095	958	11,797
Current liabilities	91,332	49,574	47,665	48,259
Total liabilities	91,332	50,669	48,623	60,056
Net current (liabilities)/assets	(3,162)	34,646	47,435	66,895

The decrease in our non-current assets during the Track Record Period was mainly due to the sales of a premises to Hangzhou Qiyue in March 2018. The decrease in our current liabilities from approximately RMB91.3 million as at 31 December 2016 to approximately RMB49.6 million as at 31 December 2017 was mainly due to (i) the decrease in other payables and accounts; (ii) the settlement of amount due to a Director; and (iii) the decrease in dividend payables. Our total liabilities increased from approximately RMB48.6 million as at 31 December 2018 to approximately RMB60.1 million as at 30 September 2019, which was mainly attributable to the increase in bank and other borrowings.

The increase in our total equity from approximately RMB111.8 million as at 31 December 2016 to approximately RMB146.8 million as at 31 December 2017 was mainly due to the accumulation of net profit for the year under retained earnings and statutory reserve. The decrease in our total equity from approximately RMB146.8 million as at 31 December 2017 to approximately RMB127.2 million as at 31 December 2018 was mainly due to dividend declared during the year offset by the accumulation of net profit for the year under retained earnings and statutory reserve. Our total equity increased from approximately RMB127.2 million as at 31 December 2018 to approximately RMB135.1 million as at 30 September 2019, which was mainly attributable to the accumulation of net profit for the period under retained earnings and statutory reserve.

SUMMARY

We recorded net current liabilities of approximately RMB3.2 million as at 31 December 2016, which was mainly due to the declaration of dividend of RMB50.0 million in March 2016 and there was a remaining balance of the dividend payables of approximately RMB28.4 million as at 31 December 2016. For more detailed discussion of our consolidated statements of financial position, please refer to the section headed “Financial Information – Assets and liabilities” in this prospectus.

Consolidated statements of cash flows

	For the year ended 31 December			For the nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Operating cash inflow before movements in working capital	36,136	36,756	40,443	25,446	24,368
Movements in working capital	21,449	(20,108)	(13,120)	(8,949)	(22,636)
Income tax paid	(3,149)	(5,426)	(2,430)	(2,430)	(6,228)
Net cash generated from/(used in) operating activities	54,436	11,222	24,893	14,067	(4,496)
Net cash (used in)/generated from investing activities	(13,815)	12,936	(1,213)	(3,004)	(5,337)
Net cash (used in)/generated from financing activities	(36,505)	(27,204)	(19,733)	(12,202)	3,346
Cash and cash equivalents at the beginning of the year/period	5,145	9,261	6,215	6,215	10,162
Cash and cash equivalent at the end of the year/period	9,261	6,215	10,162	5,076	3,395

Our Group recorded net cash generated from/(used in) operating activities of approximately RMB54.4 million, RMB11.2 million, RMB24.9 million and RMB(4.5 million), respectively, for the years ended 31 December 2016, 2017 and 2018 and nine months ended 30 September 2019. The decrease in net cash generated from operating activities for the year ended 31 December 2017 was mainly attributable to (i) increase in trade and bills receivables, which was in line with the increase in the sales of our products; (ii) decrease in other payables and accruals, which was mainly attributable to our settlement of the retention money to the contractor of our Jiande Production Plant for the outstanding and/or rectification works; and (iii) decrease in the amount due to a Director. The Group recorded net cash outflow from operating activities for the nine months ended 30 September 2019, which was mainly due to (i) decrease in profit before tax, which was mainly due to the Listing expenses incurred during the period; (ii) increase in inventories, which was mainly attributable to the increase in raw materials, which was mainly due to the increase in the stock level of certain raw materials of new pigments and to cope with the expected higher sales for the year end; and (iii) increase in trade and bills receivables, which was mainly due to the sales in the second and third quarters of 2019.

Our Group's net cash generated from investing activities increased to approximately RMB12.9 million for the year ended 31 December 2017 was mainly due to the proceed from disposal of a subsidiary, Deqing Hongsheng.

We have taken and will continue to take various measures to improve our cash flow position by (i) planning and monitoring our liquidity position on a regular basis by regularly assessing necessity and urgency of our major operational expenses; (ii) closely monitoring the collection status of our trade receivables, actively following up with our customers for payment by our sales department led by our deputy general manager; (iii) diversifying our customers and suppliers to avoid over-reliance on any particular customers or suppliers; (iv) negotiating for longer credit periods from our suppliers leveraging on our established relationships; and (v) maintaining stable relationships with our principal banks to arrange banking facilities for use when necessary.

For more detailed discussion of the fluctuation of our cash flows during the Track Record Period, please refer to the section headed “Financial Information – Liquidity and capital resources – Cash flows” in this prospectus.

SUMMARY

KEY FINANCIAL RATIOS

The table below sets out our selected key financial ratios during the Track Record Period:

	As at/for the year ended 31 December			As at/ for the nine months ended 30 September
	2016	2017	2018	2019
Gross profit margin	36.5%	32.2%	30.3%	34.9%
Net profit margin	16.8%	22.2%	18.4%	11.7%
Gearing ratio	14.0%	6.8%	7.9%	17.3%
Current ratio	0.9	1.7	2.0	2.4
Quick ratio	0.7	1.4	1.7	2.0
Return on equity	24.6%	23.8%	24.2%	15.0%
Return on assets	13.1%	17.7%	17.5%	10.4%
Net debt to equity ratio	5.0%	2.6%	Net cash	14.8%

The gross profit margin decreased from approximately 36.5% for the year ended 31 December 2016 to approximately 32.2% for the year ended December 2017 and further to approximately 30.3% for the year ended 31 December 2018, which was mainly due to the combined effects of (i) the decrease in gross profit margin of our coating agents from approximately 37.0% for the year ended 31 December 2016 to approximately 33.2% for the year ended 31 December 2017 and further to approximately 31.4% for the year ended 31 December 2018 as a result of the increase in our average purchase prices of raw materials; and (ii) the decrease in gross profit margin of synthetic resins, from approximately 31.5% for the year ended 31 December 2016 to approximately 24.9% for the year ended 31 December 2017 mainly due to the increase in our average purchase prices of raw materials; and further to approximately 22.9% for the year ended 31 December 2018 mainly due to (i) the decrease in the overall average selling price of our synthetic resins products sold to Customer G; and (ii) the sales of a new product used in the production of faux leather in white, which had a lower selling price and gross profit margin. The gross profit margin increased from approximately 28.4% for the nine months ended 30 September 2018 to approximately 34.9% for the nine months ended 30 September 2019, which was mainly due to (i) the increase in the average selling prices of our faux leather chemicals products; and (ii) the decrease in our cost of raw materials, primarily resulting from the decrease in average purchase prices of polymers and solvents for the period.

The net profit margin increased from approximately 16.8% for the year ended 31 December 2016 to approximately 22.2% for the year ended 31 December 2017, which was mainly due to (i) the decrease in administrative and general expenses; and (ii) the gain on disposal of a subsidiary for the year ended 31 December 2017. The net profit margin decreased from 22.2% for the year ended 31 December 2017 to approximately 18.4% for the year ended 31 December 2018, which was mainly due to decrease in gross profit margin for the year ended 31 December 2018. The net profit margin decreased to approximately 11.7% for the nine months ended 30 September 2019, which was mainly due to the Listing expenses of approximately RMB11.3 million which was charged to profit or loss for the nine months ended 30 September 2019.

Our gearing ratio decreased from approximately 14.0% as at 31 December 2016 to approximately 6.8% as at 31 December 2017, primarily due to the settlement of the amount due to a Director in 2017. Our gearing ratio further increased to approximately 17.3% as at 30 September 2019, primarily due to the increase in bank and other borrowings as at 30 September 2019.

Our current ratio increased from approximately 0.9 time as at 31 December 2016 to approximately 1.7 times and 2.0 times as at 31 December 2017 and 2018, respectively. The increase in current ratio was mainly due to (i) the decrease in our other payable in relation to the settlement of the payable amount for the acquisition of the premises in Hangzhou; (ii) decrease in dividend payables; and (iii) the overall increase in trade and bills receivables during the year end. Our current ratio increased from approximately 2.0 times as at 31 December 2018 to approximately 2.4 times as at 30 September 2019 mainly due to the overall increase in trade and bills receivables during the period end. The movement of quick ratio was consistent with the trend of current ratio during the Track Record Period.

SUMMARY

Our return on equity decreased from approximately 24.6% for the year ended 31 December 2016 to approximately 23.8% for the year ended 31 December 2017, which was primarily due to increase in equity as a result of the increase in the net profit offset by the settlement of dividend payables in 2017. Our return on equity decreased from approximately 24.2% for the year ended 31 December 2018 to approximately 15.0% for the nine months ended 30 September 2019, on an annualised basis, mainly due to the Listing expense incurred during the period.

Our return on total assets increased for approximately 13.1% for the year ended 31 December 2016 to approximately 17.7% for the year ended 31 December 2017, primarily due to the increase in net profits during the year. Our return on total assets decreased to approximately 10.4% for the nine months ended 30 September 2019, on an annualised basis, mainly due to the Listing expense incurred during the period.

Our net debt to equity ratio increased to approximately 14.8% as at 30 September 2019 which was mainly due to the increase in bank and other borrowings as at 30 September 2019.

For more detailed discussion of the fluctuation of the above financial ratios, please refer to the section headed “Financial Information – Key financial ratios” in this prospectus.

CONNECTED TRANSACTION

We have, in the ordinary and usual course of business, entered into a lease agreement with Hangzhou Qiyue, a connected person of our Company, in respect of the lease of a premises for office and research and development use, which constitutes an exempt continuing connected transaction for our Company under Chapter 14A of the Listing Rules. Further information on the lease agreement is set out in the section headed “Connected Transaction” in this prospectus.

SHAREHOLDERS’ INFORMATION

Immediately following the completion of the Capitalisation Issue and the Global Offering (taking into no account of the Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), Sunlight Global and Lilian Global will be interested in 72.75% of the issued share capital of our Company. Hence, Sunlight Global and its beneficial owners, namely, Mr. Chen Hua, Ms. Zhu Jianqin, Mr. Li Xiangyu, Mr. He Zhangcai, Mr. Zhao Xuesheng, Mr. Cai Jianming and Mr. Chen Yong, as well as Lilian Global and its beneficial owner, Ms. Liu Jing (collectively as a group of Controlling Shareholders), will be our Controlling Shareholders. Further information on our Controlling Shareholders is set out in the section headed “Relationship with Our Controlling Shareholders” in this prospectus.

PRE-IPO INVESTMENT

In January 2019, New Element, a company wholly and beneficially owned by Jumping Jive which is in turn wholly and beneficially owned by Ms. Tong Ming Yi, agreed to acquire 3% equity interests in Zhejiang Sunlight from Huzhou Milan at a consideration of RMB3.18 million, which was determined with reference to the net assets value of Zhejiang Sunlight as at 31 December 2018 pursuant to a valuation report prepared by an independent valuer. The consideration was fully settled and the Pre-IPO Investment was completed on 9 May 2019. For details, please refer to the section headed “History, Development and Reorganisation – Pre-IPO Investment” in this prospectus.

SUMMARY

GLOBAL OFFERING STATISTICS

Offer size	Initially 250,000,000 Shares, representing 25% of the enlarged number of Shares in issue (subject to Over-allotment Option)
Offer structure	90% International Placing (subject to reallocation and the Over-allotment Option) and 10% Hong Kong Public Offering (subject to reallocation)
Over-allotment Option	Up to 15% of the initial number of our Offer Shares
Offer Price	HK\$0.5 to HK\$0.6 for each Share

	Based on the low end of the indicative range of the Offer Price of HK\$0.5	Based on the high end of the indicative range of the Offer Price of HK\$0.6
Market capitalisation of our Shares ⁽¹⁾	HK\$500,000,000	HK\$600,000,000
Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽²⁾	HK\$0.26	HK\$0.28

Notes:

- (1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised. The calculation of the market capitalisation is based on 1,000,000,000 Shares which are expected to be issued and outstanding following completion of the Capitalisation Issue and the Global Offering.
- (2) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated after the adjustments referred to in Appendix II to this prospectus and based on 1,000,000,000 Shares, being Shares in issue immediately after the completion of the Capitalisation Issue and the Global Offering. It does not take into account of any Shares which may be allocated and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the directors of the Company to issue or repurchase Shares referred to in the sections headed “Share Capital – General mandate to issue Shares” and “Share Capital – General mandate to repurchase Shares” in this prospectus, respectively.

DIVIDEND

For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, dividends of RMB50.0 million, nil, RMB50.4 million and RMB7.2 million, respectively, were declared by Zhejiang Sunlight and distributed to the then shareholders and were settled in full. The declaration and payment of future dividends will be subject to the decision of our Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospect, capital requirements, and economic outlook. Declaration and payment of dividends is also subject to any applicable laws and the Articles of Association. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future. Currently, our Group does not have a fixed dividend policy and does not have a pre-determined dividend distribution ratio.

SUMMARY

FUTURE PLANS AND USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Global Offering, after deducting related underwriting fees and estimated expenses in connection with the Global Offering, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$0.55 per Share (being the mid-point of the indicative Offer Price range of HK\$0.5 to HK\$0.6), will be approximately HK\$91.4 million (equivalent to approximately RMB78.1 million). Our Directors presently intend to apply such net proceeds as follows:

- approximately RMB46.9 million (equivalent to approximately HK\$54.8 million), representing approximately 60.0% of the net proceeds from the Global Offering, will be used for the construction of our New Production Plant near our existing Jiande Production Plant and purchase of new machinery and equipment;
- approximately RMB12.8 million (equivalent to approximately HK\$15.0 million), representing approximately 16.4% of the net proceeds from the Global Offering, will be used for strengthening the automation system including but not limited to (a) the installation of fully automated production lines in two workstations, which includes the installation of intelligence robotic arms, product-lifting device, and other machinery; (b) setting up of a central operation control room to facilitate collection of production data and monitoring of the product manufacturing process; and (c) setting up of a system for improvement of product manufacturing data analysis and tracking of the whole product manufacturing process;
- approximately RMB17.0 million (equivalent to approximately HK\$19.9 million), representing approximately 21.8% of the net proceeds from the Global Offering, will be used for strengthening our research and development capabilities by (a) relocating our existing research institute to our existing Jiande Production Plant to enhance efficiency of our product development; (b) hiring more experienced experts and engineers; and (c) acquiring more advanced research and development equipment and testing equipment; and
- approximately RMB1.4 million (equivalent to approximately HK\$1.7 million), representing approximately 1.8% of the net proceeds from the Global Offering, will be used for our general working capital.

For further details, please refer to the section headed “Future Plans and Use of Proceeds – Use of proceeds” in this prospectus.

PRINCIPAL RISK FACTORS

Our risks may be broadly categorised into (a) risks relating to our business, (b) risks relating to the industry in which we operate, (c) risks relating to conducting business in the PRC; and (d) risks relating to the Global Offering. We believe that our major risks include: (i) our business, results of operations and financial conditions could be adversely affected by the outlook and performance of our downstream industries; (ii) our business operations and financial results may be adversely affected by the outbreak of COVID-19 originated from Wuhan City, Hubei Province, the PRC; (iii) our profitability could be adversely impacted if we are unable to sustain high utilisation

SUMMARY

rate of our production equipment for our key products; (iv) our business relies on production processes and technologies that are subject to continuous change and we cannot guarantee that we will be able to successfully develop or acquire new production processes and technologies on a timely basis, or at all; (v) we have not entered into long-term agreements with our customers and demand for our products may fluctuate; (vi) any failure by our customers to make payments to us, or any disputes over, or significant delays in receiving, such payments could materially and adversely affect our cash flows and profitability; (vii) our business expansion plan may not be completed as planned and may not achieve commercial viability or the intended economic results; and (viii) we are required to comply with numerous complex and increasingly stringent domestic and foreign health, safety and environmental laws and regulations applicable to our industry, the cost of which is likely to increase and may materially and adversely affect our financial results. Further information on the risk factors is set out in the section headed “Risk Factors” in this prospectus.

NON-COMPLIANCES

According to our PRC Legal Advisers, save for our failure to make adequate social insurance contributions and housing provident fund contributions for our employees as required by the relevant PRC laws and regulations, details of which are set out in the section headed “Business – Legal proceedings and legal compliance” in this prospectus, during the Track Record Period and up to the Latest Practicable Date, we had been in compliance with the relevant PRC laws and regulations in all material aspects in our business operation, and our Group had obtained all material licences, approvals and permits issued by relevant regulatory authorities for our business operation.

LISTING EXPENSES

For the years ended 31 December 2016, 2017 and 2018, we did not record any Listing expenses. The total estimated listing expenses in connection with the Global Offering are approximately RMB39.4 million (equivalent to approximately HK\$46.1 million or approximately 33.5% to the gross proceeds) (based on the mid-point of the Offer Price of HK\$0.55 per Offer Share and assuming no Over-allotment Option will be exercised), of which approximately RMB11.3 million (equivalent to approximately HK\$13.2 million) was charged to profit or loss for the nine months ended 30 September 2019, and an additional amount of approximately RMB9.9 million (equivalent to approximately HK\$11.6 million) is expected to be charged to our consolidated statements of profit or loss and other comprehensive income for the year ending 31 December 2020 and the remaining amount of approximately RMB18.2 million (equivalent to approximately HK\$21.3 million) is expected to be accounted for as a deduction from equity upon the Listing.

SUMMARY

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2019

Our Directors estimate, on the bases set out in Appendix III to this prospectus, that our estimated consolidated profit and unaudited pro forma estimated basic earnings per Share for the year ended 31 December 2019 are as follows:

Estimated consolidated profit for the year
ended 31 December 2019 ^(Note 1) not less than RMB23.5 million

Unaudited pro forma estimated basic earnings per Share
for the year ended 31 December 2019 ^(Notes 2 and 3) not less than RMB2.35 cents

Notes:

- (1) The profit estimate, for which our Directors are solely responsible for, has been prepared by our Directors based on our audited consolidated results for the nine months ended 30 September 2019 and unaudited consolidated results based on our management accounts for the three months ended 31 December 2019. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies that we adopt as set out in the Accountants' Report in Appendix I to this prospectus.
- (2) The unaudited pro forma estimated basic earnings per Share for the year ended 31 December 2019 has been prepared in accordance with paragraph 4.29 (1) of the Listing Rules on the basis set out in the note below for the purpose of illustrating the effect of the Global Offering, as if it had taken place on 1 January 2019. The unaudited pro forma estimated basic earnings per Share has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the financial results of our Group following the Global Offering.
- (3) The calculation of the unaudited pro forma estimated basic earnings per Share for the year ended 31 December 2019 is based on the estimated consolidated profit for the year ended 31 December 2019, and assuming a weighted average of 1,000,000,000 Shares in issue during the year ended 31 December 2019 and the Global Offering had been completed on 1 January 2019, without taking into account of any Shares which (i) may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued upon exercise of the Over-allotment Option; or (ii) any Shares may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix VI to this prospectus.

SUMMARY

RECENT DEVELOPMENTS SUBSEQUENT TO THE TRACK RECORD PERIOD

We continued to focus on the sales of our faux leather chemical products after the Track Record Period and up to the Latest Practicable Date. For the year ended 31 December 2019, we experienced continuous growth of the sales of our colour chips, which we commenced the commercial production since March 2018. Our sales amount and volume of colour chips for the year ended 31 December 2019 were higher compared to those for the year ended 31 December 2018. We achieved stable gross profit margin after the Track Record Period and up to 31 December 2019.

An outbreak of respiratory disease caused by COVID-19 first emerged in Wuhan City, Hubei Province, the PRC in late 2019 and continues to expand within the PRC and globally. The new strain of coronavirus is considered highly contagious and may pose a serious public health threat. On 23 January 2020, the PRC government announced the lockdown of Wuhan City in an attempt to quarantine the city, followed by draconian measures imposed by the PRC in various regions of the nation including travel restrictions in major cities. Various countries and territories have also imposed travel restrictions, such as denial of entry, against travellers from the PRC and/or those who have been to the PRC for the past 14 days. The World Health Organization (“WHO”) is closely monitoring and evaluating the situation. On 30 January 2020, the WHO declared the outbreak of COVID-19 a Public Health Emergency of International Concern.

Following the spread of COVID-19 to Zhejiang Province, on 4 February 2020, the relevant authorities in Hangzhou City have also imposed epidemic prevention measures such as compulsory temperature checks, closure of public venues and restrictions for factories to resume work during the extended Lunar New Year holiday.

The outbreak of COVID-19, which may result in a high number of fatalities and disruption of production activities, is likely to have an adverse impact on the livelihood of the people in and the economy of the PRC, particularly Wuhan City and Hubei Province. The consumption markets of the PRC such as footwear, handbags and luggage, and sports equipment, which are downstream of faux leather manufacturing industry, may be adversely affected, which will in turn affect the faux leather chemicals manufacturing industry in the PRC. However, our Directors believe that, based on information up to the date of this prospectus, the outbreak of COVID-19 would not result in a material disruption to our production and business operations due to the fact that (i) our major PRC customers are not from Wuhan City or other cities in Hubei Province; (ii) our major suppliers are not located in the Hubei Province, and given that our major raw materials are primarily polymers and auxiliary materials which are produced and readily available from suppliers in various regions of the PRC, we are generally able to source alternative supplies if any of our current suppliers are affected by disruption caused by the spread of the disease; (iii) our employees do not reside in Hubei Province and majority of our employees are local residents who are able to come to work at

SUMMARY

our Jiande Production Plant; (iv) according to the notices announced by the local government, the Lunar New Year holiday was extended to 10 February 2020, and our production and sales activities have been resumed since 10 February 2020; (v) none of our customers who had placed orders with us before the outbreak of COVID-19 have cancelled their orders and we have been able to perform our contracts with our customers; (vi) generally the first quarter of a year is our low season due to the Lunar New Year holiday; and (vii) up to the date of this prospectus, none of our production facilities are located in the Hubei Province or cities or regions affected by lockdowns which would cause material operational disruption. To prevent any widespread of COVID-19 in our production facilities and office, we have established an epidemic prevention and control working group to undertake various precautionary measures such as (i) enhancing the hygienic level of our Jiande Production Plant and our office by cleaning and sanitising areas including office, production plants, laboratories, cafeteria and washrooms regularly; (ii) performing compulsory daily temperature checks of all our employees before and after work; (iii) minimising in-person meetings to the extent possible; and (iv) requesting our employees to wear masks at all time during work and report to us promptly whenever they feel unwell.

While the faux leather chemicals manufacturing industry in the PRC may experience certain extent of impact as a result of the outbreak of COVID-19, given the long-term trend for replacement of genuine leather by faux leather and increasing demand of faux leather by a wide range of downstream applications, CIC are of the view that, once the outbreak is effectively controlled, the impact on the faux leather chemicals manufacturing industry will be temporary.

Save as the Listing expenses, our Directors confirmed that since 30 September 2019 and up to the date of this prospectus, (i) there was no material adverse change in the market conditions or the industry and environment in which our Group operates that materially and adversely affect our financial and operating position; (ii) there was no material adverse change in the trading and financial position or prospect of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountants' Report set out in Appendix I in this prospectus.

DEFINITIONS

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

“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s), and GREEN Application Form(s) or, where the context so requires, any of them to be used in connection with the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company, conditionally adopted on 10 February 2020, which will become effective on the Listing Date, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix V to this prospectus
“Best Landmark”	Best Landmark International Limited (嘉遙國際有限公司), a company incorporated in Hong Kong on 10 October 2003 with limited liability, which was wholly and beneficially owned by Ms. Liu Jing as at the Latest Practicable Date and is a connected person of our Company
“Board”	the board of Directors
“business day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“CAGR”	compounded annual growth rate
“Capitalisation Issue”	the issue of 550,000,000 Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company as referred to in the section headed “Statutory and General Information – A. Further information about our Group – 3. Resolutions in writing of all our Shareholders passed on 10 February 2020” in Appendix VI to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person permitted 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

DEFINITIONS

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
“ChaoShang Securities”	ChaoShang Securities Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities
“China” or “PRC”	the People’s Republic of China and, except where the context otherwise requires and only for the purpose of this prospectus, references in this prospectus to China or the PRC exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan region
“Chinese government” or “PRC government”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
“CIC”	China Insights Industry Consultancy Limited, a market research and consulting company and an Independent Third Party
“CIC Report”	a report commissioned by us and independently prepared by China Insights Industry Consultancy Limited
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented and otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Sunlight Technology Holdings Limited 深藍科技控股有限公司 (formerly known as Sunlight Technology Co., Ltd and Darkblue Technology Co., Ltd.), a company incorporated in the Cayman Islands as an exempted company with limited liability on 29 January 2019 under the Companies Law and the holding company of our Group

DEFINITIONS

“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules, including any person or group of persons who are entitled to exercise 30% or more of the voting power at our general meeting or are in a position to control the composition of a majority of our Board, which as at the date of this prospectus consisted of Sunlight Global, Lilian Global, Mr. Chen Hua (陳華), Ms. Zhu Jianqin (朱建琴), Mr. Li Xiangyu (鄺向宇), Mr. He Zhangcai (何掌財), Mr. Zhao Xuesheng (趙學盛), Mr. Cai Jianming (蔡建明), Mr. Chen Yong (陳勇) and Ms. Liu Jing (劉靜)
“COVID-19”	the novel coronavirus (2019-nCoV)
“CSRC”	China Securities Regulatory Commission (中華人民共和國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
“Darkblue Investment”	Darkblue Investment Limited, a company incorporated in the BVI with limited liability on 31 January 2019, a direct wholly-owned subsidiary of our Company
“Deed of Indemnity”	a deed of indemnity dated 10 February 2020 executed by each of our Controlling Shareholders in favour of our Company as set out in the section headed “Statutory and General Information – D. Other information – 2. Tax and other indemnities” in Appendix VI to this prospectus
“Deqing Hongsheng”	Deqing Hongsheng Investment Management Co., Ltd.* (德清宏盛投資管理有限公司), a company established in the PRC with limited liability on 28 April 2015 and was a wholly-owned subsidiary of Zhejiang Sunlight before it disposed of its entire equity interest therein to two Independent Third Parties in February 2017, details of which are set out in the section headed “History, Development and Reorganisation – Corporate history – Disposal of Deqing Hongsheng” in this prospectus
“Deqing Production Plant”	our former production plant located at No. 120, Xinhui North Road, Xinan Town, Deqing County, Zhejiang Province, the PRC* (中國浙江省德清縣新安鎮新匯北路120號)
“Director(s)”	the director(s) of our Company
“EBITDA”	earnings before interest, taxes, depreciation and amortisation

DEFINITIONS

“Extreme Condition(s)”	extreme condition(s) including but not limited to serious disruption of public transport services, extensive flooding, major landslides and large-scale power outage caused by a super typhoon according to the revised “Code of Practice in Times of Typhoons and Rainstorms” issued by the Labour Department of the government of Hong Kong in June 2019, as announced by the government of Hong Kong
“FOB”	free on board, the arrangement that the seller delivers the goods on board the vessel nominated by the buyer at the named port of shipment or procures the goods already so delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel, and the buyer bears all costs from that moment onwards
“Global Offering”	the Hong Kong Public Offering and the International Placing
“ GREEN Application Form(s)”	the application form(s) to be completed by HK eIPO White Form Service Provider
“Group”, “our Group”, “we”, “our” and “us”	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were our Company’s subsidiaries at the relevant time, or the businesses acquired or operated by them or (as the case may be) their predecessors

DEFINITIONS

“Hangzhou Qiyue”	Hangzhou Qiyue Investment Management Co., Ltd.* (杭州啟越投資管理有限公司) (formerly known as Deqing Qiyue Investment Management Co., Ltd.* (德清啟越投資管理有限公司)), a company established in the PRC with limited liability on 8 October 2010 directly and beneficially owned as to 71.08% by Huzhou Milan, 23.50% by Mr. Chen Hua (陳華) and 5.42% by Mr. He Zhangcai (何掌財) as at the Latest Practicable Date and is a connected person of our Company
“HK eIPO White Form”	the application of Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of the HK eIPO White Form Service Provider 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 the IPO App
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of our Company
“HongKong Gorgeous”	HongKong Gorgeous Investment Limited (香港光彩投資有限公司), a company incorporated in Hong Kong with limited liability on 7 March 2019, an indirect wholly-owned subsidiary of our Company

DEFINITIONS

“Hong Kong Offer Shares”	the 25,000,000 Shares initially offered for subscription pursuant to the Hong Kong Public Offering, subject to reallocation as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the offering by our Company of the Hong Kong Offer Shares for subscription by the public in Hong Kong, as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting – Hong Kong Underwriters” in this prospectus

DEFINITIONS

“Hong Kong Underwriting Agreement”	the underwriting agreement dated 26 February 2020 relating to the Hong Kong Public Offering and entered into by our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Hong Kong Underwriters and our Company, as further described in the section headed “Underwriting – Underwriting arrangements and expenses – Hong Kong Public Offering” in this prospectus
“Huzhou Milan”	Huzhou Milan Investment Management Co., Ltd.* (湖州米藍投資管理有限公司) (formerly known as Hangzhou Sunlight Chemical Co., Ltd.* (杭州深藍化工有限公司)), a company established in the PRC with limited liability on 28 September 2004 directly and beneficially owned as to 42.68% by Ms. Liu Jing (劉靜), 24.19% by Mr. Chen Hua (陳華), 14.78% by Ms. Zhu Jianqin (朱建琴), 14.78% by Mr. Li Xiangyu (酈向宇), 2.39% by Mr. Chen Yong (陳勇), 0.60% by Mr. Cai Jianming (蔡建明), 0.45% by Mr. Zhao Xuesheng (趙學盛) and 0.13% by Mr. He Zhangcai (何掌財) as at the Latest Practicable Date and is a connected person of our Company
“IFRSs”	International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards and interpretation issued by the International Accounting Standards Committee
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which, as far as our Directors are aware after having made all reasonable enquiries, is/are independent and not a connected person of our Company within the meaning of the Listing Rules
“International Placing Shares”	the 225,000,000 Shares initially offered for subscription pursuant to the International Placing, subject to the Over-allotment Option and reallocation as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Placing”	the conditional placing of the International Placing Shares by the International Underwriters, as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Placing that are expected to enter into the International Underwriting Agreement

DEFINITIONS

“International Underwriting Agreement”	the underwriting agreement expected to be entered into on or around 3 March 2020 by our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the International Underwriters and our Company in respect of the International Placing, as further described in the section headed “Underwriting – Underwriting arrangements and expenses – The International Placing” in this prospectus
“Jiande Production Plant”	our production plant located at 2, Jiangshan Road, Meicheng Town, Jiande County, Hangzhou City, Zhejiang Province, the PRC* (中國浙江省杭州市建德市梅城鎮薑山路2號)
“IPO App”	the mobile application for HK eIPO White Form service which can be downloaded by searching “ IPO App ” in App Store or Google Play Store or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp
“Joint Bookrunners”	Giraffe Capital Limited and ChaoShang Securities Limited
“Joint Global Coordinators”	Giraffe Capital Limited and ChaoShang Securities Limited
“Joint Lead Managers”	Giraffe Capital Limited, ChaoShang Securities Limited, I Win Securities Limited, Sinomax Securities Limited, Zhong Jia Securities Limited, First Fidelity Capital (International) Limited and All EverGreen Securities Limited
“Latest Practicable Date”	17 February 2020, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
“Lilian Global”	Lilian Global Investment Limited, a company incorporated in the BVI with limited liability on 18 January 2019 wholly and beneficially owned by Ms. Liu Jing (劉靜), and is one of our Controlling Shareholders
“Listing”	listing of the Shares on the Main Board
“Listing Date”	the date expected to be on Thursday, 12 March 2020, on which the Shares are listed and from which dealings therein are permitted to take place on the Main Board of the Stock Exchange

DEFINITIONS

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company conditionally adopted on 10 February 2020, which will become effective on the Listing Date, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix V to this prospectus
“MOF”	the PRC Ministry of Finance (中華人民共和國財政部)
“MOFCOM”	the PRC Ministry of Commerce (中華人民共和國商務部)
“New Element”	Hong Kong New Element Consulting Services Limited (香港新元諮詢服務有限公司), a company incorporated in Hong Kong with limited liability on 30 January 2019 wholly and beneficially owned by Jumping Jive
“National People’s Congress”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“New Production Plant”	the new production plant to be located next to our Jiande Production Plant, which we intend to construct and establish as part of our expansion plan, details of which are set out in the sections headed “Business – Our business strategies – Further expand our production capacity for existing products and continue to develop new products” and “Future Plans and Use of Proceeds – Use of proceeds” in this prospectus

DEFINITIONS

“Offer Price”	the final offer price per Offer Share in Hong Kong (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee) of not more than HK\$0.60 and expected to be not less than HK\$0.50 at which Hong Kong Offer Shares are to be issued pursuant to the Global Offering, to be subscribed, to be determined in the manner further described in the section headed “Underwriting” in this prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Placing Shares, collectively, and where relevant, together with any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by our Company to the International Underwriters, exercisable at the sole discretion of the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) pursuant to which our Company may be required to allot and issue to 37,500,000 Shares at the Offer Price (representing 15% of the Shares initially being offered under the Global Offering) to cover over-allocation in the International Placing, the details of which are described in the section headed “Underwriting” in this prospectus
“PRC Company Law”	the Company Law of the PRC*(《中華人民共和國公司法》), as enacted by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“PRC EIT Law”	the Enterprise Income Tax Law of the PRC*(《中華人民共和國企業所得稅法》) adopted by the National People’s Congress of the PRC on 16 March 2007, effective on 1 January 2008, as amended, supplemented or otherwise modified from time to time
“PRC Legal Advisers”	AllBright Law Offices Hangzhou Office, the legal advisers to our Company as to PRC law

DEFINITIONS

“Pre-IPO Investment”	the pre-IPO investment by Jumping Jive, details of which are set out in the section headed “History, Development and Reorganisation – Pre-IPO Investment” in this prospectus
“Pre-IPO Investor” or “Jumping Jive”	Jumping Jive International Limited, a company incorporated in the BVI with limited liability on 16 November 2018 wholly and beneficially owned by Ms. Tong Ming Yi (湯銘誼), the background and information of which are set out in the section headed “History, Development and Reorganisation – Pre-IPO Investment” of this prospectus
“Pre-IPO Equity Transfer Agreement”	the equity transfer agreement duly executed on 30 January 2019 by Huzhou Milan and New Element, as supplemented by a supplemental agreement dated 25 February 2019 entered into by the same parties, in respect of the transfer of 3% equity interest in Zhejiang Sunlight from Huzhou Milan to New Element, details of which are set out in the section headed “History, Development and Reorganisation – Pre-IPO Investment” in this prospectus
“Price Determination Agreement”	the price determination agreement to be entered into between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or around Tuesday, 3 March 2020 but no later than Tuesday, 10 March 2020, on which the Offer Price is fixed for the purposes of the Global Offering
“Reorganisation”	the reorganisation arrangements we have undergone in preparation for the listing of Shares on the Stock Exchange which are more particularly described in the section headed “History, Development and Reorganisation – Reorganisation” in this prospectus

DEFINITIONS

“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to our Directors by our Shareholders, particulars of which are set out in the section headed “Statutory and General Information – A. Further information about our Group – 6. Repurchase of Shares by our Company” in Appendix VI to this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented and modified from time to time
“Share(s)”	ordinary share(s) in the share capital of the Company with par value of US\$1.00 each upon incorporation and with a par value of US\$0.001 each after the share subdivision in April 2019 and with a par value of US\$0.0005 each after the share subdivision in February 2020
“Share Option Scheme”	the share option scheme of our Company conditionally adopted by our Company on 10 February 2020, the principal terms of which are summarised in the section headed “Statutory and General Information – D. Other information – 1. Share Option Scheme” in Appendix VI to this prospectus

DEFINITIONS

“Shareholder(s)”	holder(s) of the Share(s)
“Sichuan University”	Sichuan University (四川大學) in Sichuan Province, the PRC
“Sole Sponsor”	Giraffe Capital Limited, a licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between ChaoShang Securities and Sunlight Global on or about the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sunlight Global”	Sunlight Global Investment Limited, a company incorporated in the BVI with limited liability on 15 January 2019 beneficially owned as to 61.20% by Mr. Chen Hua (陳華), 13.24% by Ms. Zhu Jianqin (朱建琴), 13.24% by Mr. Li Xiangyu (鄺向宇), 9.24% by Mr. He Zhangcai (何掌財), 2.14% by Mr. Chen Yong (陳勇), 0.54% by Mr. Cai Jianming (蔡建明) and 0.40% by Mr. Zhao Xuesheng (趙學盛) and is one of our Controlling Shareholders
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Track Record Period”	the period comprising the three years ended 31 December 2018 and the nine months ended 30 September 2019
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “US”	the United States of America
“US dollars” or “US\$”	United States dollars, the lawful currency of the United States
“US Securities Act”	the US Securities Act of 1933, as amended, supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder
“WHITE Application Form(s)”	the application form(s) for Hong Kong Offer Shares for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“YELLOW Application Form(s)”	the application form(s) for Hong Kong Offer Shares for use by the public who require(s) such Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS
“Zhejiang Sunlight”	浙江深藍新材料科技有限公司 (Zhejiang Sunlight Material Technology Co., Ltd.*) (formerly known as 浙江深藍化工有限公司 (Zhejiang Sunlight Chemical Co., Ltd.*)), 浙江深藍輕紡科技有限公司 (Zhejiang Sunlight Technology Co., Ltd.*) and 浙江深藍新材料科技股份有限公司 (Zhejiang Sunlight Material Technology Co., Ltd.*), a company established in the PRC with limited liability on 18 December 2003 and is an indirect wholly-owned subsidiary of our Company
“Zhejiang University”	Zhejiang University (浙江大學) in Zhejiang Province, the PRC
“sq. m.”	square metre(s)
“%”	per cent

DEFINITIONS

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

- *all times refer to Hong Kong time and references to years in this prospectus are to calendar years*
- *the terms “associate(s)”, “close associate(s)”, “connected person(s)”, “core connected person(s)”, “connected transaction(s)”, “subsidiary(ies)” and “substantial shareholder(s)” shall have the meanings ascribed to such terms in the Listing Rules;*
- *all data in this prospectus is as at the Latest Practicable Date;*
- *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; and*
- *all relevant information in this prospectus assumes no exercise of any of the Over-allotment Option.*

The English names of the PRC laws, rules, regulations, nationals, entities, governmental authorities, institutions, facilities, certificates and titles etc. mentioned in this prospectus, including those marked with “”, are translations from their Chinese names and are for identification purpose only. If there is any inconsistency between the Chinese names and their English translations, the Chinese names shall prevail.*

GLOSSARY

This glossary contains an explanation of certain technical terms used in this prospectus as they relate to our Company and as they are used in this prospectus in connection with our business or us. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.

“chain extension”	a process to lengthen the main chain of polymers
“diisocyanate”	an organic compound with two isocyanate groups, including MDI, that is used as raw materials to produce synthetic resins
“DMF”	dimethyl formamide, an organic solvent
“dry-processing”	a production technique which solidifies resins carriers by heating
“dry layer”	the thin layer formed when solidifying resins carriers by heating
“ERP system”	enterprise resource planning system
“finishing”	techniques to improve and enhance patterning and other effects on faux leather, with examples of such techniques including spray coating, roll coating, embossing and printing
“hydrolysis resistance”	the ability to resist degradation under specified humidity, temperature acid-base conditions, etc.
“ISO”	the International Organisation for Standardisation, a non-governmental organisation having a central secretariat based in Geneva, Switzerland, which gives world-class specifications for products, services and systems to ensure quality, safety and efficiency
“ISO 9001”	an internationally recognised standard for a quality management system. It services 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
“MDI”	methylene diphenyl diisocyanate, which is one of the raw materials for producing polyurethane

GLOSSARY

“microfibre leather”	a kind of synthetic leather made from microfibre non-woven base cloth
“mixing”	a process to mix two or more kinds of raw materials according to a specified proportion
“polymer(s)”	a chemical substance consisting of large molecules made from many smaller and simpler molecules
“polyol”	a kind of organic compound containing multiple hydroxyl groups that is used as raw materials to produce synthetic resins
“pre-polymerisation”	a process which produces precursor polymers with lower molecular weights through the reactions of polyol, diisocyanate, catalyst, solvents etc. under specified temperature
“PU”	polyurethane
“PU leather”	a kind of synthetic leather with PU as a key raw material
“PVC”	polyvinyl chloride
“PVC leather”	a kind of synthetic leather with PVC as raw material
“synthetic leather”	a technical term for faux leather or artificial leather
“viscosity”	the measurement of internal friction due to molecular cohesion in fluids under external force. The unit of measurement is CPS (“centipoise” or “cP”). Greater CPS indicates higher flow resistance
“VOC(s)”	volatile organic compound(s), organic compound(s) which are volatile in nature and can be dangerous to human health or cause harm to the environment
“wet-processing”	a production technique which enables the condensation and solidification of resins adhered to the base cloth by aggregation of aqueous solution
“wet layer”	the thin layer formed by the condensation and solidification of resins adhered to the base cloth by aggregation of aqueous solution

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, including, without limitation, words and expressions such as “aim”, “expect”, “believe”, “consider”, “continue”, “intend”, “plan”, “project”, “anticipate”, “seek”, “may”, “might”, “will”, “would”, “should”, “ought to”, “could”, “estimate”, “potential”, “predict” or similar words or statements, in particular, in the sections headed “Industry Overview”, “Business” and “Financial Information” of this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus, and the following:

- our business and prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals;
- general economic conditions;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to control or reduce costs;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- certain factors set out in the sections headed “Industry Overview”, “Business” and “Financial Information” of this prospectus.

FORWARD-LOOKING STATEMENTS

We caution you that, 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 out in this section.

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

RISK FACTORS

Potential investors of the Offer Shares should carefully consider all of the information set out in this prospectus and, in particular, the following risks and special considerations associated with an investment in our Company before making any investment decisions in relation to our Company. If any of the possible events as described below materialises, our business, financial position and prospects could be materially and adversely affected and the market price of the Offer Shares could fall significantly and you may lose all or part of your investment.

This prospectus contains certain forward-looking statements relating to our plans, objectives, expectations and intentions which involve risks and uncertainties. Our actual results may differ materially from those as discussed in this prospectus. Factors that could cause or contribute to such differences are set out below as well as in other parts in this prospectus.

RISKS RELATING TO OUR BUSINESS

Our business, results of operations and financial conditions could be adversely affected by the outlook and performance of our downstream industries

As our products are generally chemicals used in the production of faux leather, the demand for our products is largely dependent on the demand for faux leather from players in the further downstream industries, such as manufacturers of apparel, footwear, home furnishings and luggage and handbags. Should the relevant consumption markets for these downstream industries adversely change, the production of apparel, footwear, home furnishings and luggage and handbags may be reduced and the demand for our products may be adversely affected.

According to the CIC Report, the market size of the faux leather manufacturing industry experienced decreased demand from downstream applications and was influenced by pressure from environmental regulations between 2014 and 2018. Accordingly, the production volume between 2014 and 2018 has decreased at a negative CAGR of 6.6%. Despite positive outlook regarding phasing out of small players with poor product quality and the replacement of genuine leather in wider downstream applications in the future, which is expected to increase the demand for faux leather products, we cannot assure you that these will happen in a manner that may significantly benefit our profitability and business and operational results. According to the CIC Report, the market drivers for faux leather manufacturing industry also include increasing demand from apparel, footwear, automobile interior decoration, home furnishings and sports equipment industries. We cannot assure you that we are able to capture opportunities as they emerge. If we fail to do so, we may lose our market share to our competitors and the development of our business may be hindered. Our business and operational results may be adversely affected.

RISK FACTORS

Changes in costs of raw materials may materially and adversely affect our financial results and could face shortage in supply of our raw materials

The principal raw materials used by our Group include polymers, solvents, pigments and auxiliary materials. Our raw material costs accounted for approximately 82.2%, 85.2%, 86.3% and 84.4% of our total cost of sales for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, respectively. Thus, our financial results greatly depend on our ability to source quality raw materials at competitive prices. We have not entered into any long-term agreements with any of our current raw materials suppliers nor have we entered into any hedging arrangements to reduce our exposure to fluctuations in raw material costs. In particular, depending on the market supply and demand conditions, the prices of our raw materials fluctuate and are materially influenced by the price trends of crude oil, which can be highly volatile. According to the CIC Report, the average price of the international crude oil was approximately US\$43.7 per barrel, US\$54.2 per barrel and US\$71.3 per barrel for the years ended 31 December 2016, 2017 and 2018 respectively, representing a CAGR of approximately 27.7% from 2016 to 2018. We cannot guarantee that we will be able to pass the increase in raw materials costs to our customers on a timely basis to avoid unfavourable impacts on our financial results. Our financial results may be materially and adversely affected by the volatility in these costs.

Although our Directors consider that our Group has not previously experienced any material shortage in the supply of raw materials, should there be any shortage in the raw materials, the supply of our products and financial performance of our Group may be adversely affected.

RISK FACTORS

Our profitability could be adversely impacted if we are unable to sustain high utilisation rate of our production equipment for our key products

Our ability to maintain our profitability depends on our ability to sustain our high utilisation rate of our production equipment for our key products. During the Track Record Period, the utilisation rates of our production line for colour paste had exceeded 80%. We aim to expand our production capacity by purchasing new machinery and equipments. There is risk that the production volume of colour paste fail to grow in the future such that we fail to achieve satisfactory utilisation rate of our old and new machinery and equipments. It is also possible that the utilisation rates of our existing equipment used for the production of our other products remain at low level, as our production volumes for these products fail to grow. The level of our capacity utilisation can impact on our operating results. High capacity utilisation allows us to spread our fixed costs, resulting in a higher gross profit margin of our products. If we are unable to continuously maintain high capacity utilisation, our gross profit margin would decline which would affect our profitability and operating results.

Our business relies on production processes and technologies that are subject to continuous change and we cannot guarantee that we will be able to successfully develop or acquire new production processes and technologies on a timely basis, or at all

Our customers are principally from the apparel, footwear, home furnishings and luggage and handbags manufacturing industries. The needs of our customers are rapidly changing due to the changes in customers' preferences in their industries. Our technologies and products may become less attractive during the evolution of the industry which may give rise to developments such as the emergence of new technologies or products. It is our strategy to introduce new technologies to modify our products. However, we cannot guarantee that our technical development activities can enable us to appropriately anticipate market opportunities or to create and modify products in response to market and customers' preferences in a timely manner.

We have not entered into long-term agreements with our customers and demand for our products may fluctuate

As at the Latest Practicable Date, we did not enter into any long-term agreement with our customers. We cannot guarantee that all of our customers will continue to provide us with orders. In particular, we cannot guarantee that we will be able to maintain or improve our relationships with all of our customers and any of them may terminate their respective relationships with us as we typically enter into individual purchase orders (as opposed to long-term agreements) with them. As a result, the volume of our customers' purchase orders and hence our product mix may vary from period to period. Any delay or decrease in number or contract value of orders obtained from our customers could have a material and adverse effect on our operations and profitability.

RISK FACTORS

Any failure by our customers to make payments to us, or any disputes over, or significant delays in receiving, such payments could materially and adversely affect our cash flows and profitability

A substantial portion of our sales was credit sales, under which we will receive payments from our customers after the delivery of products. As at 31 December 2016, 2017, 2018 and 30 September 2019, the balance of trade receivables was approximately RMB45.1 million, RMB52.7 million, RMB46.6 million and RMB72.3 million, respectively. Further information on our trade receivables is set out in the section headed “Financial Information – Discussion on selected balance sheet items – Trade, bills and other receivables – Trade receivables” in this prospectus. Our trade receivable turnover days were 101 days, 113 days, 108 days and 125 days during the Track Record Period, respectively. The trade receivable turnover days are based on the average of the beginning and the ending balance of trade receivables of each year divided by revenue for that corresponding year multiplied by the number of days in the relevant period. Any failure by our customers to make payments to us, or any dispute over or significant delays in receiving such payments from our customers, could require us to write off or make provision against our trade receivables, either of which could adversely affect our cash flows and profitability.

Our business expansion plan may not be completed as planned and may not achieve commercial viability or the intended economic results

Our future success depends to a certain extent on our ability to expand our production capacity. We have expanded our production capacity by relocating our production lines to our Jiande Production Plant in order to cater for the anticipated growing demand of our products. Going forward, we look to further increase our production capacity by upgrading and acquiring additional production facilities at our existing Jiande Production Plant and establishing new production plants. Our expansion plans may involve the following risks: (i) our actual production volume may vary depending on the demand and purchase orders for our products which in turn may be affected by market trends, customers’ preferences or other factors which are beyond our control; (ii) the demand for our products and revenue to be generated may not increase in line with our increase in production capacity; (iii) we expect to incur increased costs, such as direct labour costs and costs for raw materials; and (iv) we cannot guarantee our expansion plans will be successfully implemented without delay or at all. Our expansion plans could be adversely affected by factors such as lack of personnel, unexpected technical problems, natural disasters and inability to obtain the required governmental permits and approvals, problems with construction of production facilities, logistical difficulties, any unforeseen legal or regulatory impediments imposed by the PRC government and other factors beyond our control, such as the general market conditions, the economic and political environment of the PRC and the world. If there is any delay in our expansion plans, we may not be able to deliver our products demanded by our customers and, our reputation and future business opportunities may therefore be adversely affected. Further, these plans may not achieve the commercial viability or the intended economic results, which in turn could weaken our competitive position in the market and adversely affect our business and financial condition and operating results.

RISK FACTORS

We are subject to the risk of loss and production disruption due to explosion and fire as some of the materials used in our production process are inflammable

Our operations are subject to hazards inherent to manufacturing industries, including but not limited to fires, mechanical failure or misuse, power outages and other industrial accidents. We use inflammable substances in our production process such as DMF. We are therefore subject to the risk of loss and production disruption due to industrial accidents, such as explosion, fire or environmental influence which may not be entirely eliminated. In addition, our risk management and insurance coverage may not be sufficient to cover all of our potential losses. If any of our production facilities were damaged, or cease operations as a result of industrial accidents, it could also reduce our production capacity and may cause us to lose our market share customers, thereby having a potentially material adverse impact on our business and financial condition and operating results. These could also result in legal and regulatory liabilities and/or civil or criminal penalties, including claims with respect to workplace, workers' compensation and other matters if there is any personal injury, and/or loss of life.

Failure in our quality control system could harm our business and lead to potential product liability claims for compensation if our products are found to be defective

In the event any of our products are alleged or found to be defective, we may be subject to product liability claims. Thus, the quality of our products is critical to the success of our business and depends significantly on the effectiveness of our quality control system. Despite having a robust quality control system in place, there could be instances in which our products do not meet the specifications and requirements agreed upon with or requested by our customers, or our products could be found to be defective, or result in our customers suffering losses. In such cases, we may be subject to product liability claims and litigation for compensation which could result in substantial and unexpected expenditure and could materially and adversely affect our cash flow and financial results. Moreover, product failures or defects, and any complaints or negative publicity, could adversely affect our customer relationships and our goodwill and result in a decrease in sales of our Group. We may also be subject to increased scrutiny by regulatory authorities over our business operations. Even if a product defect was attributable to raw materials supplied by our suppliers, we cannot guarantee that we would be able to recover all or part of the damages by claiming against our suppliers.

RISK FACTORS

Our business operations are subject to significant operational risks and other unforeseen risks that may not be fully covered by insurance policies or at all

We process, store, handle and transport hazardous chemical materials such as DMF. Improper handling of these hazardous materials may cause pollution to the environment and, to a certain extent, is toxic and harmful to human. Any accidents resulting from improper handling of these hazardous materials may cause serious health and safety issues (such as cancer and skin problem). Under any of these events, our existing insurance coverage may not cover the losses our Group may incur or at all. Our Group cannot guarantee that it will be successful in making an insurance claim under the insurance policies maintained by it or that the claimed proceeds will be sufficient to compensate the actual damages suffered or at all. Any of these events could adversely affect our business operation and financial condition and may harm our reputation, leading to litigation, government fines or penalties.

We use, generate and dispose of environmental wastes which may subject us to liabilities

We are subject to PRC environmental protection laws and regulations which govern the emission, discharge, release and disposal of environmental wastes and other pollutants. Under the applicable laws and regulations, enterprises that produce environmental wastes are required to adopt effective measures to control, properly manage and dispose of environmental wastes, including waste gas, waste water, solid wastes and noise. Producers discharging environmental wastes and other pollutants are required to pay fines for discharges above permitted levels under the PRC environmental protection laws and regulations. Failure to comply with the applicable PRC environmental laws or regulations may result in local environmental protection authorities imposing fines or suspending operations, and may lead to the loss of environmental and production licences. The PRC government and PRC regional regulatory authorities have the discretion to suspend or close any facility failing to comply with such environmental protection laws and regulations. Certain solvents used by us as raw materials, for example, the DMF, may cause harm to the environment if they are not handled, stored or discharged properly. We cannot assure you that we will be in full compliance with such laws and regulations at all times. In the event that the PRC government imposes more stringent environmental protection laws and regulations, our production costs may substantially increase, or we may also be forced to suspend production or may need to incur material capital expenditures or other costs in order to remain in compliance and as such we may be unable to pass on these additional costs to our customers.

RISK FACTORS

The intellectual property of our Group may not be protected adequately, which could adversely affect our business operation

Our Group relies on patent laws, proprietary technology and contractual restrictions to protect our intellectual property. As at the Latest Practicable Date, our Group had a total of nine registered trademarks in the PRC. As at the Latest Practicable Date, our Group had a total of 36 registered patents in the PRC and had five patent applications in the PRC. However, such registration may only provide limited protection for the intellectual properties of our Group. In addition, contractual agreements, such as confidentiality and non-competition agreements and terms between our Group and the research and development personnel, may only afford limited protection and the actions that our Group may take to protect the proprietary right and other intellectual property may not be adequate. Our competitive position may be weakened if we fail to protect our intellectual property and other proprietary rights. Litigation relating to the intellectual property may result in substantial costs, time and diversion of resources. Even if our Group has legal grounds for a lawsuit, our Group may need to resort to court proceedings to enforce our intellectual property rights. If a lawsuit is brought, a court decision in any such litigation against our Group will impair our intellectual property and proprietary rights and may adversely affect our business, prospects and reputation.

We may become involved in litigation and regulatory proceedings, which could require attention from our management and result in significant expenses to us and disruptions in our business

As part of our business, we may be involved in litigations and claims. Generally speaking, these litigations and claims may be broadly divided into two categories. First, we may be liable for product liability claims if our products are proven to be defective or otherwise fall short of the relevant quality requirements and specifications. Second, we may be exposed to claims from our employees for any industrial accidents.

We may nevertheless in the future be involved in lawsuits and regulatory actions relating to our business. Some of these proceedings may involve payment of damages and may cause reputational risk. Due to the inherent uncertainties of litigation and regulatory proceedings, we cannot accurately predict the ultimate outcome of any proceeding. An unfavourable outcome could materially and adversely affect our business and financial condition and operating results. In addition, regardless of the outcome, any litigation or regulatory proceedings are often expensive, time-consuming, disruptive to our normal business operations and require significant attention from our management.

RISK FACTORS

We may fail to obtain or experience material delays in obtaining or renewing requisite certificates, licences, permits or governmental approvals for our operations and our production facilities, and as a result our business and financial results may be materially and adversely affected

We are required to obtain and maintain various certificates, licences, permits and governmental approvals. We cannot guarantee that we will be able to comply with the latest PRC regulations that may come into effect from time to time or that we will not encounter other material delays or difficulties in fulfilling the necessary conditions to obtain and/or renew all necessary certificates, licences, permits or approvals for our operations in a timely manner, or at all, in the future. If we fail to obtain or renew, or encounter significant delays in obtaining or renewing, the necessary certificates, licences, permits or approvals, our business may experience interruption and our financial results may be materially and adversely affected.

We may not be able to recruit and retain qualified executives, managers or skilled technical and service personnel

Our success depends on the continued service of our executive Directors and senior management, further information on which is set out in the section headed “Directors and Senior Management” in this prospectus. Our business could suffer if we lose, for whatever reasons, the services and contributions of some of these personnel and we cannot adequately and timely find suitable replacement. In addition, we may be required to increase or reduce the number of employees in connection with any business expansion or contraction, in accordance with market demand for our services. Since there is intense competition for the recruitment of these personnel, we cannot assure you that we will be able to fulfil our personnel requirements in order to support our growth plans.

We are susceptible to the shortage of labour supply at reasonable cost

Our production relies on a stable supply of labour at reasonable cost. For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our direct labour cost amounted to approximately RMB5.3 million, RMB4.9 million, RMB4.2 million and RMB3.4 million, respectively, representing approximately 5.5%, 4.6%, 3.6% and 4.0% of our total cost of sales, respectively. We cannot guarantee that the supply of labour will remain at a reasonable cost, especially in the PRC, with the increasing minimum wage imposed by the PRC government. Moreover, as demand for skilled workers in the labour market is increasingly intensive, we may need to provide a more competitive remuneration package and welfare to our employees in order to retain and recruit staff. We may not be able to manufacture and deliver our products on schedule to meet the customers’ demand and implement our expansion plans if we fail to retain our existing labour and/or recruit and train a sufficient number of workers promptly. Moreover, a significant increase in our labour costs could materially and adversely affect our financial results.

RISK FACTORS

We experience seasonal fluctuations in our sales due to customers' purchase patterns of our downstream industries and as a result, our interim performance may not be an indicator of our overall performance in a given year

Our sales are subject to seasonal fluctuations. Generally speaking, demand for products of our downstream industries, such as apparel and footwear grow towards the summer and winter seasons of each calendar year and demand for other downstream products tend to be stable throughout the year. Therefore, the sales of faux leather chemical products reaches its peak around the second quarter and the third quarter of each calendar year. Accordingly, our sales would fluctuate in any calendar year. We believe that this is part of the industry trends. As a result, any interim operating results of our Group may not be indicative of our operating results for the entire year.

We recorded net current liabilities as at 31 December 2016. We cannot assure you that we will not experience net current liabilities in the future, which could expose us to liquidity risks

We recorded net current liabilities of approximately RMB3.2 million as at 31 December 2016, which was mainly due to the declaration of dividend of RMB50.0 million in March 2016 and there was a remaining balance of the dividend payables of approximately RMB28.4 million as at 31 December 2016. For more detailed discussion of our consolidated statements of financial position, please refer to the sections headed “Financial Information – Assets and liabilities” and “Financial Information - Discussion on selected balance sheet items” in this prospectus. Although we did not record net current liabilities as at 31 December 2017, 31 December 2018 and 30 September 2019, we cannot assure you that we will not record net current liabilities again in the future. A net current liabilities position exposes us to liquidity risks. Our future liquidity, the payment of trade and other payables will primarily depend on our ability to generate adequate cash inflows from our operating activities. If we experience a shortage in cash flow generated from operations, our liquidity position may be materially and adversely affected, which, in turn, may impact our ability to execute our business strategies. If such event occurs, our results of operations and financial position will be materially and adversely affected.

We recorded net cash outflow from operating activities for the nine months ended 30 September 2019. We cannot assure you that we will not experience net cash outflow from operating activities in the future, which could expose us to liquidity risks

We recorded net cash outflow from operating activities for the nine months ended 30 September 2019. For the reasons of the net cash outflow from operating activities for the nine months ended 30 September 2019, please refer to the section headed “Financial Information – Cash flows – Net cash generated from/(used in) operating activities” in this prospectus.

RISK FACTORS

Our Directors believe that in the long term, our operation will be funded by cash generated from our operations as well as other equity or debt financing. However, if we fail to manage the timing and amount of cash to be received from our customers during our operation for payment to our suppliers in a timely manner, we may be subject to tightened liquidity and fail to maintain sufficient working capital to support our daily operation. In the event that we are unable to generate positive operating cash flow, we may further be required to obtain external financing to meet our financial needs and obligations and such financing activities may increase our financing costs, and we cannot guarantee that we will be able to obtain such facilities on terms commercially acceptable to us, or at all. As a result, our business, financial conditions and results of operations may be materially and adversely affected. We cannot assure you that we will not experience another period of negative cash flow from our operating activities in the future.

We may not be able to adequately manage our inventory and our inventory may suffer from obsolescence or reduction in value

We manage our inventory to monitor the movements and utilisation of our raw materials inventory and ensure sufficient supply of raw materials to support our production on a continuous basis. We target to maintain such level of inventory that is sufficient for our production for 30 to 45 days, and for the raw materials that are not commonly used, we generally only place orders for such raw materials after we have received confirmed purchase orders from our customers. However, we cannot assure you that there will always be stable demands for our products, or that after purchase orders are received, such orders will not be cancelled or reduced. In the event that we are not able to secure sufficient purchases for our products, or that purchase orders placed are cancelled, reduced or otherwise varied while we are not able to secure other purchasers who are willing to purchase the relevant products, it is possible that our raw materials purchased for meeting orders will become obsolete or reduce in value. In that case, our business, financial condition and results of operations could have been materially and adversely affected.

RISK FACTORS

Our results of operations may fluctuate from period to period due to income and gains that are non-recurring in nature

Certain of our income and gains during the Track Record Period were non-recurring in nature, including gain on disposal of a subsidiary of approximately RMB11.0 million for the year ended 31 December 2017, gain on disposal of property of approximately RMB1.9 million for the year ended 31 December 2018, and government grants in relation to our capital market activities of approximately RMB0.5 million and RMB1.9 million for the years ended 31 December 2016 and 2018, respectively. For details, please refer to the sections headed “Financial Information – Principal components of consolidated statements of profit or loss and other comprehensive income – Gain on disposal of a subsidiary” in this prospectus. Due to the non-recurring nature of such income and gains, we cannot guarantee that we will record such income and gains of similar amount, or at all, in the future. As a result, our results of operations may fluctuate from period to period and our historical results are not necessarily indicative of results to be expected for any future fiscal period.

Our operating results during the Track Record Period included government grants, which may fluctuate over the financial periods and may materially and adversely affect our business, results of operations and financial conditions

For the year ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, we received government grants of approximately RMB2.2 million, RMB1.7 million, RMB4.1 million and RMB1.2 million, respectively which were recognised in our other revenue. Government grants are recognised where there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grant will be received. There can be no assurance that we will be able to receive any such government grants in the future. If we no longer receive these government grants in the future, our profitability can be adversely affected.

RISK FACTORS

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

We are required to comply with numerous complex and increasingly stringent domestic and foreign health, safety and environmental laws and regulations applicable to our industry, the cost of which is likely to increase and may materially and adversely affect our financial results

The industry that we are operating in is subject to various domestic and foreign health, safety and environmental laws and regulations. We expect the health, safety and environmental laws and regulations imposed upon our industry and us to be increasingly strict in the future. Thus we will be spending more on our compliance functions in order to comply with these more stringent requirements. Such increase in compliance costs may materially and adversely affect our financial results and operations. For example, our principal operating subsidiary, Zhejiang Sunlight, must comply with laws and regulations of the PRC on environmental protection, including the Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) and Prevention and Control of Water Pollution Law of the PRC* (《中華人民共和國水污染防治法》) and other regulatory documents issued by government authorities from time to time. For further details, please refer to the section headed “Regulatory Overview” in this prospectus.

We face keen competition in our industry in our domestic and international markets

During the Track Record Period, our products were principally sold to domestic customers. In addition to our domestic market, it is also our business strategies to further explore and develop the international market. We face substantial competition from many domestic and international competitors of various sizes. Some of our competitors are of larger scale than us and have greater financial resources to compete. Other competitors are of smaller scale than us but may be able to offer more affordable products. Our Directors consider that technical expertise, service, product quality and breadth of product line are the key areas of competition for our business. If we fail to compete effectively or maintain our competitiveness in the market, our business, financial condition and results of operations will be materially and adversely affected.

Any change in tax treatment in the PRC may have an impact on our operating results

The current standard EIT rate in the PRC is 25%. Since 2011, Zhejiang Sunlight was awarded the status of High and New Technology Enterprise* (高新技術企業) by relevant PRC government authorities and was entitled to enjoy a preferential tax rate of 15% on EIT during the Track Record Period. We cannot assure you that Zhejiang Sunlight will continuously be awarded the status as High and New Technology Enterprise* (高新技術企業) or enjoy the favourable tax rate of 15% in the future, or that the relevant policies of the PRC government authorities in relation to awarding of such status to industry participants will not be subject to change. Any change in or discontinuation of such favourable tax treatment may adversely affect our results of operations and profitability.

RISK FACTORS

Acts of God, acts of war, riot and other disasters could materially and adversely affect our industry

Natural disasters, epidemics, riot and other acts of God which are beyond our control may materially and adversely affect the economy, livelihood of the people in the PRC and our industry. They may materially and adversely affect the business and financial results of the industry participants. Acts of war, riot and terrorist attacks may have serious negative impact on employees, customers and markets or may cause material economic downturn in the affected areas, which may in turn cause damage or disruption to the industry, materially and adversely affect the revenue, cost of funding, overall results and financial conditions of industry participants. Potential wars or terrorist attacks may also cause uncertainties to the industry.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Our business operations and financial results may be adversely affected by the outbreak of COVID-19 originated from Wuhan City, Hubei Province, the PRC

An outbreak of respiratory disease caused by COVID-19 first emerged in Wuhan City, Hubei Province, the PRC in late 2019 and continues to expand within the PRC and globally. The new strain of coronavirus is considered highly contagious and may pose a serious public health threat. On 23 January 2020, the PRC government announced the lockdown of Wuhan City in an attempt to quarantine the city, followed by draconian measures imposed by the PRC in various regions of the nation including travel restrictions in major cities. Various countries and territories have also imposed travel restrictions, such as denial of entry, against travellers from the PRC and/or those who have been to the PRC for the past 14 days.

The outbreak of COVID-19, which may result in a high number of fatalities and disruption of production activities, is likely to have an adverse impact on the livelihood of the people in and the economy of the PRC, particularly Wuhan City, Hubei Province and other provinces which are affected by widespread infections. The consumption markets of the PRC such as footwear, handbags and luggage, and sports equipment, which are downstream of faux leather manufacturing industry, may be adversely affected, which will in turn affect the faux leather chemicals manufacturing industry in the PRC, and therefore our business operation and our financial performance.

RISK FACTORS

We are uncertain as to when the outbreak of COVID-19 will be constrained. If the outbreak continues without being effectively controlled in the future, our business operation and financial performance may be materially and adversely affected as a result of factors such as the changes in the outlook of the consumption markets, slowdown in economic growth and negative business sentiment, and any measures which may restrict the operations of our Company and our production plants, our major customers and suppliers in the PRC. In addition, if in the future any of our employees are suspected of having been infected by COVID-19, we may be required to quarantine such employees. We may also be required to disinfect the affected properties and thereby suffer a temporary suspension of our operations. Any suspension of our operations will materially and adversely affect our business operations and financial performance.

Our business is largely dependent on the overall market conditions in PRC

During the Track Record Period, approximately 99.1%, 99.2%, 97.8% and 97.7% of our revenue for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, respectively was derived from customers located in the PRC. Our Directors anticipate that revenue generated from our operations in the PRC will continue to be our main revenue stream in the near future.

A slow-down in the economy and changes in the political developments in the PRC and/or a global recession could result in a substantial decrease in demand for our products and could materially and adversely affect our business. Our clientele spreads over different industries. Demand for our products is derived from demand for our customers' products, and thus, the sale of faux leather chemicals and related products would be affected by the levels of consumer and business spending in these segments. Our sales to these segments are affected by the levels of discretionary consumer and business spending in these segments. During economic downturns in these segments, the levels of consumer and business discretionary spending may decrease, and the recovery of these segments may lag behind the recovery of the overall economy. This decrease in spending will likely reduce the demand for some of our products and may materially and adversely affect our financial results.

We are subject to the political, economic and social development as well as laws, rules, regulations and licensing requirements in the PRC

A very substantial part of our businesses, assets, operations and our revenue are located in or derived from our operations in the PRC, and as a result, our business, financial condition and results of operations are subject to the economic, political, social and regulatory environment in the PRC.

RISK FACTORS

The economy of the PRC differs from the economies of most developed countries in many respects, including, among others, the extent of government involvement, level of development, growth rate, and control of foreign exchange and the allocation of resources. The PRC economy has been undergoing a transition from a planned economy to a market-oriented economy. The PRC government has in recent years implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a substantial portion of productive assets in the PRC is still owned by the state. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government still retains significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated liabilities, setting monetary policy and providing preferential treatment to particular industries or enterprises.

Our performance has been and will continue to be affected by the PRC's economy, which has slowed down in recent years. The PRC's economic growth is also influenced by the global factors. The US-China trade war has added downward pressure to the PRC's economic growth.

RISK FACTORS

Any unfavourable political, economic or social development in the PRC, or an unfavourable change in the PRC laws, regulations, rules and licensing requirements, may adversely affect our business, financial condition and results of operations. We are unable to accurately predict the precise nature of all the risks and uncertainties that we face as current economic, political, social and regulatory conditions and many of the associated risks are beyond our control.

The payment of dividends by our operating subsidiary in the PRC is subject to restrictions under PRC laws

We operate our business through our principal operating subsidiary, Zhejiang Sunlight, in the PRC. The PRC laws require that dividends be paid only out of net profit, calculated according to the PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions. The PRC laws require the PRC companies, including the foreign-invested enterprises, to set aside 10% of their net profit as statutory reserves until the accumulated statutory reserves account for 50% of the registered capital of the PRC companies. These statutory reserves are not available for distribution as cash dividends. Since the availability of funds to fund our operations and to service our indebtedness, to a certain extent, depends upon dividends received from our PRC subsidiary, any restrictions on the availability and usage of our major source of funding may impact our ability to fund our operations and to service our indebtedness.

RISK FACTORS

Dividends from our PRC subsidiary paid to our Hong Kong subsidiary might not qualify for the reduced PRC withholding tax rate under the special arrangement between Hong Kong and the PRC

Under Section 91 of Implementation Regulation for the PRC EIT Law if a foreign shareholder is not deemed a PRC tax resident enterprise under the PRC EIT Law, dividend payments from PRC subsidiary to its foreign shareholder are subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholder has a tax treaty or similar arrangement with China and the foreign shareholder obtains approval from competent local tax authorities in accordance with such tax treaty or similar arrangement. Pursuant to Arrangement between the Mainland of China and the HKSAR for the Avoidance of Double Taxation and Prevention in Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), the withholding tax rate is lowered to 5% if a Hong Kong resident enterprise is the beneficial owner of more than 25% of a PRC company distributing the dividends. According to the Announcement on the Administrative Measures for Non-resident Taxpayers to Enjoy the Treatment Under Tax Treaties* (非居民納稅人享受稅收協定待遇管理辦法) (the “**2015 Administration Measures**”), which was promulgated by the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) on 27 August 2015 and became effective on 1 November 2015, prior approval from or filings with the PRC competent tax authority is no longer required before a non-resident taxpayer can enjoy the preferential tax treatment under the relevant treaties. A non-resident taxpayer may enjoy the preferential tax treatment at the time of tax return filings or withholding and declaration through a withholding agent if it is eligible for the preferential tax treatment under the relevant provisions of a tax treaty, subject to the follow-up administration by the relevant tax authority. In order to enjoy the preferential tax treatment, the non-resident taxpayer shall file documents as required by the 2015 Administration Measures with tax authority when filing tax returns or withholding and declaration through a withholding agent, among which is the tax resident identity issued by the tax authority of the counter party to the treaty. During the follow-up administration, the PRC tax authorities shall verify if the non-resident taxpayer is eligible for the preferential tax treatment, ask for supplemental documents from the non-resident taxpayer or, if the non-resident taxpayer is deemed not eligible for the preferential tax treatment, require the non-resident taxpayer to pay up the non-payment or underpayment of the tax within specified timeframe. Moreover, according to the Notice of the State Administration of Taxation 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) issued by the State Administration of Taxation on 20 February 2009, if the main purpose of an offshore arrangement is to obtain preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. There is no assurance that the PRC tax authorities will recognise and accept the 5% withholding tax rate on dividend paid by Zhejiang Sunlight, our PRC subsidiary, and received by HongKong Gorgeous, our Hong Kong subsidiary.

RISK FACTORS

Interpretation of PRC laws and regulations involves uncertainty and the current legal environment in the PRC could limit the legal protections available to you

Our business is in the PRC and is governed by the PRC laws and regulations. Our operating subsidiary, Zhejiang Sunlight, is located in the PRC and is subject to the PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little precedential value and can only be used as a reference. Additionally, the PRC written statutes are principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commercial transactions, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of the PRC laws and regulations involves a degree, sometimes a significant degree, of uncertainty. Depending on the government agency or how or by who an application or case is presented to such agency, we may receive less favourable interpretation of laws and regulations than our competitors. In addition, any litigation in China could be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may limit the legal protections available to the foreign investors.

The operating cost of the business in the PRC may increase due to the provision of staff benefits as required by the PRC government

Our Group has made and continued to make contributions to the National Social Security Fund pursuant to the relevant PRC laws and regulations. Our operating costs may increase if the scope of these employee contribution funds expands or the rate of our mandatory contributions increases. It may adversely affect our business and the financial performance.

RISK FACTORS

Governmental control of currency conversion may limit our ability to utilise our cash effectively, which may adversely affect the value of your investment

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of foreign currency out of the PRC. We receive significant portion of our revenue in Renminbi, which is currently not a freely convertible currency. As a Cayman Islands holding company, we may, to a certain extent, rely on dividend payments from our principal operating subsidiary, Zhejiang Sunlight, in the PRC to fund any cash and financing requirements we may have. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividend, or otherwise satisfy foreign currency denominated obligations.

Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditure from the trade-related transactions, can be made in foreign currencies without the prior approval from the SAFE, by complying with certain procedural requirements. However, payments under the capital account items, including capital transfers, direct investment, securities investment, and the repayment of the principal amount of the borrowings, are subject to significant foreign exchange controls and require the prior approval from the SAFE or the registration with the SAFE or the banks. Furthermore, the PRC government may also at its discretion restrict access to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain of our expenses as they come due.

Fluctuations in the value of Renminbi may have a material and adverse impact on your investment

A significant portion of our revenue and almost all of our cost of sales and expenses are denominated in Renminbi, while the net proceeds from the Global Offering and dividends, if any, declared by us will be in Hong Kong dollars. Any appreciation in the Renminbi against foreign currencies will adversely affect the relative value of the proceeds we will receive from the Global Offering. A depreciation in the Renminbi, on the other hand, would adversely affect the value of dividends, if any, we pay our Shareholders in foreign currencies, or require us to use more Renminbi funds to service the same amount.

RISK FACTORS

RISKS RELATING TO THE GLOBAL OFFERING

There is no prior public market for our Shares

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range to the public for our Shares was the result of negotiations between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. A Listing on the Stock Exchange, however, does not guarantee that an active trading market for the Shares will develop, or if it does develop, will be sustained following the Global Offering, or that the market price of the Shares will not decline following the Global Offering.

The market price of our Shares may be volatile, which could result in substantial losses for investors purchasing Shares in the Global Offering

The price and trading volume of our Shares may be volatile. The price at which our Shares will trade after the Global Offering will be determined by the market price of our Shares, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenues and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- variations of our results of operations (including variations arising from foreign exchange rate fluctuations);
- loss of significant customers or material defaults by our customers;
- announcement by us of significant acquisitions, strategic alliances or joint ventures;
- addition or departure of key personnel;

RISK FACTORS

- involvement in litigation; and
- general economic and stock market conditions.

In addition, shares of some companies listed on the Stock Exchange have experienced unusual price and volume fluctuations in recent years, some of which have been unrelated or disproportionate to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of our Shares. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

Since there will be a gap of several days between the closing of application lists and the 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 the trading of the Offer Shares begins

The range of the Offer Price of the Shares is HK\$0.50 to HK\$0.60. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several business days after the closing of application lists. As a result, investors may not be able to sell or deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of unfavourable market conditions, or other adverse effects, that could occur between the time of the closing of application lists and the time trading begins.

We may rely on dividends and other distributions on equity paid by our PRC subsidiary to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiary to make payments to us could have a material adverse effect on our ability to conduct our business

We are a holding company and rely principally on dividends paid by our principal operating subsidiary, Zhejiang Sunlight, in the PRC to fund any cash and financing requirements we may have. The PRC laws and regulations require PRC companies to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or Zhejiang Sunlight may enter into in the future may also restrict the ability of Zhejiang Sunlight to provide capital or declare dividends to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders and may adversely affect our business operations.

RISK FACTORS

Shareholders may face difficulties in protecting their interests because we are incorporated under Companies Law which may provide less protection to minority Shareholders than the laws of Hong Kong and other jurisdictions

We were incorporated in the Cayman Islands as an exempted company and substantially all of our assets are located outside of Hong Kong. Our corporate affairs are governed by our Memorandum and Articles of Association as well as the Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority Shareholders differ in certain respects from those in Hong Kong and other jurisdictions. Such differences may mean that our minority Shareholders may have less protection than they would otherwise have under the laws of Hong Kong or other jurisdictions.

You should rely on this prospectus, and should not rely on any information contained in press articles or other media regarding our Company, in making your investment decision

Prior to the publication of this prospectus, there may have been certain press and media coverage regarding our Group and our products. We have not authorised the disclosure of any such information in the press or media which may be untrue and may not reflect what is disclosed in this prospectus and accordingly we do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. You should not rely on any such information contained in any press articles or other media and, in making your decision whether to purchase our Shares, you should rely only on the information included in this prospectus and the Application Forms.

RISK FACTORS

Any disposal by Sunlight Global and Lilian Global, our Controlling Shareholders, of a substantial number of Shares in the public market could materially and adversely affect the market price of the Shares

There is no guarantee that Sunlight Global and Lilian Global, our Controlling Shareholders, will not dispose of their Shares following the expiration of the lock-up period of six months after the Listing. Our Group cannot predict the effect, if any, of any future sales of the Shares by Sunlight Global or Lilian Global may have on the market price of the Shares. Sales of a substantial number of Shares by Sunlight Global or Lilian Global or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

Investors may experience dilution if we issue additional Shares or other securities in the future

We may require additional funds in the future to finance the expansion of the business and operations of our Group. If additional funds are raised through the issue of new Shares or other equity-linked securities other than on a pro rata basis to existing Shareholders, the percentage ownership of our Shareholders in our Company may be diluted.

Our historical dividends do not indicate its future dividend policy

For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our Group paid dividends of approximately RMB35.3 million, RMB26.7 million, RMB19.2 million and RMB10.1 million, respectively. In the future, the amount of dividends our Company may declare and pay will be subject to, among others, our future operations and earnings, capital requirements and surplus, general financial condition and any other factors which our Directors may consider relevant. Accordingly, the amount of distributions that our Company has declared and made in the past do not indicate the dividends that our Company may pay in the future.

RISK FACTORS

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

Certain statistics contained in this prospectus are derived from the CIC Report and publicly available official sources

Certain statistics contained in this prospectus relating to the PRC economy and PRC faux leather chemicals manufacturing industry, particularly in the section headed “Industry Overview” in this prospectus, have been derived from various official government publications or the CIC Report, which we generally believe to be reliable. We have taken reasonable care in the reproduction or extraction of such report for the purpose of disclosure in this prospectus. 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. However, we cannot guarantee the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor, the Underwriters or any of their respective affiliates or advisers, directors, officers or representatives or any other person involved in the Global Offering and, therefore, we make no representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such statistics in this prospectus may be inaccurate or may not be comparable to statistics produced with respect to other economies. Further, there is no assurance 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. In all cases, you should give consideration as to how much weight or importance they should attach to or place on such facts, and you should not unduly rely upon the industry facts and statistics contained in this prospectus.

Our future results could differ materially from those expressed in or implied by the forward-looking statements

This prospectus includes various forward-looking statements that are based on various assumptions. Our future results could differ materially from those expressed in or implied by such forward-looking statements. For details of these statements and the associated risks, please refer to the section headed “Forward-looking Statements” in this prospectus.

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

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

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. Since our operations are based in the PRC and our headquarters situate in and all of our executive Directors currently reside in the PRC, we do not, and in the foreseeable future will not, have sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules. As a result, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules, on the following conditions to ensure that regular and effective communication is maintained between the Stock Exchange and us:

- (a) we have appointed Mr. Chen Hua, our executive Director and Mr. Lui Chi Ho (“**Mr. Lui**”), one of our joint company secretaries, as our authorised representatives (the “**Authorised Representatives**”) for the purpose of Rule 3.05 of the Listing Rules. They will act as our principal channel of communication with the Stock Exchange and will ensure that our Group complies with the Listing Rules at all times. Although Mr. Chen Hua resides in the PRC, he possesses valid travel documents to visit Hong Kong. The Authorised Representatives will be available to meet with the Stock Exchange within a reasonable time period at the request of the Stock Exchange and will be readily contactable by phone, facsimile and email;
- (b) when the Stock Exchange wishes to contact our Directors on any matter, each of the Authorised Representatives has the necessary means to contact all the members of our Board (including our independent non-executive Directors) and of our senior management team promptly at all times. This shall be achieved by the implementation of the following measures: (i) each Director has provided his/her mobile phone number, office phone number, email address and facsimile number to the Authorised Representatives and the Stock Exchange; (ii) in the event that a Director expects to travel and/or otherwise be out of office, he/she will provide the contact details to the Authorised Representatives. In addition, all of our Directors who are not ordinary residents in Hong Kong have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and would be able to meet with the Stock Exchange within a reasonable period of time, if required. We have provided the mobile phone number, office phone number, email address and facsimile number of each of our Directors to the Stock Exchange. We have one independent non-executive Director, namely, Mr. Ho Ho Tung Armen, who is ordinarily resident in Hong Kong and will act as additional channel of communication between the Stock Exchange and us;

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

- (c) we have appointed Giraffe Capital Limited as our compliance adviser (the “**Compliance Adviser**”) in compliance with Rule 3A.19 of the Listing Rules, who will act as our additional channel of communication with the Stock Exchange during the period from the Listing Date to the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date. The contact person of the Compliance Adviser will be readily available to answer enquiries from the Stock Exchange;
- (d) we will appoint other professional advisers (including legal advisers and accountants) after the Listing to assist us in dealing with any questions which may be raised by the Stock Exchange and to ensure that there will be sufficient communication with the Stock Exchange; and
- (e) meeting between the Stock Exchange and our Directors can be arranged through the Authorised Representatives or the Compliance Adviser, or directly with our Directors within a reasonable period. We will inform the Stock Exchange promptly in respect of any change in the Authorised Representatives and Compliance Adviser.

APPOINTMENT OF JOINT COMPANY SECRETARIES

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

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

- (a) a member of The Hong Kong Institute of Chartered Secretaries;
- (b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance) (Chapter 159 of the Laws of Hong Kong); and
- (c) a certified public accountant (as defined in the Professional Accountants Ordinance) (Chapter 50 of the Laws of Hong Kong).

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

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

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES
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- (b) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

We have appointed Mr. Chen Weibo (“**Mr. Chen**”) to act as one of our joint company secretaries. For details of Mr. Chen, please refer to the section headed “Directors and Senior Management – Senior management” in this prospectus. Since Mr. Chen does not possess qualifications stipulated in Rule 3.28 of the Listing Rules, he is not able to solely fulfill the requirement as a company secretary of a listed issuer stipulated under Rules 3.28 and 8.17 of the Listing Rules. Given the important role of the company secretary in the corporate governance of a listed issuer, particularly in assisting the listed issuer as well as its directors in complying with the Listing Rules and other relevant laws and regulations, we have made the following arrangements:

- (a) we have appointed Mr. Lui, who possesses the requisite academic and professional qualifications and relevant experience as required under Rule 3.28 of the Listing Rules, as a joint company secretary to provide assistance to Mr. Chen for an initial period of three years commencing on the Listing Date so as to communicate regularly with Mr. Chen on matters relating to the Listing Rules as well as other applicable laws and regulations, to inform Mr. Chen on a timely basis of any amendment to the Listing Rules and any new or amended laws, regulations and codes that are applicable to our Company and to enable Mr. Chen to acquire the relevant experience (as required under Note 2 to Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities as company secretary; and
- (b) each of Mr. Chen and Mr. Lui will attend in each financial year no less than 15 hours of relevant training to familiarise themselves with the Listing Rules and other relevant laws and regulations, as well as the duties required of a company secretary of an issuer listed on the Stock Exchange.

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

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

FINANCIAL INFORMATION INCLUDED IN THIS PROSPECTUS

Under section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, our Company is required to, among other things, state in the prospectus those matters specified in Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and set forth in the prospectus the reports specified in Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Paragraph 27 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance specifically requires a statement as to the gross trading income or sales turnover (as may be appropriate) of our Company during each of the three financial years immediately preceding the issue of the prospectus including an explanation of the method used for the computation of such income or turnover and a reasonable breakdown between the more important trading activities shall be included in the prospectus.

Paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance also requires the prospectus to include a report by the auditors of our Company with respect to profits and losses in respect of each of the three financial years immediately preceding the issue of the prospectus, and assets and liabilities of our Group at the last date to which the financial statements of our Company were prepared.

Pursuant to section 342A(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFC may issue, subject to such conditions (if any) as it thinks fit, a certificate of exemption from compliance with the relevant requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interests of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

Pursuant to Rule 4.04(1) of the Listing Rules, the accountants' report of our Company in the prospectus must include, inter alia, its consolidated results in respect of each of the three financial years immediately preceding the issue of the prospectus or such shorter period as may be acceptable to the Stock Exchange.

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(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

Pursuant to Rule 4.04(1) of the Listing Rules, Paragraph 27 of Part I and Paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, our Company is required to produce audited accounts for the three years ended 31 December 2019. Our Company has sought a waiver from strict compliance with Rule 4.04(1) of the Listing Rules and a certificate of exemption from strict compliance with section 342(1)(b) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance as the strict compliance with the requirements thereunder would be unduly burdensome and the waiver and exemption thereof would not prejudice the interest of the investing public for the following reasons:

- (i) there would not be sufficient time for our Group and the reporting accountants to complete the audit work on the full financial information for the year ended 31 December 2019 for inclusion in this prospectus, which shall be issued on or before 29 February 2020. If the financial information is required to be audited up to 31 December 2019, our Company and the reporting accountants would have to undertake a considerable amount of work to prepare, update and finalise the accountants' report and this prospectus and the relevant sections of this prospectus will need to be updated to cover such additional period;
- (ii) our Directors and the Sole Sponsor are of the view that (a) the accountants' report covering the three years ended 31 December 2018 and the nine months ended 30 September 2019, together with the profit estimate of our Group for the year ended 31 December 2019 as set out in Appendix III to this prospectus already provide potential investors with adequate and reasonably up-to-date information in the circumstances to form a view on the Track Record Period and earnings trend of our Group; and (b) all information that is necessary for the potential investors to make an informed assessment of the activities, assets and liabilities, financial position, management and profitability of our Company has been included in this prospectus; and
- (iii) our Directors and the Sole Sponsor confirmed that they have performed sufficient due diligence to ensure that, up to the date of this prospectus, save as the Listing expenses which will materially and adversely affect our Group's business operation and financial performance subsequent to the Track Record Period, there has been no material adverse change in our Group's financial and trading positions or prospects from 1 October 2019 and there is no event since 1 October 2019 would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus, the profit estimate of our Group for the year ended 31 December 2019 as included in Appendix III to this prospectus and the section headed "Financial Information" in this prospectus and other parts of this prospectus.

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

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

- (i) our Shares shall be listed on the Stock Exchange on or before 31 March 2020;
- (ii) we obtain a certificate of exemption from the SFC pursuant to section 342A(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance from strict compliance with the requirements under section 342(1)(b) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;
- (iii) a profit estimate for the financial year ended 31 December 2019 (which complies with Rules 11.17 to 11.19 of the Listing Rules) shall be included in the prospectus;
- (iv) a Directors' statement that save as the Listing expenses which will materially and adversely affect the Group's business operation and financial performance subsequent to the Track Record Period, there is no material adverse change to the Group's financial and trading positions or prospect with specific reference to the trading results from 1 October 2019 to 31 December 2019; and
- (v) we shall publish our results announcement for the year ended 31 December 2019 pursuant to Rule 13.49 of the Listing Rules.

Further, an application has been made to the SFC for an exemption, and the SFC has granted a certificate of exemption, under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance from strict compliance with section 342(1)(b) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance on the following conditions:

- (i) this prospectus will be issued on or before 29 February 2020, and the Shares will be listed on or before 31 March 2020, that is three months after the latest financial year end; and
- (ii) the particulars of the exemption are set forth in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. No person is authorised in connection with the Global Offering to give any information or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers or the Underwriters, any of their respective directors, agents, employees or advisers or any other person involved in the Global Offering.

Each person acquiring the Global Offering will be required, and is deemed by his or her acquisition of the Offer Shares, to confirm that he or she is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he or she is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

Prospective applicants for the Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. 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.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering will be fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to the agreement to the Offer Price between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters). The Global Offering is managed by the Joint Lead Managers. The International Placing is expected to be fully underwritten by the International Underwriters under the terms of the International Underwriting Agreement. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting” of this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price, which is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on the Price Determination Date. If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) by Tuesday, 10 March 2020 (Hong Kong time), the Global Offering will not proceed.

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus and/or the related Application Forms 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, nor is it calculated to invite or solicit offers 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 offered and sold, and will not be offered or sold, directly or indirectly in the US, except in compliance with the relevant laws and regulations of such jurisdiction.

APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme).

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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

REGISTER OF MEMBERS AND STAMP DUTY

All Shares issued by us pursuant to applications made in the Global Offering will be registered on our branch register of members to be maintained in Hong Kong by our Hong Kong Branch Share Registrar. Our principal register of members will be maintained in the Cayman Islands by our Company's principal share registrar, Ogier Global (Cayman) Limited.

Dealings in Shares registered on our Hong Kong branch register of members will be subject to Hong Kong stamp duty. Only Shares registered on our Hong Kong branch register of members may be traded on the Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, or purchasing, holding or disposing of or dealing in the Offer Shares, you should consult your professional advisers. None of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, agents, employees or advisers and any other person involved in the Global Offering accepts responsibility for any tax effects on, or liability of, any person or holders of Shares resulting from subscribing for, purchasing, holding or disposing of or dealing in the Offer Shares.

PROCEDURE FOR APPLICATION FOR THE HONG KONG OFFER SHARES

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

STRUCTURE OF THE GLOBAL OFFERING

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

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on the Stock Exchange 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 on the Stock Exchange or such other date HKSCC chooses. Investors should seek the advice of their stockbroker or other professional advisers for details of those settlement arrangements as such arrangements will affect their rights, interest and liabilities.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after a trading day.

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

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

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Thursday, 12 March 2020.

The Shares will be traded in board lots of 4,000 Shares each. The stock code for the Shares is 1950.

ROUNDING

Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail. If there is any inconsistency between the names of any of the entities mentioned in this prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

EXCHANGE RATES CONVERSION

For illustrative purpose only, unless otherwise indicated, the translation of Renminbi into Hong Kong dollars and vice versa in this prospectus as at the Latest Practicable Date was made at the following rates:

HK\$1.17..... to RMB1.00

For exchange rates translations throughout this prospectus (if any), we make no representations and none should be construed as being made, that any of the Hong Kong dollar or Renminbi amounts contained in this prospectus could have been or could be converted into amounts of any other currencies at any particular rate or at all on such date or any other date.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the stabilising manager may choose to borrow up to 37,500,000 Shares from Sunlight Global. Such stock borrowing arrangement will comply with the requirements set out in Rule 10.07(3) of the Listing Rules.

OVER-ALLOTMENT AND STABILISATION

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

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
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Executive Directors

Ms. LIU Jing (劉靜女士)	Room 1002, Unit 4, Building 32, Shiji Xincheng, Wen'er West Road, Xihu District, Hangzhou City, Zhejiang Province, PRC	Chinese
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Mr. CHEN Hua (陳華先生)	Room 1002, Unit 4, Building 32, Shiji Xincheng, Wen'er West Road, Xihu District, Hangzhou City, Zhejiang Province, PRC	Chinese
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Ms. ZHU Jianqin (朱建琴女士)	Villa no. 22, Sunny Garden, Wenshan West Road, Hangzhou City, Zhejiang Province, PRC	Chinese
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Mr. LI Xiangyu (酈向宇先生)	9-1-1203, Wenxi Dingyuan, Wenyi West Road, Wenxin Street, Xihu District, Hangzhou City, Zhejiang Province, PRC	Chinese
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Independent non-executive Directors

Mr. TIAN Jingyan (田景岩先生)	No. 603, Gate 3, 6/F, Jiaolin, Hepingli, Dongcheng District, Beijing City, PRC	Chinese
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Mr. HO Ho Tung Armen (何浩東先生)	Flat A, 33/F, Tower 9, Larvotto, 8 Ap Lei Chau Praya Road, Ap Lei Chau, Hong Kong	Chinese
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Ms. YU Zhen (喻貞女士)	Room 1601, Unit 3, Building 30, Eastern District, Sanxin Homeland, Sancha Community, Sijiqing Street, Jianggan District, Hangzhou City, Zhejiang Province, PRC	Chinese
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DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

For further information regarding our Directors, please refer to the section headed “Directors and Senior Management” in this prospectus.

Sole Sponsor

Giraffe Capital Limited

3/F, 8 Wyndham Street
Central
Hong Kong

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

**Joint Global Coordinators and
Joint Bookrunners**

Giraffe Capital Limited

3/F, 8 Wyndham Street
Central
Hong Kong

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

ChaoShang Securities Limited

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

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

Joint Lead Managers

Giraffe Capital Limited

3/F, 8 Wyndham Street
Central
Hong Kong

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

ChaoShang Securities Limited

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

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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

I Win Securities Limited

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

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

Sinomax Securities Limited

Room 2705-6, 27/F,
Tower One, Lippo Centre,
89 Queensway, Hong Kong

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

Zhong Jia Securities Limited

Room 9, 8/F, One Island South,
2 Heung Yip Street, Hong Kong

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

First Fidelity Capital (International) Limited

Room 908-909, 9/F,
Great Eagle Centre,
23 Harbour Road, Wan Chai,
Hong Kong

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

All EverGreen Securities Limited

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

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

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Reporting accountants and
auditors**

HLB Hodgson Impey Cheng Limited
31/F, Gloucester Tower
The Landmark, 11 Pedder Street
Central
Hong Kong

Legal advisers to our Company

As to Hong Kong laws:
Stevenson, Wong & Co.
in association with AllBright Law Offices
39/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC laws:
AllBright Law Offices Hangzhou Office
12/F, HuaCheng International Development Tower
No. 308 Fuchun Road
Jianggan District, Hangzhou
Zhejiang Province 310020
PRC

As to Cayman Islands laws:
Ogier
11/F, Central Tower
28 Queen's Road Central
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisers to the Sole Sponsor and the Underwriters	<i>As to Hong Kong laws:</i> Chungs Lawyers in association with DeHeng Law Offices 28/F, Henley Building 5 Queen's Road Central Hong Kong <i>As to PRC laws:</i> Grandall Law Firm (Shanghai) 23-25/F, Garden Square 968 West Beijing Road Shanghai 200041 PRC
Industry consultant	China Insights Industry Consultancy Limited 10/F, Tomorrow Square 399 West Nanjing Road Huangpu District, Shanghai 200003 PRC
Property Valuer	AVISTA Valuation Advisory Limited 23/F, Siu On Centre No. 188 Lockhart Road Wan Chai Hong Kong
Receiving bank	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

CORPORATE INFORMATION

Registered office	Ogier Global (Cayman) Limited 89 Nexus Way, Camana Bay Grand Cayman KY1-9009 Cayman Islands
Headquarters and principal place of business in the PRC	No.2, Jiangshan Road Meicheng Town Jiande County Hangzhou City Zhejiang Province PRC
Principal place of business in Hong Kong	4404-10, 44/F One Island East 18 Westlands Road, Taikoo Place Hong Kong
Company's website	www.slkj.cn <i>(the information contained in this website does not form part of this prospectus)</i>
Joint company secretaries	Mr. Chen Weibo (陳衛波先生) Room 602, Unit 1 Block 6, Houchao Apartment Shangcheng District Hangzhou City Zhejiang Province PRC Mr. Lui Chi Ho (呂志豪先生) <i>(Solicitor of Hong Kong)</i> 4404-10, 44/F One Island East 18 Westlands Road, Taikoo Place Hong Kong
Authorised representatives	Mr. Chen Hua (陳華先生) Room 801, Unit 1, Building 18 Wenjinyuan, Xihu District Hangzhou City, Zhejiang Province PRC Mr. Lui Chi Ho (呂志豪先生) 4404-10, 44/F One Island East 18 Westlands Road, Taikoo Place Hong Kong

CORPORATE INFORMATION

Audit committee	Mr. Ho Ho Tung Armen (何浩東先生) (<i>Chairman</i>) Mr. Tian Jingyan (田景岩先生) Ms. Yu Zhen (喻貞女士)
Nomination committee	Ms. Liu Jing (劉靜女士) (<i>Chairman</i>) Mr. Ho Ho Tung Armen (何浩東先生) Mr. Tian Jingyan (田景岩先生)
Remuneration committee	Mr. Tian Jingyan (田景岩先生) (<i>Chairman</i>) Mr. Chen Hua (陳華先生) Ms. Yu Zhen (喻貞女士)
Principal share registrar and transfer office	Ogier Global (Cayman) Limited 89 Nexus Way, Camana Bay Grand Cayman, KY1-9009 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
Principal banker	Bank of Communications Xin'an Branch, Jiande County Hangzhou City Zhejiang Province PRC
Compliance adviser	Giraffe Capital Limited (A licensed corporation carrying type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO) 3/F, 8 Wyndham Street Central Hong Kong

INDUSTRY OVERVIEW

The information presented in this and other sections of this prospectus, including certain facts, statistics, and data, is extracted from the CIC Report as issued by CIC, which was commissioned by us and based on various official government publications and other publicly available sources, unless otherwise indicated. We believe that the sources of such information are appropriate and have taken reasonable care in extracting and reproducing such information and statistics. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. The information and statistics included herein have not been independently verified by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, or representatives, or any other person involved except CIC in the Global Offering, and no representation is given as to its accuracy, completeness or fairness of such information. Accordingly, such information should not be unduly relied upon.

SOURCE OF INFORMATION

We commissioned CIC, a market research and consulting company founded in Hong Kong and engaging in the provision of professional consulting services across multiple industries, to conduct an analysis of and report on the faux leather chemicals manufacturing industry in China. The CIC Report was prepared by CIC independent of our influence. The fees paid for the preparation of the CIC Report was RMB450,000, which we believe reflects the market rate for such reports.

The information and data collected by CIC have been analysed, assessed, and validated using CIC's in-house analysis models and techniques. Primary research was conducted via interviews with key industry experts and leading industry participants. Secondary research involved analysing market data obtained from several publicly available data sources, such as National Bureau of Statistics, company annual reports and CIC's own internal database. The methodology used by CIC is based on analysing information gathered from multiple levels and ensures that this information is cross-referenced for reliability and accuracy.

The CIC Report contains a variety of market projections which were produced with the following key assumptions: (i) the overall social, economic, and political environment in China is expected to remain stable during the forecast period; (ii) related key industry drivers are likely to propel continued growth of China's faux leather chemicals manufacturing industry, including increase in the share of faux leather in total leather manufacturing industry, rising demand for faux leather in various downstream applications, and differentiated demand of consumers for products in fashion industry, etc. and (iii) there is no extreme force majeure or unforeseen industry regulations in which the market may be affected in either a dramatic or fundamental way. CIC believes that the assumptions used in preparing the CIC Report, including those used to make future projections, are factual, correct, and not misleading. The reliability of the CIC Report may be affected by the accuracy of the foregoing assumptions and factors as well as the choice of primary and secondary sources.

Our Directors confirm that after taking reasonable enquiries, there had been no material adverse change in the market information since the date of the CIC Report which may qualify, contradict, or have an impact on the information set out in this section.

Except otherwise mentioned, all data and forecasts contained in this section are extracted from the CIC Report.

LEATHER MANUFACTURING INDUSTRY IN CHINA

Introduction of leather manufacturing industry

The leather manufacturing industry consists of faux leather manufacturing and genuine leather manufacturing.

INDUSTRY OVERVIEW

Genuine leather is a natural, durable and flexible material created by tanning animal rawhides.

Faux leather is a composite material produced by applying resins layers such as PVC or PU resins on a woven fabric, a knitted fabric or a non-woven fabric by rolling, casting, coating, and dry-processing. Faux leather is widely used in various downstream industries, including apparel and footwear, handbags and luggage, home furnishings, automobile interior decoration, and sports equipment, etc..

There are mainly two types of faux leather, namely PVC leather and PU leather. PVC leather is essentially a flexible plastic made from PVC resins while PU leather is a composite material obtained by forming a microporous layer of PU resins on a backing fabric. Microfibre leather, a type of PU leather with a microfibre non-woven fabric textile being the backing fabric, provides the most realistic imitation of leather when it comes to its soft supple hand feeling. It is also known to wrinkle like leather when gathered, stitched, or tufted. Compared to PVC leather and ordinary PU leather that are commonly used for ordinary decoration, microfibre leather is widely applied on high-end handbags and luggage, footwear and apparel, furniture, sports equipment, and automobile interiors, etc..

Market size of the leather manufacturing industry in China

Due to the limitation in the volume of rawhides, the market size of the genuine leather manufacturing industry was smaller compared to that of faux leather. As of 2018, the production volume of genuine leather was 568.4 million sq. m. while that of faux leather was 3,575.4 million sq. m. in China. Influenced by decreasing demand in genuine leather apparel, the production volume of genuine leather in China witnessed a decrease between 2016 and 2018. This trend is expected to continue due to the probable decrease in rawhide supply as well as the substitution demand for faux leather driven by the serious environmental problems caused by genuine leather processing. It is estimated that the production volume of genuine leather will decrease to approximately 459.1 million sq. m. by 2023.

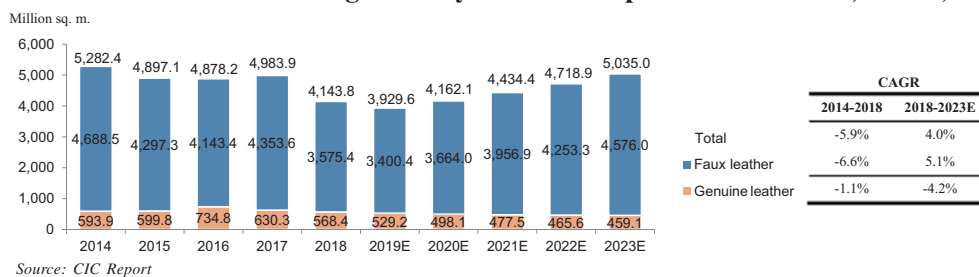
The market size of the faux leather manufacturing industry experienced decreased demand from downstream applications and was influenced by pressure from environmental regulations between 2014 and 2018 such as the Emission Reduction Plan for VOCs in Key Industries (《重點行業揮發性有機物削減行動計劃》) and the Comprehensive Management Plan for VOCs in Key Industries (《重點行業揮發性有機物綜合治理方案》), which the “Key Industries” include industries involving refining of petroleum and petrochemical engineering, coatings, adhesives, pesticides, automobiles, and synthetic leather, etc.. The production volume decreased from 4,688.5 million sq. m. to 3,575.4 million sq. m., registering a negative CAGR of approximately 6.6%. As a large number of small faux leather manufacturers with poor product quality are gradually being phased out, the average quality of products improves, leading to rising demand for faux leather. The production volume of faux leather is expected to grow again in 2020, with an expected CAGR of approximately 5.1% between 2018 and 2023.

The market drivers of the faux leather manufacturing industry include increasing demand from downstream apparel, footwear, automobile interior decoration, home furnishings, and sports equipment industries, favourable government regulations and policies of the faux leather manufacturing industry in China such as the Guidelines for the Development of Key Generic Technologies in the industry which aims to improve the environmental friendliness of raw material for faux leather manufacturing industry, and increasing substitution of genuine leather by faux leather due to the limitation in the volume of rawhides and wider awareness of anti-cruelty.

As faux leather gradually replaces the genuine leather in wider downstream applications, the share of faux leather in terms of production volume in the leather manufacturing industry is expected to grow from 86.3% in 2018 to 90.9% in 2023 in China. Driven by the expected increase in production volume of faux leather from approximately 3,575.4 million sq. m. in 2018 to approximately 4,576.0 million sq. m. in 2023, the market size of leather manufacturing industry is expected to grow from approximately 4,143.8 million sq. m. in 2018 to approximately 5,035.0 million sq. m. in 2023.

INDUSTRY OVERVIEW

Market size of leather manufacturing industry in terms of production volume, China, 2014-2023E



FAUX LEATHER CHEMICALS MANUFACTURING INDUSTRY IN CHINA

Overview of the faux leather chemicals manufacturing industry in China

Unlike genuine leather which is made from animal skin or hide, faux leather is made from a backing fabric and a variety of chemicals to create a leather-like material. Faux leather chemicals refer to chemicals used in the production process of faux leather.

Value chain of the faux leather chemicals manufacturing industry in China

	Production of general chemical products	Faux leather chemicals manufacturing	Faux leather manufacturing	Faux leather consumption
Key role	<ul style="list-style-type: none"> Produce general chemical products that serve as important solvents and raw materials, which include: <ul style="list-style-type: none"> Dimethylformamide (DMF) Methylene diphenyl isocyanate (MDI) Titanium dioxide 	<ul style="list-style-type: none"> Manufacture a variety of types of chemical products to give colour and particular effects on faux leather, including: <ul style="list-style-type: none"> PU and PVC resins Colourants Additives Finishes 	<ul style="list-style-type: none"> Manufacture different types of faux leather including: <ul style="list-style-type: none"> PVC leather Ordinary PU leather Microfibre leather 	<ul style="list-style-type: none"> Manufacture various end products with faux leather such as: <ul style="list-style-type: none"> Apparel and footwear Automobile interior decoration Home furnishings
Highlights	<ul style="list-style-type: none"> General chemical products are not customised and can be mass produced 	<ul style="list-style-type: none"> Unlike general chemical products, faux leather chemicals are produced based on orders from downstream customers and can be customised to meet specific requirements of the colour, feel, and effects 	<ul style="list-style-type: none"> Features of the faux leather manufactured are dependent on downstream demand Around 80% of faux leather consumed globally is manufactured in China 	<ul style="list-style-type: none"> Demand from automobile interior decoration, apparel and footwear and home furnishings are three types of most promising application in the future

Major types of chemicals include resins and coating agents, the latter can be further categorised into colourants, finishes, and additives.

Major types of chemicals used in the manufacturing process of faux leather, China

Major types of chemicals	Application on faux leather	Functions	Typical product types
Resins	<ul style="list-style-type: none"> Wet layer Dry layer 	<ul style="list-style-type: none"> Major component of wet layer and dry layer 	<ul style="list-style-type: none"> PU resins PVC resins
Coating agent	Colourants	<ul style="list-style-type: none"> Give colour to each layer 	<ul style="list-style-type: none"> Colour paste Colour chip Toner
	Finishes	<ul style="list-style-type: none"> To improve the physical and chemical characteristics of the surface and achieve desired effect 	<ul style="list-style-type: none"> Matting agents Brightening agents Hand feeling agents
	Additives	<ul style="list-style-type: none"> Facilitate chemical reaction Enable functionalities such as hydrolysis resistance, abrasion resistance, colour fastness to rubbing 	<ul style="list-style-type: none"> Defoamers (消泡剂) Leveling agents (流平剂) Solidification auxiliaries (凝固助剂)

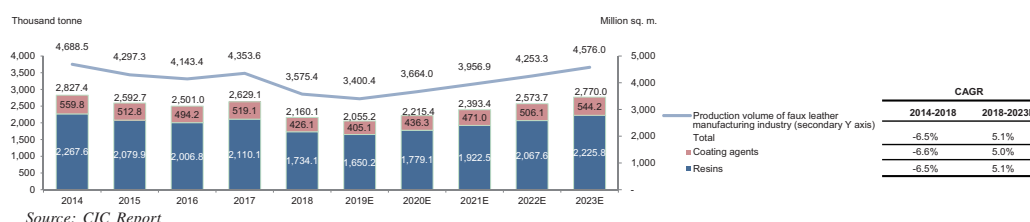
Market size of the faux leather chemicals manufacturing industry in China

PU and PVC resins are consumed in vast quantities as these are the primary components in forming the wet layer and dry layer of PU and PVC leather. Coating agents are used to give colour and desired effects in terms of hand feeling and pattern to faux leather and it takes a less amount in the faux leather manufacturing process.

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Corresponding with the decrease in production volume of faux leather due to decreased demand from downstream applications and pressure from environmental regulations between 2014 and 2018, the sales volume of resins recorded a decrease from approximately 2.3 million tonnes to approximately 1.7 million tonnes from 2014 to 2018, registering a negative CAGR of approximately 6.5%. During the same period, the sales volume of coating agents also decrease from approximately 0.6 million tonnes to approximately 0.4 million tonnes, representing a negative CAGR of approximately 6.6%. As small faux leather manufacturers are expected to be phased out, while increasing demand from downstream applications, favourable government regulations and policies, and increasing substitution of genuine leather by faux leather are expected, it is estimated that there will be growing demand for faux leather products, which in turn increases the demand for faux leather chemicals between 2019 and 2023, with the sale volume of resins reaching approximately 2.2 million tonnes and coating agents reaching approximately 0.5 million tonnes by 2023.

Breakdown of faux leather chemicals manufacturing industry in terms of sales volumes, by product types, China, 2014-2023E



The expected recovery of the faux leather chemicals manufacturing industry after 2019 is mainly attributable to (i) the phasing out of many small faux leather manufacturers substantially by 2019, and (ii) the expected growth of faux leather manufacturing industry driven by downstream applications:

The phasing out of small faux leather manufacturers and an improvement of the overall quality of faux leather products

Between 2014 and 2018, under the pressure of more stringent environmental regulations, a large number of small faux leather manufacturers with poor product quality, limited research and development capabilities and obsolete production techniques were gradually phased out. In response to national environmental protection policies, the local government bodies of some of the key regions of faux leather manufacturing industry have successively released action plans for rectification and improvement of the faux leather manufacturing industry, which aim to complete rectification in around 2019 and 2020. For example, (i) the *Action Plan for Rectification and Improvement of the Synthetic Leather Industry in Fuding County* (《福鼎市合成革產業專項整治提升行動方案》), where the largest synthetic leather industrial park in China is located, stipulates the sealing of relevant workshops and the upgrade of gas collection systems to be completed by March 2020, and (ii) the *Action Plan for Rectification and Improvement of the Synthetic Leather Industry in Lishui Economic and Technological Development Area* (《麗水經濟技術開發區合成革產業專項整治提升行動方案》) stipulates the sealing of relevant workshops and the upgrade of gas collection systems by faux leather manufacturers to be completed and 20% of production lines of solvent-based synthetic leather production to be eliminated by December 2019, encouraging manufacturers to develop microfibre leather, water-based and solvent-free synthetic leather products. Faux leather manufacturers that do not meet requirements of clean production will be punished.

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Pursuant to the *Comprehensive Management Plan for VOCs in Key Industries* (《重點行業揮發性有機物綜合治理方案》), it stipulates a VOCs pollution prevention and control management system to be fully established, and the target of reducing 10% of VOCs emission under the “13th Five-Year Plan” to be achieved by 2020. In addition, according to the *Action Plan for Rectification and Improvement of the Chemical Industry in Jiangsu Province (Draft for Comment)* (《江蘇省化工行業整治提升方案(徵求意見稿)》), 30 out of 89 hazardous chemical production enterprises in densely populated urban areas that do not meet the requirements of safety distance will be eliminated by the end of 2019. Since 2014, rectification and improvement actions have been extensively carried out in the manufacturing industries which involved manufacturing or extensive use of chemicals in many regions across China, including Guangdong, Fujian, Zhejiang, Jiangsu, Hubei, Shaanxi, Shandong, etc.. The number of faux leather manufacturing enterprises which has a revenue of over RMB20 million in China has decreased from 539 in 2014 to approximately 438 in 2019, demonstrating retirement of obsolete manufacturing capacity and increasing level of market concentration.

With the upgrade of faux leather manufacturing industry and rising awareness of environmental protection, the industry participants will become more committed to environmental protection, safety production and the advancement of science and technology. National policies have put forward enhanced requirements on environmental protection and safety measures applicable to both the faux leather manufacturing and the faux leather chemicals manufacturing industries, aiming to achieve more sustainable development. Under the supervision and guidance of the government, the production of faux leather and faux leather chemicals will be further enhanced, with less pollution, more safety measures and higher efficiency. Moreover, as the qualities (such as features, reliability, durability, performance and safety) of faux leather products improve as a result of science and technology advancement, the applications of faux leather products will expand and the demand for faux leather products by downstream industries such as apparel, footwear, automobile interior decoration, home furnishings and sports equipment, will grow, which will in turn promote the development of the upstream faux leather chemicals manufacturing industry as a whole and therefore facilitate the recovery of the faux leather chemicals manufacturing industry in China after 2019. Faux leather chemicals manufacturers which possess strong research and development capabilities to produce diversified product portfolio to cater for different needs and requirements of faux leather manufacturers will be better positioned to capture the expected market growth. With the substantial completion of rectification and improvement of the faux leather industry and the government’s prevalent promotion of environmental-friendly faux leather products, the demand for faux leather chemical products in China is expected to recover after 2019.

The expected growth of faux leather manufacturing industry driven by higher demand of different faux leather products by downstream applications

- (i) an increasing demand for quality faux leather products in emerging downstream applications such as home furnishings and automobile interior decoration. Upholstery faux leather, especially interior wall leather, is becoming increasingly popular in the home furnishings industry in China due to its superior advantages in terms of stability, stain-resistance, and ease of maintenance over the traditional wallpaper. Currently, the proportion of fully-decorated houses in China is relatively low compared with that in developed countries like Japan, France, and the United States. Propelled by policies such as “13th Five-Year Plan for Construction Industry” and the “Standard for Assessment of Prefabricated Buildings”, the sales of fully-decorated houses is expected to increase in the next five years, boosting the demand for upholstery faux leather to be used in the decoration.

INDUSTRY OVERVIEW

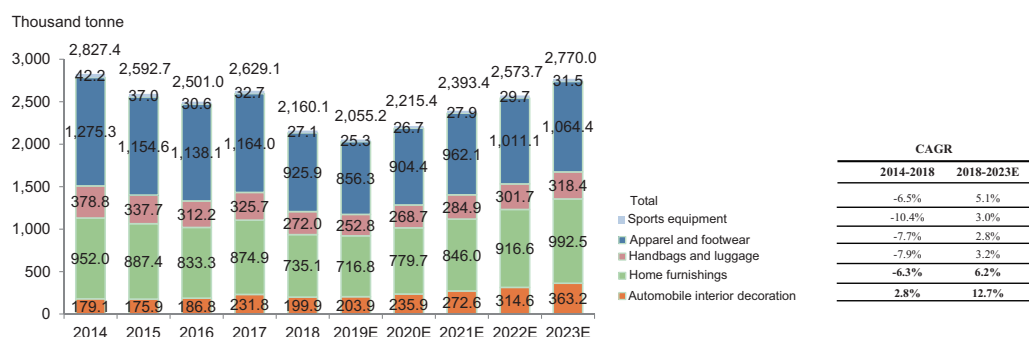
- (ii) an increasing demand for footwear in China, especially middle and high-end products, resulting from a large population base and an increasing disposable income of residents. The sales revenue of the footwear industry in China was growing steadily from approximately RMB347.3 billion in 2014 to approximately RMB414.4 billion in 2018, representing a CAGR of approximately 4.5% between 2014 and 2018. In the next five years, the growing popularisation of national fitness program will continue to stimulate the demand for athletic footwear and the sales revenue of the footwear industry in China is expected to reach approximately RMB510.4 billion in 2023, representing a CAGR of approximately 4.3% between 2018 and 2023. Therefore, the demand for quality faux leather from downstream footwear manufacturing industry is expected to increase. The demand for quality faux leather to be used in sports equipment industry in China also resulted from the growing popularisation of the national fitness program and the change in exercising habits of the new generation who acknowledges the importance of exercising and are willing to pay more for the sports equipment compared with elder generations.
- (iii) the stable growth in purchasing power for consumer goods as the per capita disposable income of urban households in China is estimated to grow from approximately RMB39,251 in 2018 to approximately RMB54,906 in 2023, representing a CAGR of approximately 6.9% between 2018 and 2023. As consumers tend to favour quality products, demand for apparel and footwear, handbags and luggage that are made from quality faux leather is expected to expand. From 2018 to 2023, sales revenue of apparel industry is expected to increase from approximately RMB2,290.2 billion to approximately RMB3,909.2 billion, representing a CAGR of approximately 11.3%. Sales revenue of handbag and luggage industry is estimated to grow from approximately RMB198.9 billion in 2018 to approximately RMB267.4 billion in 2023, registering a CAGR of approximately 6.1%. During the same period, sales volume of faux leather chemicals for apparel and footwear industry and handbag and luggage industry is expected to grow at CAGRs of approximately 2.8% and 3.2%, respectively.
- (iv) driven by the relatively stable economic growth in China and the improvement of per capita disposable income, the number of total tourist visits in China surged from approximately 3,718.0 million in 2014 to approximately 5,690.0 million in 2018. Meanwhile, the total travel expenses also rose from approximately RMB3,587.1 billion in 2014 to approximately RMB5,953.2 billion in 2018 correspondingly, with a CAGR of approximately 13.5%. Travel bags and luggage have become an indispensable consumer product in people's daily lives, which will continue to drive the growth of the domestic faux leather luggage and handbags market in the future.
- (v) an increasing demand for faux leather applied in automobile interior decoration is also expected in the next five years. Automobile manufacturers cooperate with faux leather manufacturers that provide quality vehicle leather products for automobile interior decoration. Meanwhile, a considerable number of established automobile manufacturers that once used genuine leather for seats start to switch to use faux leather for automobile interior decorations, resulting from a decline in genuine leather supply and an improvement in the quality and functionality of faux leather.

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- (vi) rising demand for microfibre leather among various downstream industries. Microfibre leather provides the most realistic imitation of genuine leather in terms of hand feeling and also provides versatile functions, lighter weight and colours that genuine leather is unable to provide. Moreover, as genuine leather is made from natural hides and skins, conventional tanning techniques used to process the rawhides and skins tend to cause more pollution, while microfibre leather is manufactured without tanning process. Meanwhile, the quality of genuine leather is inconsistent since the raw materials are natural and are inherently different from each other. As the production techniques for microfibre leather become more sophisticated, microfibre leather is expected to see wider application in various industries including apparel, handbags, home furnishings, and automobile interior decoration. For example, to offer better user experience, luxury automobile brands start to apply microfibre leather in their new models. It is expected that more automobile manufacturers will use microfibre leather in automobile interior decoration which will lead to rising demand for microfibre leather. The production volume of microfibre leather in China expanded from approximately 93.8 million sq. m. in 2014 to approximately 143.0 million sq. m. in 2018, and is expected to continue to expand to approximately 228.8 million sq. m. in 2023, as microfibre leather gradually substitutes genuine leather in wider downstream applications.

Given the wide range of applications of faux leather, the faux leather chemicals manufacturing industry can be divided by types of application including apparel and footwear, handbags and luggage, home furnishings, automobile interior decoration, and sports equipment.

Breakdown of the faux leather chemicals manufacturing industry in terms of sales volumes, by downstream applications, China, 2014-2023E

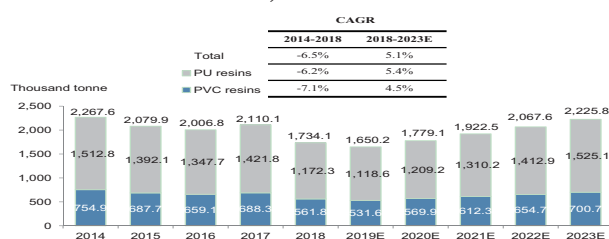


Source: CIC Report

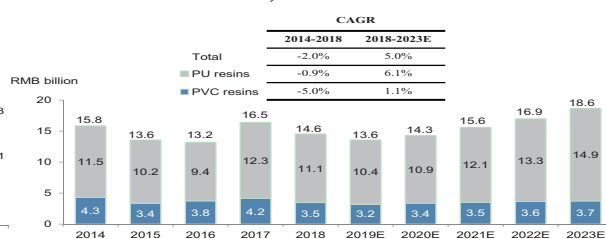
Faux leather resins include PU resins and PVC resins. The trends of sales volume and sales value of faux leather resins are generally influenced by and are therefore in line with the fluctuations in production volume of the faux leather manufacturing industry. Sales volume of faux leather resins is expected to rebound since 2019 and reach a total of approximately 2.2 million tonnes in 2023, which is mainly attributed to rising demand for production of faux leather during the same period. Sales value of faux leather resins is subject to fluctuations in both sales volume and price. Between 2014 and 2018, sales value of faux leather resins fluctuated between approximately RMB13.2 billion and approximately RMB16.5 billion. Given the expected moderate growth of price and increasing sales volume of faux leather resins, sales value of faux leather resins is estimated to reach approximately RMB18.6 billion in 2023, representing a CAGR of approximately 5.0% between 2018 and 2023.

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Breakdown of faux leather resins market in terms of sales volumes, by product types, China, 2014-2023E



Breakdown of faux leather resins market in terms of sales values, by product types, China, 2014-2023E



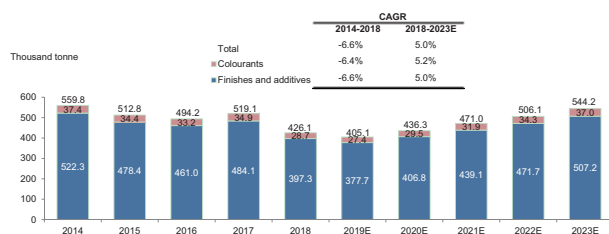
Source: CIC report

Coating agents can be divided into finishes, additives, and colourants. Influenced by fluctuations in the production volume of downstream faux leather due to the aforementioned reasons, the sales volumes of finishes and additives, and colourants experienced a similar fluctuation, decreasing at a negative CAGR of approximately 6.6% and 6.4% from 2014 to 2018, respectively. As demand for faux leather recovered after 2019, the sales volumes of finishes and additives, and colourants were expected to experience growth at a CAGR of approximately 5.0% and 5.2%, from 2018 to 2023, respectively, reaching approximately 507,200 tonnes and approximately 37,000 tonnes, respectively, by 2023.

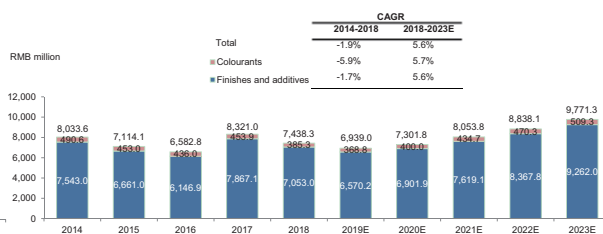
The sales values of finishes and additives, and colourants are also affected by the fluctuation in prices of key raw materials. The sales values of finishes and additives market and colourants market reported a negative CAGR of approximately 1.7% and 5.9%, respectively, between 2014 and 2018, which is in line with the fluctuation in prices of key raw materials. Sales values of finishes and additives, and colourants are expected to experience a moderate growth at a CAGR of approximately 5.6% and 5.7%, respectively, between 2018 and 2023, as the demand for faux leather chemicals from downstream applications increases.

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Breakdown of the faux leather coating agents market in terms of sales volumes, by product types, China, 2014-2023E



Breakdown of the faux leather coating agents market in terms of sales values, by product types, China, 2014-2023E



Source: CIC Report

Market drivers of the faux leather chemicals manufacturing industry in China

1) Replacement of genuine leather by faux leather

Although genuine leather, which is made from animal hide, has a better texture, hand feeling and longer life span than that of faux leather, the decrease in rawhide supply, biological risk involved in the production of genuine leather as well as the wider awareness of anti-cruelty fuelled the demand for faux leather, which is generally more affordable to consumers than genuine leather. Meanwhile, the differences between faux leather and genuine leather are becoming smaller as technology advances and physical and chemical properties of faux leather including colour, antimicrobial properties, uniformity in quality, and ease of processing are fundamentally better than genuine leather. Therefore, it is expected that faux leather will continue to substitute genuine leather in the future, propelling the demand for faux leather chemicals accordingly.

2) Increasing demand for faux leather by a wide range of downstream applications

Faux leather are widely applied in a diverse types of downstream application scenarios, including footwear and apparel, handbags and luggage, home furnishings, automobile interior decoration, and sports equipment, etc.. Each sector is expected to experience steady growth in the following years as disposable income continues to rise. Given the diversified application scenarios of faux leather, the requirements for physical and chemical properties of faux leather such as tensile and tearing strength, colour fastness, hydrolysis resistance vary accordingly. As the production of faux leather with different functionalities and features requires the use of different kinds of faux leather chemicals, the demand for production of faux leather chemicals is expected to increase correspondingly.

3) A shift in consumption pattern and changing fashion trends

Consumers nowadays prefer to make personalised purchase and consume in a more frequent manner, especially in the footwear and apparel, handbags and luggage industries. In order to cater for such a shift in consumption pattern, manufacturers are inclined to reduce the quantity of each batch of products and launch more diversified types of new products in an increasingly frequent manner. This will directly lead to a growing types of requirements for colour, texture, functionality, among other properties of new faux leather products, which in turn enhances the role of faux leather chemicals in the ultimate products and promotes the growth of faux leather chemicals manufacturing.

Fashion trends tend to experience an occasional renaissance at different periods of time. As the fashion trends usually have impacts on the demand for footwear and apparel, handbags and luggage, the demand for faux leather will grow significantly when a trend regarding leather texture is re-popularised. As a result, the changing fashion trends can also serve as an important driver for the development of the faux leather chemicals manufacturing industry.

4) Favourable governmental policy

In 2017, the Guidelines for the Development of Key Generic Technologies was issued by the Ministry of Industry and Information Technology. Aiming to improve the environmental friendliness of raw material for faux leather manufacturing industry, the guidelines have promoted technology advancements in the faux leather chemicals manufacturing industry. Key technologies involved in the production of water-based and solvent-free resins, and their downstream products have been encouraged and are expected to continue to propel the sustainable development of faux leather chemicals manufacturing industry.

Future trends of the faux leather chemicals manufacturing industry in China

1) Wider applications of water-based and solvent-free resins

As solvent-based resins contains VOCs which are volatile, toxic and harmful to the environment and public health, several regulations and policies, such as Emission Reduction Plan for VOCs in Key Industries, have been imposed by regulatory authorities. Water-based resins, on the other hand only volatilise water and a small amount of additives, are therefore nontoxic and environmental friendly. In addition, water-based resins are superior over solvent-based resins in terms of water permeability, ease of storage and transportation, etc.. As environmental regulations become more intense, it is expected that water-based and solvent-free resins will have wider applications in the future.

2) More efforts on research and development to strengthen close relations with downstream customers and lower manufacturing costs

Faux leather chemicals play an important role in the production of the downstream faux leather manufacturing because faux leather manufacturers often need technical support and services from chemicals manufacturers in the development and production of faux leather products. However, constrained by the small scale and poor research and development capability, most of China's faux leather chemicals manufacturers are unable to provide sufficient technical services to their downstream customers. Dealing with increasingly demanding requirements of ultimate products with various characteristics, the cooperation between faux leather chemicals manufacturers and faux leather manufacturers will be strengthened going forward.

Research and development plays an essential role in the improvements of production techniques and reduction of manufacturing costs. The overall profit of the faux leather chemicals manufacturing industry is mainly affected by the prices of raw materials and the demand from the downstream industries. As the industry concentration expected to grow in the future, the ability to lower manufacturing costs is expected to become increasingly crucial to remain competitive in this market.

3) Development of diverse types of high performance faux leather chemicals

To cater for the increasingly diversified and customised demand of downstream customers, faux leather manufacturers will have to produce faux leather with various types of effects to meet the requirements of ultimate products with different properties. Consequently, faux leather chemicals manufacturers are expected to produce diversified types of faux leather chemicals. In addition, as technology advances in faux leather chemicals manufacturing industry, chemicals that enable favourable physical and chemical properties such as flame resistance, waterproof, oil resistance, etc. will gain popularity among downstream faux leather manufacturers.

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Challenges and threats of the faux leather chemicals manufacturing industry in China

1) Difficulties in technology innovation

China's faux leather chemicals manufacturing industry relied on the introduction of advanced technology and equipment from foreign countries. As the foreign players from developed countries are still market leaders in innovations of high performance chemicals, there is still a wide disparity between the industry in China and the industries in developed countries. For example, while the production of water-based resins has accomplished breakthroughs abroad, the technology is still in its infancy in China. Moreover, a large number of small and medium sized enterprises lack the sufficient investment in research and development, and still rely on the introduction of technology from abroad. Insufficient technological innovation capability directly hinders the development of China's faux leather chemicals manufacturing industry.

2) Higher requirements on clean production

The government policies and regulations regarding faux leather chemicals manufacturing are becoming increasingly stringent. In the following years, environmental protection regulations will continue to force companies in this industry to invest in waste treatment equipment and promote the innovations in the development of environmental-friendly chemicals. Besides, given that the call for Zero Discharge of Hazardous Chemicals (ZDHC) has gained wider popularity among ultimate product manufacturers, downstream customers of faux leather are also more inclined to cooperate with manufacturers that achieve clean production. Existing manufacturers are supposed to make continuous efforts in the field of environmental protection, otherwise they may fail to maintain long-term cooperation with the downstream industries and may even be forced to cease production.

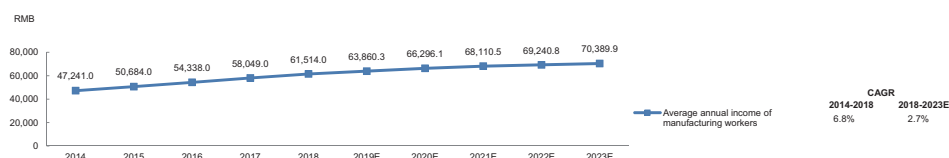
3) Price fluctuations of raw materials

DMF, MDI, and titanium dioxide are major raw materials in the faux leather chemicals manufacturing process. Influenced by fluctuations in production capacity of raw material suppliers as well as changes in environment protection regulations, prices of MDI, DMF, and titanium dioxide have fluctuated over the years, which poses threat to faux leather chemicals manufacturers in terms of product inventory management and profit margin. Since small-scale enterprises that produce chemical products with average quality tend to have relatively weak bargaining power, they are vulnerable to price fluctuations in the raw material prices.

Labour cost analysis of the faux leather chemicals manufacturing industry in China

As of 2018, the average annual income of manufacturing workers stood at RMB61,514.0. Benefitting from the robust macro-economic environment, this figure grew at a CAGR of approximately 6.8% between 2014 and 2018. As China's supply side structural reform continues and the growth of China's economy gradually slows down, it is expected that the manufacturers' budget for employment will be tightened. Driven by the oversupply of manufacturing workers, the growth of the annual salary of manufacturing workers is estimated to slow down. Between 2018 and 2023, the average annual income is expected to see moderate growth at a CAGR of approximately 2.7%.

Average annual income of manufacturing workers, China, 2014-2023E



Source: CIC Report

INDUSTRY OVERVIEW

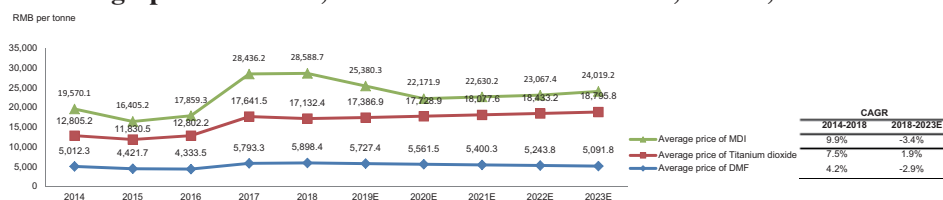
Raw material cost analysis of the faux leather chemicals manufacturing industry in China

DMF, MDI and titanium dioxide are three major raw materials used in the faux leather chemicals manufacturing industry. DMF serves as an important solvent for various chemical products offered by faux leather chemicals producers. Due to the production capacity expansion between 2014 and 2016, the average price of DMF decreased from RMB5,012.3 per tonne to RMB4,333.5 per tonne. Given the intensified environmental protection regulations, production of DMF experienced a decrease in 2017, driving up the price of DMF. Supply of and demand for DMF is expected to reach a balance after small DMF producers that fail to meet environmental regulations are phased out. Since water-based faux leather chemicals are promoted by the government, demand for DMF is estimated to gradually decrease. Between 2018 and 2023, the price of DMF is also expected to decrease.

MDI production industry is relatively concentrated, with top five players accounting for over 80% of total production capacity globally. The average price of MDI fluctuated between RMB16,405.2 per tonne and RMB19,570.1 per tonne between 2014 and 2016 and surged from RMB17,859.3 per tonne in 2016 to RMB28,436.2 per tonne in 2017, which was the result of a reduction in the production capacity of big players. The average price of MDI reached RMB28,588.7 per tonne in 2018. The abnormally high price is estimated to go down after 2018 when the new production capacity of major suppliers expands and the demand for MDI is stabilised. As production capacity continues to increase, the price of MDI is expected to go down and reach a low point by 2020. It is then estimated to gradually go up and reach RMB24,019.2 per tonne by 2023.

Titanium dioxide is an important raw material used in the production of colourants in the faux leather chemicals manufacturing industry. The price of titanium dioxide was relatively stable between 2014 and 2016. Due to the rising price of titanium ores between 2016 and 2017, the price of titanium dioxide surged from RMB12,802.2 per tonne to RMB17,641.5 per tonne. Between 2017 and 2018, the price went down from RMB17,641.5 per tonne to RMB17,132.4 per tonne as the price of titanium ores stabilised. Going forward, the price of titanium dioxide is expected to demonstrate a moderate growth as the demand for painting and coating in industries such as real estate and automotive continues to grow between 2018 and 2023.

Average price of DMF, MDI and titanium dioxide, China, 2014-2023E



Note1: MDI refers to pure MDI

Note2: Titanium dioxide refers to titanium in the rutile form

Source: CIC Report

Analysis of the price fluctuation of final products of the faux leather chemicals manufacturing industry in China

Since faux leather chemicals are non-standard and are produced based on specific requirements of the customers, there are over 500 types of final products, the prices of which are non-public and can vary according to the types and characteristics. Apart from being subject to price fluctuations of raw materials, the prices of the final products also depend on the market players' pricing strategies and the volumes of orders from downstream customers. Overall, price changes of final products are less volatile than that of raw materials.

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COMPETITIVE LANDSCAPE OF FAUX LEATHER CHEMICALS MANUFACTURING INDUSTRY IN CHINA

Competitive landscape of faux leather chemicals manufacturing industry in China

As of 2018, there were approximately 270 manufacturers in faux leather chemicals manufacturing industry. Faux leather chemicals manufacturing industry is relatively fragmented, with the top 10 players accounting for a market share of approximately 39.3% in terms of revenue in 2018. Our Group had a market share of approximately 0.75% in terms of revenue in 2018.

Ranking of the faux leather chemicals manufacturing industry in China, 2018

Ranking	Company	Listing status	Location of headquarters	Product portfolio	Revenue (RMB billion)	Market share
1	Company A	Private	Wenzhou, Zhejiang Province	• Resins	2.20	10.0%
2	Company B	Private	Taicang, Jiangsu Province	• Resins	2.00	9.1%
3	Company C	Listed	Shanghai	• Resins	1.19	5.4%
4	Company D	Private	Yantai, Shandong Province	• Resins	0.90	4.1%
5	Company E	Private	Netherland	• Colourants • Finishes and additives	0.60	2.7%
6	Company F	Private	Jiaxing, Zhejiang Province	• Resins	0.50	2.3%
7	Company G	Private	Hefei, Anhui Province	• Resins	0.40	1.8%
8	Company H	Private	Yangzhou, Jiangsu Province	• Resins	0.35	1.6%
9	Company I	Private	Taicang, Jiangsu Province	• Resins	0.30	1.4%
10	Company J	Private	Fuding, Fujian Province	• Resins	0.20	0.9%
	Sub-total				8.64	39.3%
	Others				13.35	60.7%
	Total				21.99	100.0%

Source: CIC Report

Note:

Company A is one of the major manufacturers of resins for multiple uses and faux leather related textile products in China. It has production bases in 11 cities in China.

Company B specialises in the production of resins for multiple uses and has five production plants in Shanghai, Jiangsu Province and Zhejiang Province.

Company C is a listed company, specialising in the production of resins and polyester polyol for application in the faux leather manufacturing industry.

Company D is engaged in large-scale production of polyester polyol and resins for multiple uses and has established production plants in Zhejiang Province, Jiangsu Province and Anhui Province.

Company E is one of the major manufacturers of leather chemicals and high-performance coating agents in the world.

Company F is one of the major manufacturers of resins and polyester polyol for multiple applications such as faux leather, sole of shoes and tyres, in the PRC.

Company G is one of the major manufacturers of resins and faux leather additives for multiple applications such as footwear, handbags and luggage and automobile interior decoration.

Company H produces resins for the manufacturing of medium-end to high-end faux leather having a production plant of approximately 50,000 sq. m..

Company I produces faux leather and resins for faux leather manufacturing in large scale.

Company J specialises in the production of resins and has a production capacity of 100,000 tonnes per year.

INDUSTRY OVERVIEW

Competitive landscape of faux leather coating agents market in China

The faux leather coating agents market is relatively fragmented, with the top 10 players accounting for a market share of approximately 21.2% in terms of revenue in 2018. Our Group ranked the fourth in terms of revenue in 2018, with a market share of approximately 1.9%. As environmental regulations become more intense in the future, companies with insufficient capability to deal with environmental waste are likely to be phased out.

Ranking of the faux leather coating agent market in China, 2018						
Ranking	Company	Listing status	Location of headquarters	Product portfolio	Revenue (RMB billion)	Market share
1	Company E	Private	Netherland	• Colourants • Finishes and additives	0.60	8.1%
2	Company K	Private	Jiaxing, Zhejiang Province	• Colourants • Finishes and additives	0.20	2.7%
3	Company L	Private	Qingyuan, Guangdong Province	• Finishes and additives	0.18	2.4%
4	Our Group	Private	Jiande, Zhejiang Province	• Colourants • Finishes and additives	0.14	1.9%
5	Company M	Private	Qidong, Jiangsu Province	• Finishes and additives	0.10	1.3%
6	Company N	Private	Jiaxing, Zhejiang Province	• Colourants • Finishes and additives	0.08	1.1%
7	Company O	Private	Taicang, Jiangsu Province	• Finishes and additives	0.08	1.1%
8	Company P	Private	Jiaxing, Zhejiang Province	• Finishes and additives	0.07	0.9%
8	Company Q	Private	Hangzhou, Zhejiang Province	• Colourants • Finishes and additives	0.07	0.9%
10	Company R	Listed	Kunshan, Jiangsu Province	• Colourants	0.06	0.8%
	Sub-total				1.58	21.2%
	Others				5.86	78.8%
	Total				7.44	100.0%

Source: CIC Report

Note:

Company E is one of the major manufacturers of leather chemicals and high-performance coating agents in the world.

Company K specialises in the production of leather chemicals with offices located in different provinces such as Sichuan Province, Hebei Province, Shandong Province, etc..

Company L is a company that specialises in producing, processing and selling both solvent-based and water-based finishes and additives products for faux leather manufacturing, with strong R&D capabilities.

Company M is an integrated chemicals manufacturer which is engaged in research and development, production and sales of faux leather chemicals, paint and printing ink.

Company N produces faux leather coating agents. Its production equipment was imported from overseas.

Company O specialises in the production of finishes and additives products for application in faux leather manufacturing. Its products are sold both domestically and to overseas regions such as Southeast Asia and South America.

Company P specialises in the production of solvent-based finishes and additives products for application in faux leather manufacturing.

Company Q was owned by an Italian company and mainly produces faux leather coating agents products.

Company R is a listed company specialising in the production of colourants for application in faux leather, construction and industrial materials and latex, etc..

Entry barriers of the faux leather chemicals manufacturing industry in China

1) Licences for faux leather chemicals manufacturers

There are licence requirements for faux leather chemicals manufacturers without which a market player is forbidden to operate. Faux leather chemicals manufacturers must obtain a Pollutant Discharge Permit*(污染物排放許可證), a Registration Certificate for the Production of Hazardous Chemicals*(危險化學品登記證), and a Work Safety Licence*(安全生產許可證) before operating. These qualifications and permits are required by the government to ensure that any negative influences caused by industrial waste meet national safety standards and that a market player can therefore guarantee the reasonable protection of the environment and the safety of nearby residents. As regulations become more stringent, these licences are increasingly harder to acquire than in the past.

2) Initial capital investment for equipment procurement and environmental compliance

The costs for starting a faux leather chemicals production facility are substantial. Land cost, production equipment costs, and research and development team recruitment costs are three largest types of costs involved in entering this market. In addition, since the waste water, waste gas, among other types of waste, involve hazardous chemicals and improper handling of these chemicals can result in serious accidents or pollutions, waste treatment equipment is required by Chinese government to process the waste and reduce emission. According to the Improvement Plan for Safety and Environmental Protection in Chemicals Industry in Jiangsu Province issued in April 2019, capital investment larger than RMB1 billion is required for new chemicals producers in Jiangsu Province, which creates an essential entry barrier for new entrants in the faux leather chemicals manufacturing industry.

INDUSTRY OVERVIEW

3) Production techniques

The quality of faux leather chemical products is highly reliant on the production techniques. Colourants, for example, once applied onto the faux leather, are expected to be evenly coloured, heat resistant, and do not migrate when rubbing, etc.. To accomplish these desirable characteristics, leading players of this industry usually have proprietary knowledge and adjusted production techniques, which takes years to accumulate. Even though ordinary chemicals production techniques are publicly known, subtle adjustment in the production techniques may have material effect on the quality of chemical products, thus setting a major entry barrier for new entrants.

Key success factors of the faux leather chemicals manufacturing industry in China

1) Strong research and development capabilities

Strong research and development capabilities are the driving force behind the company's growth. To cater for increasingly diversified demands for end products, the faux leather manufacturers tend to procure faux leather chemicals that can bring corresponding characteristics. Therefore, it is necessary for faux leather chemicals manufacturers to be able to continuously develop and introduce new chemicals with special and unique characteristics to attract the downstream faux leather manufacturers.

2) Established relations with faux leather manufacturers

The leading market participants have invested a significant amount of time and resources into building stable partnerships with downstream faux leather manufacturers. Well-managed connections with downstream customers help companies in this industry to gain better understanding of the latest trend, which gives the company an edge in both new product development and quick response to the change of demand in the downstream market.

3) Access to raw material

In faux leather chemicals manufacturing industry, the physical and chemical properties of chemical products depend on the raw materials used to produce them. As environmental protection guidelines become more stringent, water-based resins are expected to gain importance in this market. However, certain types of raw materials for the production of water-based resins are not as commonly available as those for solvent-based resins. Therefore, the access to key raw materials at reasonable prices is a key success factor for faux leather chemicals manufacturers.

4) Experienced professionals

Experienced professionals for executive management and research and development team are essential for faux leather chemicals manufacturers in China. These professionals play key roles in determining targeted downstream fields of applications and innovation of products to cater for the latest requirements of customers. Given the fact that downstream demand witnessed changes over the years, it is crucial for companies to quickly respond to changes in demand and adapt to the latest requirement for the chemical products.

5) Higher-level qualifications

Apart from the basic licences for faux leather chemicals manufacturers, higher levels of manufacturing qualifications can help companies lower cost and cultivate their competitive advantages. For example, high-tech enterprises are eligible to preferential tax policy, which lowers the amount of tax paid to the government and leaves the company with extra fund to invest in research and development capabilities.

INDUSTRY OVERVIEW

Potential impacts of US-China trade war on faux leather chemicals manufacturing industry in China

The faux leather chemicals manufacturing industry is not dependent on the procurement of raw materials originated from the US. The major raw materials used in faux leather chemicals manufacturing industry are readily available from PRC manufacturers or can be sourced from countries other than the US.

Further, the faux leather chemicals manufacturing industry is not dependent on the sales of faux leather chemicals to customers from the US as a substantial portion of the domestically manufactured faux leather chemicals can be consumed by domestic faux leather manufacturers. Therefore, many faux leather chemicals manufacturers in the PRC do not have to sell any of their products to customers from the US which might be affected by any additional tariffs imposed by the US government in the US-China trade war.

REGULATORY OVERVIEW

OVERVIEW

We principally conducted our business in the PRC. The following is an overview of the laws and regulations governing our business operations in the PRC.

LAWS AND REGULATIONS RELATING TO THE CHEMICAL INDUSTRY

Pursuant to the Regulations on the Safety Management of Hazardous Chemicals (《危險化學品安全管理條例》), issued by the State Council on 26 January 2002 and amended on 2 March 2011 and 7 December 2013, the PRC government implements catalogue management for chemicals listed in the catalogue of hazardous chemicals. Entities engaged in the production, storage, usage, operation or transportation of hazardous chemicals are required to meet the safety conditions set out by the relevant laws, administrative regulations, national standards and industrial standards and to obtain relevant permit. According to our PRC Legal Advisers, Zhejiang Sunlight has obtained such permit.

The Catalogue of Hazardous Chemicals (2015 edition) (《危險化學品目錄(2015版)》), promulgated on 27 February 2015 and implemented on 1 May 2015 by the State Administration of Work Safety (now known as the Ministry of Emergency Management), Ministry of Industry and Information Technology, Ministry of Public Security, Ministry of Environmental Protection (now known as the Ministry of Ecology and Environment), Ministry of Transportation, Ministry of Agriculture (now known as the Ministry of Agriculture and Rural Affairs), the General Administration of Quality Supervision, Inspection and Quarantine (now known as the State Administration for Market Regulation) and National Railway Administration has stipulated the definition and characterisation of hazardous chemicals and contains a list of each hazardous chemical.

Pursuant to the Measures for the Administration of Registration of Hazardous Chemicals (《危險化學品登記管理辦法》), issued by the State Administration of Work Safety (now known as the Ministry of Emergency Management) on 8 October 2002, effective on 15 November 2002 and revised on 1 July 2012, the PRC government implements a registration system for hazardous chemicals. Enterprises engaged in the production or import of hazardous chemicals listed in the Catalogue of Hazardous Chemicals (《危險化學品目錄》) shall conduct regular inspection of their hazardous chemicals, keep records for these hazardous chemicals, apply for registration with the relevant registration authorities as set out therein, file the registration based on facts and submit supporting documents, and submit to inspection by the work safety administrative departments as set out in the relevant laws. According to our PRC Legal Advisers, Zhejiang Sunlight has obtained such registration for its operations.

REGULATORY OVERVIEW

Pursuant to (i) the Measures for the Implementation of Work Safety Licences of Hazardous Chemical Production Enterprises (《危險化學品生產企業安全生產許可證實施辦法》), promulgated on 5 August 2011, amended on 27 May 2015 and 6 March 2017, and (ii) the Measures for the Implementation of the permits for the Safe Use of Hazardous Chemicals (《危險化學品安全使用許可證實施辦法》), promulgated on 16 November 2012 and effective on 1 May 2013 and amended on 27 May 2015 and 6 March 2017 by the State Administration of Work Safety (now known as the Ministry of Emergency Management), enterprises shall obtain a Work Safety Licence for hazardous chemicals in accordance with regulations, and enterprises that have not obtained a Work Safety Licence shall not engage in production activities of hazardous chemicals. According to our PRC Legal Advisers, Zhejiang Sunlight has obtained such licence for its operations.

Pursuant to the Measures for the Administration of the Permits for Trading in Hazardous Chemicals (《危險化學品經營許可證管理辦法》), promulgated on 17 July 2012 and amended on 27 May 2015 by the State Administration of Work Safety (now known as the Ministry of Emergency Management), the state implements a licensing system for the management of hazardous chemicals. Enterprises operating business involving hazardous chemicals shall obtain licences for their operation. No entity or individual may engage in any business involving hazardous chemicals without obtaining a business licence, except for the following activities: (i) a hazardous chemicals manufacturer licensed for safe production of hazardous chemicals in accordance with law selling hazardous chemicals produced within its factory area; or (ii) a port operator with a port operation licence being engaged in the storage and management of hazardous chemicals in the port area.

According to the Interim Provisions on the Supervision and Management of Major Hazards Sources of Hazardous Chemical (《危險化學品重大危險源監督管理暫行規定》) that are promulgated on 5 August 2011, effective on 1 December 2011 and amended on 27 May 2015 by the State Administration of Work Safety of the PRC (now known as the Ministry of Emergency Management), an enterprise which engages in the production, storage, use and operation of hazardous chemicals should undertake the identification, safety assessment and evaluation of its major hazards; set up a sound safety monitoring and controlling system; formulate an emergency plan for major accidents; register any identified major hazards item by item in a timely manner and file with the local work safety administrative department at the county level. If an enterprise violates these provisions, the relevant work safety administrative department may order it to make corrections within a specified time limit, and may impose a fine. Failure to make corrections within the specified time limit may lead to suspension of production and business operation for rectification and a further fine. If a crime is constituted, the relevant violator shall be subject to criminal liabilities according to the applicable law.

REGULATORY OVERVIEW

Pursuant to (i) the Regulations on the Administration of Precursor Chemicals (《易制毒化學品管理條例》), promulgated on 26 August 2005, effective on 1 November 2005 and amended on 29 July 2014, 6 February 2016 and 18 September 2018 by the State Council, and (ii) the Measures for the Licensing for Production and Operation of Non-pharmaceutical Precursor Chemicals (《非藥品類易制毒化學品生產、經營許可辦法》), promulgated on 5 April 2006, effective on 15 April 2006 by the State Administration of Work Safety (now known as the Ministry of Emergency Management), precursor chemicals are classified into three categories. Category I includes the major substances that can be used for producing drugs. Categories II and III include the chemical auxiliary substances that can be used for producing drugs. The state adopts a licensing system for the production and trading of such non-pharmaceutical precursor chemicals. The production and operation on non-pharmaceutical precursor chemicals of Category I shall be subject to a licence-based administration, while production and operation of precursor chemicals of Categories II and III shall be subject to a registration-based administration. Where an entity engaged in any illicit production and distribution, the public security organ shall confiscate such precursor chemicals illicitly produced and distributed, the raw materials for the illicit production of the precursor chemicals, and the equipment and tools for the illicit production and distribution of the precursor chemicals. It shall also impose a fine of not less than 10 times but not more than 20 times of the value of the precursor chemicals illicitly produced and distributed. In case 20 times of such value is less than RMB10,000, the fine shall be RMB10,000. All relevant illicit gains, if any, shall be confiscated. If the violator has a business licence, such business licence shall be revoked by the administrative department for industry and commerce. If a crime is constituted, the relevant violator shall be subject to criminal liabilities according to the law. The work safety administrative departments of the people's government at the country level or above may stop accepting the producer's or operator's application for licensing for production or operation of or for archival filing of its non-pharmaceutical precursor chemical for three years from when the department imposes the administrative penalty.

LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY

Pursuant to the Work Safety Law of the PRC (《中華人民共和國安全生產法》), promulgated on 29 June 2002, effective on 1 November 2002, and amended on 27 August 2009 and 31 August 2014 by the Standing Committee of National People's Congress, production and operations entities shall meet the work safety conditions required by the Work Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Entities that do not meet such work safety conditions shall not engage in production or operating activities. Entities engaging in the production, operation and storage of hazardous items shall establish a department to carry out safety management or designate personnel solely responsible for work safety management. Production and operating entities shall provide their employees with education and training on work safety to ensure that the employees have the necessary knowledge regarding work safety.

REGULATORY OVERVIEW

Pursuant to the Regulation on Work Safety Licence(《安全生產許可證條例》), promulgated by the State Council on 13 January 2004, effective on 13 January 2004 and revised on 18 July 2013 and 29 July 2014, the PRC government implements a Work Safety Permit system for enterprises that engage in the production of hazardous chemicals. Enterprises shall not engage in such production activities without a Work Safety Licence. According to our PRC Legal Advisers, Zhejiang Sunlight has obtained such licence for its operations.

Pursuant to the Interim Measures for the Supervision and Administration of “Three Simultaneities” for the Safety Facilities of Construction Projects (《建設項目安全設施“三同時”監督管理辦法》), promulgated on 14 December 2010 and effective on 1 February 2011 and amended on 2 April 2015 by the State Administration of Work Safety (now known as the Ministry of Emergency Management), the safety facilities in a newly built, reconstructed or expanded construction project must be designed, constructed and put into use in production simultaneously with the body of the project. The enterprises shall demonstrate and pre-assess the safety conditions of its construction projects, make a safety design chapter, submit to the relevant work safety administrative department for examination or filing, and apply to the work safety administrative department for the completion and acceptance or the filing of its projects. If an enterprise violates the relevant requirements, it may be warned and be ordered to make corrections within a specified time limit. Failure to make correction within the specified time limit may result in the enterprise being ordered to discontinue the construction process or suspend its production and business operation for rectification, and being imposed a fine.

The Administrative Regulations on the Safety Supervision of Construction Projects involving Hazardous Chemical (《危險化學品建設項目安全監督管理辦法》), which were promulgated by the State Administration of Work Safety (now known as the Ministry of Emergency Management) on 30 January 2012, came into effect on 1 April 2012 and amended on 27 May 2015, stipulate that newly built, reconstructed or expanded construction projects for the production or storage of hazardous chemical materials, as well as chemical construction projects which generate hazardous chemical materials, are subject to safety inspection. Such projects must not commence construction or operation (put in use) prior to completing the safety inspection. If a construction entity violates the relevant requirements, it may be ordered to discontinue the construction process and make corrections within a specified time limit. Failure to make correction within the specified time limit may attract a fine. If the said act constitutes a crime, the violator shall be subject to criminal liability according to law.

Pursuant to the Fire Protection Law of the PRC (《中華人民共和國消防法》), promulgated on 29 April 1998, effective on 1 September 1998 and amended on 28 October 2008 and 23 April 2019 by the Standing Committee of National People’s Congress, fire control products shall comply with national standards; in lieu of national standards, industry standards shall be complied with. Unqualified fire control products and fire control products which are explicitly listed as obsolete products by the state shall be prohibited from being manufactured, sold or used. Where the organisation failed to configure or install firefighting facilities and equipment or fire safety signs which comply with national or industry standards, or failed to keep firefighting facilities and equipment in good working conditions, it shall be ordered to make correction and be subject to a fine ranging from RMB5,000 to RMB50,000.

REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATING TO ESTABLISHMENT, OPERATION AND MANAGEMENT OF FOREIGN-OWNED ENTERPRISES

The PRC Company Law (《中華人民共和國公司法》), promulgated on 29 December 1993, effective on 1 July 1994, revised on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018 by the Standing Committee of the National People's Congress, stipulates the establishment, structure and management of companies, which also applies to enterprises with foreign investment in China. Limited liability companies shall set up a register of shareholders which sets out details of the following matters: (i) names and addresses of the shareholders; (ii) the amount of capital contribution of the shareholders; and (iii) serial numbers of the capital contribution certificates. Companies shall register the names of their shareholders and their respective amount of capital contribution with the company registration authorities. Where there is a change in the registration details, change of registration formalities shall be completed. Where the registration or change of registration formalities are not completed, no defence against third party claims shall be made.

The Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》), promulgated and effective on 12 April 1986 and amended on 31 October 2000 and 3 September 2016 by the Standing Committee of the National People's Congress, and Detailed Rules for the Implementation of the Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法實施細則》), promulgated and effective on 12 December 1990 and amended on 12 April 2001 and 19 February 2014 by the State Council, stipulate the procedures for the establishment, alteration, examination and approval of a wholly foreign-owned enterprises.

Pursuant to the Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-Funded Enterprise (《外商投資企業設立及變更備案管理暫行辦法》), promulgated and effective on 8 October 2016 and amended on 30 July 2017 and 30 June 2018 by MOFCOM, foreign investment enterprises which are not subject to special administrative measures stipulated by the state shall fill in and submit declaration forms setting out alterations in respect of their basic information, investors, equity and the rights and interests of the company. The filing procedure shall be conducted through the foreign investment integrated management information system.

Pursuant to the Catalogue of Industries for Guiding Foreign Investment (revision 2017) (《外商投資產業指導目錄(2017年修訂)》) (the “**Foreign Investment Catalogue 2017**”), revised on 28 June 2017 and effective on 28 July 2017 by the National Development and Reform Commission and MOFCOM, the industries for investment by foreign investors are divided into two categories: the encouraged industries and industries listed in the negative list (including restricted industries and prohibited industries). Pursuant to the Special Administrative Measures (Negative List) for Foreign Investment Access (Edition 2018) (《外商投資准入特別管理措施(負面清單)(2018年版)》) (the “**Negative List 2018**”), promulgated on 28 June 2018 by the National Development and Reform Commission and MOFCOM and effective on 28 July 2018, the special administrative measures for foreign investment access (negative list for foreign investment access) specified in the Foreign Investment Catalogue 2017 are repealed. According to the Foreign Investment Catalogue 2017 and the Negative List 2018, the industry in which our PRC subsidiaries are primarily engaged does not fall into the category of restricted or prohibited industries.

REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Environmental Protection Law

Pursuant to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), promulgated and effective on 26 December 1989, and amended on 24 April 2014 by the Standing Committee of the National People's Congress, environment impact assessment shall be carried out in accordance with the law when formulating the relevant development and utilisation plans and construction projects which will have an impact on environment. Development and utilisation plans which have not undergone environment impact assessment in accordance with the law shall not be organised or implemented. Construction projects which have not undergone environment impact assessment shall not be commenced. Pollution prevention facilities for construction projects shall be designed, constructed and put into use simultaneously with the subject project. The state shall implement a pollutant discharge permit administration system in accordance with the law. Enterprises subject to the pollutant discharge permit administration regime shall discharge pollutants in accordance with the requirements of the pollutant discharge permit; discharge of pollutants shall not be allowed without a pollutant discharge permit.

Law on Prevention and Control of Air Pollution and Relevant Emission Standards

Pursuant to the Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), promulgated on 5 September 1987 and effective on 1 June 1988 and amended on 29 August 1995, 29 April 2000, 29 August 2015 and 26 October 2018 by the Standing Committee of the National People's Congress, enterprises and business entities shall, in accordance with law, conduct environmental impact assessments and publish environmental impact assessment documents for projects that have an impact on the atmospheric environment; those which discharge pollutants into the atmosphere shall comply with the standards for the discharge of atmospheric pollutants and the requirements for the control on the total emission of major atmospheric pollutants. The production and business operation entities that discharge pollutants into the atmosphere shall set up outlets for the discharge of atmospheric pollutants in accordance with laws and regulations and the provisions of the competent department for ecology and environment under the State Council.

REGULATORY OVERVIEW

Law of the PRC on Prevention and Control of Water Pollution

Pursuant to the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), promulgated on 11 May 1984, effective on 1 November 1984 and amended on 15 May 1996, 28 February 2008 and 27 June 2017 by the Standing Committee of the National People's Congress, new construction projects and reconstruction or expansion projects and other installations on water that directly or indirectly discharge pollutants into water bodies shall be subject to environment impact assessment in accordance with the law. The facilities for prevention and control of water pollution shall be designed, constructed and put to use simultaneously with the subject of a construction project. Enterprises that directly or indirectly discharge industrial waste water into water bodies shall discharge waste water or sewage only after obtaining a pollutant discharge permit according to the relevant provisions. Discharged water pollutants shall not exceed the national or local standards for discharge of water pollutants and the indices for control of the total discharge of major water pollutants.

Law of the PRC on Prevention and Control of Environmental Noise Pollution

Pursuant to the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》), promulgated on 29 October 1996, effective on 1 March 1997 and amended on 29 December 2018 by the Standing Committee of the National People's Congress, where a construction project might cause environmental noise pollution, the entity undertaking the project must prepare an environment impact report which includes the measures to be taken to prevent and control such pollution, and submit it, following the procedures prescribed by the state, to the competent department for ecology and environment for approval. Facilities for prevention and control of environmental noise pollution must be designed, built and put into use simultaneously with the subject of a construction project. Before a construction project is put into production or use, its facilities for prevention and control of environmental noise must be inspected according to the standards and procedures stipulated by the state.

REGULATORY OVERVIEW

Law of the PRC on the Prevention and Control of Environment Pollution Caused by Solid Wastes

Pursuant to the Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), promulgated on 30 October 1995, effective on 1 April 1996 and amended on 29 December 2004, 29 June 2013 and 7 November 2016 by the Standing Committee of the National People's Congress, construction projects which generate solid waste and the construction of facilities for the storage, utilisation and disposal of solid waste shall conduct environmental impact assessment pursuant to the law. Facilities for the prevention and control of environmental pollution by solid waste are required to be designed, constructed and put into use simultaneously with the subject of the project. Facilities for the prevention and control of environmental pollution by solid waste shall be inspected and approved by the environmental protection administrative department which approves the environmental impact assessment before the project can be commenced or its subject matter can be put into use. Inspection of facilities for the prevention and control of environmental pollution by solid waste shall be carried out simultaneously with inspection of the project subject.

Administrative Measures for Pollutant Discharge Licensing

Pursuant to the Administrative Measures for Pollutant Discharge Licensing (for Trial Implementation) (《排污許可管理辦法(試行)》), promulgated and effective on 10 January 2018 by the Ministry of Environmental Protection (now known as Ministry of Ecology and Environment), a pollutant discharging entity shall hold a pollutant discharge licence in accordance with the law, and discharge pollutants in compliance with the pollutant discharge licence. Any entity that fails to obtain a pollutant discharge licence as required shall not discharge pollutants. A pollutant discharge licence shall be valid from the date on which the decision on the granting of the licence is made. A discharge licence issued for the first time shall be valid for three years and a renewed licence for five years. According to our PRC Legal Advisers, Zhejiang Sunlight has obtained such license for its operations.

Law of the PRC on Promoting Clean Production

Pursuant to the Law of the PRC on Promoting Clean Production (《中華人民共和國清潔生產促進法》), promulgated on 29 June 2002 and effective on 1 January 2003 and amended on 29 February 2012 by the Standing Committee of the National People's Congress, for construction, alteration and expansion projects, environmental impact assessments shall be conducted in the aspects of the use of raw materials, consumption of resources, overall utilisation of resources and the generation and disposal of pollutants, etc.. Priority shall be placed on the adoption of clean production technologies, techniques and equipment that have high resource efficiency and generate few pollutants.

REGULATORY OVERVIEW

Environmental Impact Assessment Law

Pursuant to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》), promulgated on 28 October 2002 by the Standing Committee of the National People's Congress, effective on 1 September 2003 and amended on 2 July 2016 and 29 December 2018, enterprises are required to submit (i) a report on environmental impacts, (ii) a report form on environmental impacts, or (iii) a registration form on environmental impacts to the competent departments for ecology and environment according to the seriousness of the impacts. Where the environmental impact assessment documents of a construction project are not examined or approved by the examination and approval authorities, the constructing entity shall not commence construction.

LAWS AND REGULATIONS RELATING TO PRODUCTION QUALITY

Pursuant to the Product Quality Law of the PRC (《中華人民共和國產品質量法》), promulgated on 22 February 1993, effective on 1 September 1993 and amended on 8 July 2000, 27 August 2009 and 29 December 2018 by the Standing Committee of National People's Congress, producers and sellers shall establish a sound internal product quality control system and strictly adhere to a job responsibility system in relation to quality standards and quality liabilities together with implementing corresponding examination and inspection measures. The counterfeiting or imitation of quality marks such as certification marks is prohibited; falsifying the place of origin of products, and falsifying or imitating the name or address of another factory is prohibited; adulteration of, or mixing of improper elements with products, passing off the sham as the genuine or passing off the inferior as the superior is prohibited. Where the quality of products for which supervision and random inspection have been carried out in accordance with the provision is not up to standard, the market regulation department that carried out the supervision and random inspection shall order the producer or seller to rectify the situation within a time limit. Where the situation is not rectified within the time limit, the market regulation department of the people's government at provincial level or above shall issue a public announcement; where products are re-examined after the announcement and are still not up to standard, the department shall order production to be suspended and the operations to be reorganised; where the quality of products that has been re-examined after the expiry of the period for reorganisation is still not up to standard, the business licence shall be revoked.

REGULATORY OVERVIEW

Pursuant to (i) the Regulation of the PRC for the Administration on Production Licence of Industrial Products (《中華人民共和國工業產品生產許可證管理條例》), promulgated on 9 July 2005, effective on 1 September 2005 by the State Council, and (ii) the Measures for Implementation of the Regulation of the PRC on the Administration of the Production Licence of Industrial Products (《中華人民共和國工業產品生產許可證管理條例實施辦法》), promulgated on 15 September 2005 and amended on 21 April 2010 and 21 April 2014 by the General Administration of Quality Supervision, Inspection and Quarantine (now known as State Administration for Market Regulation), the production of products listed in the Catalogue of the Industrial Products (工業產品目錄) that are subject to the production licensing system requires a Production Licence for Industrial Products. Such licence shall be valid for five years. An enterprise shall meet conditions as follows in order to obtain a production licence: (i) a business license has been obtained; (ii) the professional technicians qualify for the products it produces; (iii) the production conditions and means of inspection and quarantine are suitable for the products it produces; (iv) the techniques and crafts documentation matches the products it produces; (v) sound and effective quality control system and accountability system have been established; (vi) the products meet the relevant national standards, industry standards as well as the requirements for protecting human health, personal and property safety; and (vii) the products meet the requirements of the industry policies of the state and are not included in the scope of products featuring backward processes, high energy consumption, environmental pollution and waste of resources that are expressly banned by the state and other requirements in the laws and administrative regulations. In case of an enterprise producing any products listed in the catalogue without applying for a production license, the competent department for licensing the production of industrial products shall order it to suspend production, confiscate the illegally produced products, and impose a fine; and the illegal gains shall be confiscated; if a crime is constituted, it shall be subject to criminal liabilities in accordance with law.

Pursuant to the Decision of the State Council on Further Reducing the Catalogue of Production Licence for Industrial Products and Simplifying the Examination and Approval Procedures (《國務院關於進一步壓減工業產品生產許可證管理目錄和簡化審批程序的決定》), promulgated and implemented on 23 September 2018, hazardous chemicals shall continue to be subject to the administration of production licences for industrial products, which shall be administered by the provincial market supervision administration.

LAWS AND REGULATIONS RELATING TO LABOUR AND SOCIAL SECURITY

Labour Law

Pursuant to the Labour Law of the PRC (《中華人民共和國勞動法》), promulgated on 5 July 1994, effective on 1 January 1995 and amended on 27 August 2009 and 29 December 2018 by the Standing Committee of National People's Congress, companies must sign labour or employment contracts with employees in accordance with the principle of fairness, negotiation and mutual consensus, they must establish and perfect its labour safety and sanitary system and strictly execute the national labour safety sanitary rules and standards, conduct labour safety sanitary education for workers or employees, prevent accidents arising in the course of employment and reduce occupational injuries; in addition, the company and its workers or employees must participate in social insurance schemes and pay the insurance premiums.

REGULATORY OVERVIEW

Labour/Employment Contract

Pursuant to the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), promulgated on 29 June 2007, effective on 1 January 2008 and revised on 28 December 2012 by the Standing Committee of National People's Congress, upon the date of employment, employment relationship is formed between an employer and its workers or employees; the employer shall sign written labour or employment contracts with its workers or employees. The company shall not force a worker or employee directly or indirectly to work overtime. An employer which requires a worker or employee to work overtime shall pay the worker overtime wages pursuant to the relevant stipulations. In addition, the wages of a worker or employee shall not be less than the minimum wage standard of the locality of the employer, and the employers shall promptly pay labour remuneration to workers in full.

Prevention & Control of Occupational Diseases

Pursuant to the Law of the PRC on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), promulgated on 27 October 2001, effective on 1 May 2002 and amended on 31 December 2011, 2 July 2016, 4 November 2017 and 29 December 2018 by the Standing Committee of National People's Congress, occupational diseases prevention and control work shall be carried out in accordance with the principle of "focusing on prevention while combining prevention with control" by establishing a mechanism featuring employers taking responsibilities, regulation by administrative departments, industry self-discipline, employee participation and social supervision to ensure classified management and comprehensive control. Workers are entitled to occupational hygiene protection law. Employers shall create working environments and conditions that meet the occupational health standards and health requirements of the state and take measures to ensure occupational health protection for the workers.

Social Security

Pursuant to (i) the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), promulgated on 28 October 2010, effective on 1 July 2011 and amended on 29 December 2018 by the Standing Committee of National People's Congress, (ii) the Interim Regulations on the Collection and Payment of Social Insurance Premiums (《社會保險費征繳暫行條例》), promulgated and effective on 22 January 1999 and amended on 24 March 2019 by the State Council, (iii) the Regulations on Work-related Injury Insurance (《工傷保險條例》), promulgated on 27 April 2003, effective on 1 January 2004 and amended on 20 December 2010 by the State Council, (iv) the Unemployment Insurance Regulations (《失業保險條例》), promulgated and effective on 22 January 1999 by the State Council, and (v) the Measures for Enterprise Employee Maternity Insurance (Trial) (《企業職工生育保險試行辦法》), promulgated on 14 December 1994 and effective on 1 January 1995, employers shall make contribution to endowment insurance, unemployment insurance,

REGULATORY OVERVIEW

maternity insurance, work injury insurance and medical insurance for their employees in accordance with the relevant laws. Employers should apply for registration of social insurance with local social insurance authorities and pay social insurance premiums for employees. Employers which failed to complete social security registration shall be ordered by the social security administrative authorities to make correction within a stipulated period; where correction is not made within the stipulated period, the employer shall be subject to a fine ranging from one to three times the amount of social security premiums payable, and the person(s)-in-charge who is/are directly accountable and other directly accountable personnel shall be subject to a fine ranging from RMB500 to RMB3,000. Employers who failed to promptly pay social security premiums in full amount shall be ordered by the social security premium collection agency to make or supplement contributions within a stipulated period, and shall be subject to a late payment fine computed from the due date at the rate of 0.05% per day; where payment is not made within the stipulated period, the relevant administrative authorities shall impose a fine ranging from one to three times the amount of the amount in arrears.

Pursuant to the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》), promulgated and effective on 3 April 1994 and amended on 24 March 2002 and 24 March 2019 by the State Council, when employing new employees, the employer shall undertake housing provident fund payment and deposit registration at housing provident fund management centre. If an employer is overdue in the payment or deposit of, or underpays, the housing provident fund, the housing provident fund management centre shall order it to make the payment and deposit, or their shortfall, within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHTS

Patent Law

Pursuant to (i) the Patent Law of the PRC (《中華人民共和國專利法》), promulgated on 12 March 1984 and effective on 1 April 1985 and amended on 4 September 1992, 25 August 2000 and 27 December 2008 by the Standing Committee of the National People's Congress, and (ii) the Rules on the Implementation of the Patent Law of the PRC (《中華人民共和國專利法實施細則》), promulgated on 15 June 2001 and effective on 1 July 2001 and amended on 28 December 2002 and 9 January 2010 by the State Council, the patent administrative authorities shall be responsible for administration of patent matters nationwide. Where two or more applicants have made their respective application for patent for the same invention, the patent rights shall be granted to the first applicant who has made the application. Inventions and utility models in which patent rights may be granted shall possess novelty, creativity and practicality. The validity period of patent rights for an invention shall be 20 years, and the validity period of patent rights for a utility model or a design shall be 10 years. The validity period shall commence from the date of application. Exploitation of a patent without being granted a licence by the patentee shall be an infringement of patent rights.

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Trademark Law

Pursuant to (i) the Trademark Law of the PRC (《中華人民共和國商標法》), promulgated on 23 August 1982 and effective on 1 March 1983 and amended on 22 February 1993, 27 October 2001 and 30 August 2013 by the Standing Committee of the National People's Congress, and (ii) the Regulations for the Implementation of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》), promulgated on 3 August 2002, effective 15 September 2002 and amended on 29 April 2014 by the State Council, the trademark bureau of the administration for industry and commerce department of the State Council shall be in charge of trademark registration and administration nationwide. A trademark to be registered shall possess distinctive characteristics to facilitate identification, and shall not conflict with prior legitimate rights obtained by others. A registered trademark shall be valid for 10 years, after which the trademark registrant shall complete renewal formalities. The validity period of each renewal shall be 10 years. A trademark registrant may execute a trademark licensing contract to license the use of its registered trademark to others. For licencing of a registered trademark, the licensor shall file record of the licencing of the said trademark with the trademark bureau, and the licencing shall be gazetted by the trademark bureau. The trademark office shall first examine and approve for publication the mark with the earliest application or the earliest date of use. Trademark to be registered which does not comply with the subject matter or is identical or similar to a trademark registered by others for the same type of, or similar commodities, or a trademark prematurely validated shall be struck out by the trademark bureau. Trademark registration application shall not harm existing prior rights of others. Use of improper means to forestall registration of a trademark which is in use and has certain market impact shall not be allowed.

Internet Domain Names

Pursuant to the Measures for the Administration of Internet Domain Names (《互聯網域名管理辦法》), promulgated on 24 August 2017 and effective on 1 November 2017 by the Ministry of Industry and Information Technology, the Ministry of Industry and Information Technology shall implement supervision and administration over domain name services nationwide. Domain name registration services shall in principle implement “first apply first register”. Domain name registration service organisations providing domain name registration services shall require applicants of domain names registration to provide true, accurate and complete domain name registration information of such as identity information etc.

REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATING TO TAX

Corporate income tax

Pursuant to (i) the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), promulgated on 16 March 2007, effective on 1 January 2008 and amended on 24 February 2017 and 29 December 2018 by the Standing Committee of the National People's Congress, and (ii) the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), promulgated on 6 December 2007 and effective on 1 January 2008 and amended on 23 April 2019, enterprises shall be divided into resident enterprises and non-resident enterprises. A resident enterprise shall mean, an enterprise lawfully incorporated in China, or an enterprise lawfully incorporated pursuant to the laws of a foreign country (region) but where actual management functions are conducted in China. A non-resident enterprise shall mean, an enterprise lawfully incorporated pursuant to the law of a foreign country (region) that has an office of premises established in China with no actual management functions performed in China, or an enterprise that has income derived from or accruing in China although it does not have an office or premises in China. Corporate income tax shall be payable by a resident enterprise for income derived from or accruing in or outside China at the rate of 25%. Corporate income tax shall be payable by a non-resident enterprise, for income derived from or accruing in China by its office or premises established in China, and for income derived from or accruing outside China with which the established office or premises has a de facto relationship at the rate of 25%. Where the non-resident enterprise has no office or premises established in China or the income derived or accrued has no de facto relationship with the office or premises established, corporate income tax shall be payable by the non-resident enterprise for income derived from or accruing in China at the rate of 20%. Corporate income tax for high and new technology enterprises (高新技術企業) supported by the state shall be at a reduced tax rate of 15%.

Pursuant to the 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 Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), the tax rate on dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is 5% if such Hong Kong resident enterprise directly holds at least 25% of the capital in the PRC resident enterprise, and 10% for other circumstances.

REGULATORY OVERVIEW

Pursuant to the Notice on Issues concerning the Application of 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》), promulgated and effective on 20 February 2009 by the State Administration of Taxation, a tax resident of the other contracting party intending to enjoy the tax treatment prescribed in a tax treaty shall satisfy the following conditions simultaneously: (i) the tax resident of the other contracting party who obtains dividends shall be limited to a company in accordance with the tax treaty; (ii) both the proportion of the total owner's equity and the proportion of the voting shares in the Chinese resident company directly owned by the tax resident of the other contracting party satisfy the relevant provisions; and (iii) the proportion of the capital of the Chinese resident company directly owned by the tax resident of the other contracting party shall, at any time within the consecutive 12 months before obtaining dividends, satisfy the provisions on the proportion prescribed in the tax treaty.

Value-added tax

Pursuant to the Interim Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》), promulgated on 13 December 1993 and effective on 1 January 1994 and amended on 10 November 2008, 6 February 2016 and 19 November 2017 by the State Council, the Rules on the Implementation of the Interim Regulations the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》), promulgated and effective on 25 December 1993 and amended on 15 December 2008 and 28 October 2011 by MOF, organisations and individuals engaging in sale of goods or processing, repair and assembly services, sale of services, intangible assets, immovables and importation of goods in the PRC shall be taxpayers of VAT, and shall pay VAT. Unless otherwise stipulated, the tax rate applicable to sales or import of goods is 17%.

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (《財政部、國家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 by MOF and State Administration of Taxation, the rates of 17% applicable to the taxpayer who have VAT taxable sales activities or imported goods are adjusted to 16%.

Pursuant to the Announcement on Matters Concerning Deepening the Value-added Tax Reform (《關於深化增值稅改革有關政策的公告》), promulgated on 20 March 2019 and effective on 1 April 2019 by MOF and State Administration of Taxation and the General Administration of Customs, the rates of 16% applicable to the taxpayer who have VAT-taxable sales activities or imported goods are adjusted to 13%.

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LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

Pursuant to the Regulations of the PRC on Foreign Exchange Administration (《中華人民共和國外匯管理條例》), promulgated on 29 January 1996 and effective on 1 April 1996 and amended on 14 January 1997 and 5 August 2008 by the State Council, the foreign exchange receipts of domestic entities and domestic individuals may be remitted into China or deposited overseas; the criteria and time-limit for remittance into China or overseas deposits, etc. shall be stipulated by the foreign exchange control department of the State Council according to the status of international balance of payments and foreign exchange control requirements. Domestic entities and domestic individuals making direct investments overseas or engaging in issuance and trading of quoted securities and derivatives overseas shall process registration formalities pursuant to the provisions of the foreign exchange control department of the State Council. Where the State Council stipulates that prior approval by or filing with the relevant authorities in charge is required, the approval or filing formalities shall be processed prior to foreign exchange registration formalities.

Pursuant to the Provisions on Foreign Exchange Control on Direct Investments in China by Foreign Investors (《外國投資者境內直接投資外匯管理規定》), promulgated on 10 May 2013 and effective on 13 May 2013, and amended on 10 October 2018 by the State Administration of Foreign Exchange, direct investments in China by foreign investors shall be subject to registration. Entities and individuals involved in direct investment activities in China shall be registered with the State Administration of Foreign Exchange and its branches. Banks shall process the relevant transactions through the business systems designated by the foreign exchange bureau pursuant to the foreign exchange control provisions.

Pursuant to the circular of the SAFE on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), promulgated and effective on 4 July 2014 by the State Administration of Foreign Exchange, the State Administration of Foreign Exchange shall implement registration and administration of special purpose vehicles established by Chinese residents. “Special purpose vehicles” shall mean overseas enterprises established directly or controlled indirectly by Chinese residents (including domestic entities and Chinese resident individuals) using assets or interests of domestic enterprises held by them legitimately or overseas assets or interests held by them legitimately, for the purpose of investment and financing. “Round-tripping” shall mean direct investment activities in China undertaken by Chinese residents directly or indirectly through special purpose vehicles, i.e. through establishment of foreign investment enterprises or projects in China by way of new establishment, merger and acquisition etc and obtaining of ownership, control, business management rights etc. Prior to capital contribution in a special purpose vehicle by a Chinese resident using its legitimate assets or interests in China or overseas, the Chinese resident shall apply to the foreign exchange bureau for completion of foreign exchange registration formalities for overseas investments. For an overseas special purpose vehicle which has completed registration formalities, where there is any change in the basic information such as any Chinese resident individual shareholder, name, term of business, or occurrence of a significant change event such as increase or reduction of capital contribution, equity transfer or exchange by Chinese resident individual, merger or division, foreign exchange registration change formalities shall be promptly completed with the foreign exchange bureau.

REGULATORY OVERVIEW

Pursuant to the Notice on Further Simplifying and Improving the Foreign Exchange Management Policies for 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 and effective on 1 June 2015 by the State Administration of Foreign Exchange, the banks will perform foreign exchange registration under domestic direct investment as well as foreign exchange registration under overseas direct investment, and the State Administration of Foreign Exchange and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks.

Pursuant to the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprises (hereinafter referred to as “No.19 Order”) (《關於改革外商投資企業外匯資本金結匯管理方式的通知》), promulgated on 30 March 2015 and effective on 1 June 2015 by the State Administration of Foreign Exchange, the system of willingness-based foreign exchange settlement is adopted for the foreign exchange capital of foreign-invested enterprises, which means the foreign exchange capital for which the monetary contribution has been confirmed by the foreign exchange authorities (or for which the monetary contribution has been registered for account entry) in the capital account of a foreign-invested enterprise may be settled at a bank as required by the enterprise’s actual management needs. The proportion of willingness-based foreign exchange settlement of capital for a foreign-invested enterprise is temporarily set at 100%.

In addition, according to No.19 Order, a foreign-invested enterprise shall use capital in accordance with the authentic and self-use principles within its business scope. The capital of a foreign-invested enterprise and the Renminbi funds obtained from the exchange settlement thereof shall not be used for the following purposes: (i) for expenditures, directly or indirectly, beyond the business scope of the enterprises or prohibited by the laws and regulations of the state; (ii) for investment, directly or indirectly, in securities, unless otherwise provided for by laws and regulations; (iii) for the issuance, directly or indirectly, of entrusted Renminbi loans (excluding those that are permitted within the business scope), repayment of inter-enterprise loans (including third party advance) and the repayment of banks’ Renminbi loans relented on the third parties; or (iv) for the payment of relevant fees for the purchase of real estate property not for self-use, except for foreign-invested real estate enterprises.

REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATING TO IMPORT AND EXPORT OF GOODS

Pursuant to (i) the Foreign Trade Law of the PRC (Revision of 2016) (《中華人民共和國對外貿易法》), promulgated on 12 May 1994, effective on 1 July 1994 and amended on 6 April 2004 and 7 November 2016 by the Standing Committee of the National People's Congress, and (ii) the Measures on Filing Registration on Foreign Trade Operators (《對外貿易經營者備案登記辦法》), promulgated on 25 June 2004, effective on 1 July 2004 and amended on 18 August 2016 by MOF, foreign trade operators engaging in import or export of goods shall perform filings and registration with MOF or authorities entrusted by MOF, unless otherwise stipulated by laws and administrative regulations and MOF. Where a foreign trade operator has not completed formalities for filing and registration in accordance with the provisions of these measures, the customs shall not handle their import and export declaration, inspection and release procedures.

Pursuant to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》), promulgated and effective on 13 March 2014 and amended on 20 December 2017 and 29 May 2018 by the General Administration of Customs, in completing customs declaration formalities, any customs declaration entity shall go through the application registration formalities with Customs in accordance with the Provisions, unless otherwise required by the laws, administrative regulations or rules of the customs.

Pursuant to the Administrative Regulations on the Import and Export of Goods of the PRC (《中華人民共和國貨物進出口管理條例》), promulgated on 10 December 2001 and effective on 1 January 2002 by the State Council, goods prohibited from export or import are not permitted to be exported or imported; goods limited in export or import shall be subject to licence system or quota control; and goods free to be exported or imported have no limitation in export or import. The consignee of import goods or the consignor of export goods shall present the permit of automatic import or export, import or export licence or proof of quota in customs tariffs for handling the formalities of customs declaration.

Pursuant to 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 on 21 February 1989, effective on 1 August 1989 and amended on 28 April 2002, 29 June 2013, 27 April 2018 and 29 December 2018 by the Standing Committee of the National People's Congress, the Regulations for the Implementation of the Law of the PRC concerning Import and Export Commodity Inspection (《中華人民共和國進出口商品檢驗法實施條例》), promulgated on 31 August 2005, effective on 1 December 2005 and amended on 6 February 2016, 1 March 2017 and 2 March 2019 by the State Council, the consignee or the consignor of imports or exports may complete declaration formalities for inspection on its own or entrust a declaration agent enterprise to complete declaration formalities for inspection and shall complete filing formalities with the immigration inspection and quarantine agency in accordance with the law. Our PRC Legal Advisers has confirmed that, Zhejiang Sunlight has obtained the necessary import and export licence regarding the imports and exports of our products.

REGULATORY OVERVIEW

LAWS AND REGULATIONS RELATING TO IMMOVABLE PROPERTY

Pursuant to the Land Administration Law of the PRC (《中華人民共和國土地管理法》), promulgated on 25 June 1986, effective on 1 January 1987 and amended on 29 December 1988, 29 August 1998 and 28 August 2004 by the Standing Committee of the National People's Congress, construction units shall obtain the right to use the state-owned land for consideration (such as by way of transfer). Construction units can use the land only after paying the land use right leasing fees and other fees and expenses according to the standards and ways prescribed by the State Council. In using State-owned land, construction units shall use the land according to the provisions of the contract for compensated use of leased land use right. People's government at the country level shall register and put on record uses of land owned by the State by units or individuals and issue certificates to certify the right of use.

Pursuant to the Property Law of the PRC (《中華人民共和國物權法》), promulgated on 16 March 2007, effective on 1 October 2007 by the National people's Congress of the PRC, a right holder shall enjoy the rights of direct control and exclusivity over specific property, which includes ownership, usufructuary and security interests. The creation, variation, transfer and extinguishment of immovable real right shall be registered pursuant to the provisions of the law. The creation, variation, transfer and extinguishment of immovable real right pursuant to law shall be effective upon registration; unless the law provides to the contrary, such creation, variation, transfer and extinguishment shall be ineffective without registration. Registration of immovable property shall be conducted by the registration authority where the immovable property is located.

LAWS AND REGULATIONS RELATING TO MERGERS AND ACQUISITIONS

Pursuant to the Provisions on Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者並購境內企業的規定》), promulgated on 8 August 2006 and effective on 8 September 2006 and amended on 22 June 2009 by MOFCOM, State-owned Assets Supervision and Administration Commission of the State Council, State Administration of Taxation, State Administration of Market Supervision and Administration, China Securities Regulatory Commission and State Administration of Foreign Exchange, foreign-funded mergers and acquisitions of domestic enterprises shall mean (i) the purchase of shareholder equity in a domestic-funded enterprise (hereinafter referred to as the "domestic company") by foreign investor(s); (ii) the subscription of additional capital during a domestic company capital increment by foreign investor(s) which converts such a domestic company into a foreign investment enterprise; or (iii) the establishment of a foreign investment enterprise by foreign investor(s) used for the purchase of assets of domestic enterprises through negotiations where the use of such assets is for the business operations of the foreign investment enterprise, or, the assets from a negotiated asset acquisition in domestic enterprises by foreign investor(s) are used to invest in the establishment of a foreign investment enterprise that will also use the same assets for their business operations.

REGULATORY OVERVIEW

The establishment of a foreign investment enterprise from any foreign-funded mergers and acquisitions of domestic enterprises shall be subject to approval by the examination and approval authorities, and the relevant change of registration or incorporation registration formalities shall be completed with the registration authorities. All parties to any foreign-funded mergers and acquisitions of domestic enterprises shall comply with Chinese laws and administrative regulations on foreign exchange administration and promptly complete the respective foreign exchange verification, registration, filling and change formalities with the foreign exchange administration authorities.

The transaction price for all parties to a mergers and acquisitions shall be determined, on the basis of a valuation of either the equity proposed to be transferred or the assets proposed to be disposed of, or by an asset valuation organisation. The parties to the mergers and acquisitions may agree to use an asset valuation organisation that is duly established in China. Asset valuation shall adopt internationally accepted valuation methods. The transfer of any equity or disposal of assets at a price evidently lower than the valuation and any transfer of capital overseas under disguise shall be prohibited.

Where a foreign investment enterprise is established from a foreign-funded mergers and acquisition of domestic enterprises, the foreign investor(s) shall pay the shareholders who transferred the equity or the domestic enterprise who disposed of the assets in full consideration, within three months from the date of issue of the foreign investment enterprise business license. Where an extension of time for payment is required under special circumstance, and has been approved by the examination and approval authorities, 60% or more of the consideration shall be paid within six months from the date of issue of the foreign investment enterprise business license, and the remaining balance shall be paid within one year; the distribution of dividends shall be based on the ratio of actual capital contribution.

HISTORY, DEVELOPMENT AND REORGANISATION

OVERVIEW

Our history can be traced back to 2003 when Zhejiang Sunlight, our operating subsidiary, was established in the PRC in December 2003 as a sino-foreign joint enterprise with a registered capital of US\$2.1 million, which was then owned as to 60% by Best Landmark (which was then owned as to 50% by Ms. Liu Jing, one of our executive Directors and Controlling Shareholders, and 50% by an Independent Third Party) and 40% by Hangzhou Duocai Chemical Co., Ltd.* (杭州多彩化工有限公司), an Independent Third Party. We principally engage in the research and development, manufacturing and sale of coating agents and synthetic resins under our established brand of “**深蓝科技**”.

We first started our production in our Deqing Production Plant. In June 2015, we moved our production facilities from our Deqing Production Plant to our Jiande Production Plant. In August 2017, our own research institute was recognised as an Enterprise Research Institute at Provincial Level* (省級企業研究院). We have also received a number of accolades as a recognition of our achievement in technological innovation in the chemical engineering industry. For details of our awards and patents, please refer to the sections headed “Business – Awards and recognition” and “Statutory and General Information – B. Further information about the business of our Group – 2. Intellectual property rights of our Group” in Appendix VI to this prospectus.

Zhejiang Sunlight has undergone changes in its share structure throughout the years. Immediately prior to the Reorganisation, Zhejiang Sunlight was owned as to 65.85% by Huzhou Milan (which has been owned as to approximately 42.68% by Ms. Liu Jing, 24.19% by Mr. Chen Hua, 14.78% by Mr. Li Xiangyu, 14.78% by Ms. Zhu Jianqin, 2.39% by Mr. Chen Yong, 0.60% by Mr. Cai Jianming, 0.45% by Mr. Zhao Xuesheng and 0.13% by Mr. He Zhangcai since December 2016) and 34.15% by Hangzhou Qiyue (which was then owned as to 81.25% by Mr. Chen Hua and 18.75% by Mr. He Zhangcai). For purpose of the Listing, we underwent the Reorganisation, following which Zhejiang Sunlight became an indirect wholly-owned subsidiary of our Company. Our Company was owned as to 70.18%, 26.82% and 3% by Sunlight Global, Lilian Global and Jumping Jive, respectively. For further details of the historical changes in share structure of Zhejiang Sunlight and the corporate structure of our Group before and after the Reorganisation, please refer to the paragraphs headed “Corporate history” and “Reorganisation” in this section, respectively.

Among our ultimate beneficial owners, other than Mr. Chen Yong and the Pre-IPO Investor, each of Ms. Liu Jing, Mr. Chen Hua, Mr. Li Xiangyu and Ms. Zhu Jianqin is our executive Director, while Mr. Cai Jianming, Mr. Zhao Xuesheng and Mr. He Zhangcai are members of our senior management. These Directors and senior management have been instrumental in our growth, development and success, and have been crucial to building our established and credible track record over the years. For details of the background and experience of our Directors and senior management, please refer to the section headed “Directors and Senior Management” in this prospectus.

HISTORY, DEVELOPMENT AND REORGANISATION

BUSINESS MILESTONES

The following table sets out our business development milestones:

Dates	Events
2003	Zhejiang Sunlight was established in the PRC
2006	The construction of our Deqing Production Plant was completed and we received approval to commence production of colourants and finishes
2007	Zhejiang Sunlight established its own research institute in the Deqing Production Plant and started its research and development on colours and functional polymer composite materials
2008	Zhejiang Sunlight obtained ISO9001:2008 quality system certification for the design, development and production of colourants and treatment agents for application on synthetic leather
2011	<ul style="list-style-type: none">• Zhejiang Sunlight was recognised as a “High and New Technology Enterprise”* (高新技術企業) by the Zhejiang government• Our special foggy black finishes applied in back-end processing for synthetic leather* (應用於合成革後段的特殊霧黑表面處理劑) was awarded Provincial Level Industrial New Product* (省級工業新產品)
2012	<ul style="list-style-type: none">• Zhejiang Sunlight was awarded the Technology Innovation Prize by the China Plastics Processing Industry Association* (中國塑料加工工業協會)• Our research institute was recognised as High and New Technology Enterprises Research and Development Centre of Zhejiang* (浙江省級高新技術企業研究開發中心) by Department of Science and Technology of Zhejiang Province* (浙江省科學技術廳)
2013	Our special foggy black finishes applied in back-end processing for synthetic leather* (應用於合成革後段的特殊霧黑表面處理劑) was awarded National Torch Plan Industrialisation Demonstration Project* (國家火炬計劃產業化示範項目)
2014	Zhejiang Sunlight was recognised as a Zhejiang Province Enterprise Technical Centre* (浙江省企業技術中心)

HISTORY, DEVELOPMENT AND REORGANISATION

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| 2015 | <ul style="list-style-type: none">• The construction of our Jiande Production Plant was completed and we moved our production lines to the Jiande Production Plant• We received approval to commence production of synthetic resins• Our water-based hot-stamp gradient colour resins for synthetic leather* (合成革專用水性烙印變色樹脂) was awarded Provincial Level Industrial New Product* (省級工業新產品)• Our research institute was relocated from the Deqing Production Plant to our leased premises at 16/F, Block E1, Zijin Zhongchuang Small Town, No. 3, Xiyuan 8th Road, Sandun, Xihu District, Hangzhou City, Zhejiang Province, the PRC |
| 2016 | <p>Our abrasion-resistant and dry-cleaning tolerant surface treatment agent for sofa leather* (沙發革用耐磨耐乾洗表面處理劑) was awarded the Second Prize of Zhejiang Excellent Industrial New Product for 2017* (2017年度浙江省優秀工業新產品二等獎) by Zhejiang Provincial Economic and Information Commission* (浙江省經濟和信息化委員會) and Department of Finance of Zhejiang Province* (浙江省財政廳)</p> |
| 2017 | <ul style="list-style-type: none">• Our research institute was recognised as an Enterprise Research Institute at Provincial Level* (省級企業研究院) of Zhejiang Province• We were selected as one of the Key Industrial Enterprises* (重點工業企業) by the Jiande County People's Government (建德市人民政府)• Our finishes for use on synthetic leather coating was awarded "Famous Brand Product"* (杭州市名牌產品) of Hangzhou City by Hangzhou City Famous Brand Strategic Promotion Committee* (杭州市名牌戰略推進委員會)• Zhejiang Sunlight was awarded the status of 2017 ZDHC-CPASL Synthetic Leather Industry Early Champion Pilot mill* (合成革行業先鋒試點企業) by China Plastics Processing Industry Association Artificial Leather Synthetic Leather Professional Committee* (中國塑料加工工業協會人造革合成革專業委員會) |

HISTORY, DEVELOPMENT AND REORGANISATION

- 2018
- We commenced commercial production of colour chips
 - Our colourants for synthetic leather coating was awarded “Hangzhou Famous Brand Product”* (杭州市名牌產品) of Hangzhou City by Hangzhou City Famous Brand Strategic Promotion Committee* (杭州市名牌戰略推進委員會)
 - Zhejiang Sunlight was recognised as Advanced Group of Safety and Environmental protection work in the Gaotie New Area in 2017* (2017年度高鐵新區安全環保先進集體)

HISTORY, DEVELOPMENT AND REORGANISATION

CORPORATE HISTORY

The following is a brief corporate history of the establishment and major changes in the shareholdings of our Company's subsidiaries since their respective dates of incorporation or establishment.

Zhejiang Sunlight

Zhejiang Sunlight is our principal operating subsidiary and was established in the PRC as a sino-foreign joint enterprise with limited liability on 18 December 2003. Upon establishment, its registered capital was US\$2.1 million, which was subsequently paid up in cash as to 60% by Best Landmark (which was then owned as to 50% by Ms. Liu Jing, one of our executive Directors and Controlling Shareholders, and 50% by an Independent Third Party) and 40% by Hangzhou Duocai Chemical Co., Ltd.* (杭州多彩化工有限公司), an Independent Third Party. Since its establishment, Zhejiang Sunlight has been principally engaged in the research and development, manufacturing and sale of coating agents and synthetic resins under our established brand of “深藍科技”.

In June 2008, Huzhou Milan (which was then owned as to 22.5% by Mr. Li Xiangyu (our executive Director), 22.5% by Ms. Zhu Jianqin (our executive Director), 17.5% by Mr. Chen Hua (our executive Director), 15% by Mr. He Zhangcai (our chief financial officer) and 22.5% by an Independent Third Party, respectively) acquired 40% equity interest in Zhejiang Sunlight from Hangzhou Duocai Chemical Co., Ltd.* (杭州多彩化工有限公司) at a consideration of approximately RMB6.9 million with reference to the then registered capital of Zhejiang Sunlight. Immediately after such equity transfer, Zhejiang Sunlight was owned as to 60% by Best Landmark and 40% by Huzhou Milan. Huzhou Milan was then a manufacturer of chemical products and, since July 2010, has not been engaged in any business other than investment management.

In March 2011, Best Landmark (which was then solely owned by Ms. Liu Jing) and Huzhou Milan (which was then owned as to 29.97% by Mr. Li Xiangyu, 29.97% by Ms. Zhu Jianqin, 1.21% by Mr. Cai Jianming, 0.91% by Mr. Zhao Xuesheng, 0.09% by Mr. He Zhangcai and 37.85% by nine Independent Third Parties in aggregate) resolved to increase the registered capital of Zhejiang Sunlight from US\$2.1 million to US\$4.1 million by an addition of US\$2 million in cash, of which US\$0.12 million was contributed by Best Landmark, US\$0.48 million was contributed by Huzhou Milan and US\$1.4 million was contributed by Hangzhou Qiyue (which was then owned as to 52.99% by Mr. Chen Hua (our executive Director), 18.75% by Mr. He Zhangcai (our chief financial officer) and 28.26% by an Independent Third Party (one of our then employees), respectively). Upon the capital injection, Zhejiang Sunlight was then owned as to approximately 33.66% by Best Landmark, approximately 32.19% by Huzhou Milan and approximately 34.15% by Hangzhou Qiyue.

HISTORY, DEVELOPMENT AND REORGANISATION

In May 2016, Best Landmark (which was then solely owned by Ms. Liu Jing) disposed of its 33.66% equity interest in Zhejiang Sunlight to Huzhou Milan at a cash consideration of RMB14,792,372, which was determined after arm's length negotiations with reference to the then registered capital of Zhejiang Sunlight. As confirmed by our Directors, the disposal was preceded by a capital injection by Ms. Liu Jing in Huzhou Milan in late April 2016 which, together with the disposal, formed a series of transactions to reorganise the equity structure of Zhejiang Sunlight that did not involve change in the equity interest of its ultimate shareholders including Ms. Liu Jing. The net asset value of Zhejiang Sunlight as at 1 January 2016 was approximately RMB137.1 million, which, after taking into account the distribution of dividend of RMB50 million by Zhejiang Sunlight in June 2016, was approximately RMB87.1 million. The then registered capital of Zhejiang Sunlight was chosen by the parties as the basis for the calculation of the consideration for the transaction. As confirmed by our Directors, as there was no change in the equity interest of the ultimate shareholders of Zhejiang Sunlight, the parties accepted the use of registered capital as the basis for calculating the consideration, and the use of registered capital as basis conformed to normal commercial practice. Our Directors also confirmed that, the abovementioned series of transactions including the disposal were implemented pursuant to the common understanding of the then ultimate shareholders of Zhejiang Sunlight to reorganise the equity structure of Zhejiang Sunlight. As advised by our PRC Legal Advisers, the use of registered capital as the basis for calculation of consideration for the disposal does not contravene or give rise to non-compliance under any laws or regulations in the PRC. As advised by our PRC Legal Advisers, the disposal had been duly approved by the relevant PRC authorities and the disposal is valid and effective. The consideration was settled in cash in March 2019. Upon the said transfer of equity interest in May 2016, Zhejiang Sunlight was owned as to 65.85% by Huzhou Milan (which was then owned approximately as to 51.11% by Ms. Liu Jing, 13.97% by Mr. Li Xiangyu, 13.97% by Ms. Zhu Jianqin, 3.67% by Mr. Chen Hua, 2.26% by Mr. Chen Yong, 0.57% by Mr. Cai Jianming, 0.42% by Mr. Zhao Xuesheng, 0.04% by Mr. He Zhangcai and 13.97% by an Independent Third Party) and 34.15% by Hangzhou Qiyue (which was then owned as to 52.99% by Mr. Chen Hua, 18.75% by Mr. He Zhangcai and 28.26% by an Independent Third Party). Zhejiang Sunlight was also converted from a sino-foreign joint venture enterprise into a domestic enterprise and its registered capital was converted from US\$4.1 million to RMB30,356,786 with reference to the then RMB exchange rate to US dollars.

HISTORY, DEVELOPMENT AND REORGANISATION

In May 2016 and after the disposal of Best Landmark's equity interest in Zhejiang Sunlight to Huzhou Milan as discussed above, Mr. Chen Hua acquired 28.26% equity interest in Hangzhou Qiyue, which then owned 34.15% equity interest in Zhejiang Sunlight, from an Independent Third Party shareholder of Hangzhou Qiyue. After the acquisition, Hangzhou Qiyue was owned as to 81.25% by Mr. Chen Hua and 18.75% by Mr. He Zhangcai.

In July 2016, the registered capital of Zhejiang Sunlight was further increased to RMB36,000,000, which was paid up by conversion of the then net assets of Zhejiang Sunlight of an equivalent amount out of its total net assets. The shareholding percentage of Zhejiang Sunlight remained unchanged after the increase of registered capital (i.e. owned as to 65.85% by Huzhou Milan and 34.15% by Hangzhou Qiyue).

In September 2016, Mr. Chen Hua acquired 13.97% equity interest in Huzhou Milan from an Independent Third Party shareholder of Huzhou Milan. After the acquisition, Huzhou Milan was owned approximately as to 51.11% by Ms. Liu Jing, 17.65% by Mr. Chen Hua, 13.97% by Ms. Zhu Jianqin, 13.97% by Mr. Li Xiangyu, 2.26% by Mr. Chen Yong, 0.57% by Mr. Cai Jianming, 0.42% by Mr. Zhao Xuesheng and 0.04% by Mr. He Zhangcai.

In December 2016, Huzhou Milan, resolved to increase its registered capital by way of capital injection by its then shareholders. Upon the capital injection, Huzhou Milan was owned as to 42.68% by Ms. Liu Jing, 24.19% by Mr. Chen Hua, 14.78% by Ms. Zhu Jianqin, 14.78% by Mr. Li Xiangyu, 2.39% by Mr. Chen Yong, 0.60% by Mr. Cai Jianming, 0.45% by Mr. Zhao Xuesheng and 0.13% by Mr. He Zhangcai.

Since then and until immediately prior to the Reorganisation, there was no further change to the direct and indirect shareholding of Zhejiang Sunlight.

Deqing Hongsheng

Deqing Hongsheng was established by Zhejiang Sunlight in the PRC with limited liability on 28 April 2015 with a registered capital of RMB18,820,456, which was paid up by Zhejiang Sunlight by transferring the property interests held by Zhejiang Sunlight, i.e. Deqing Production Plant, and the relevant land use rights thereof as valued by an independent valuer as at 28 February 2015 to Deqing Hongsheng. The permitted scope of business operation of Deqing Hongsheng is investment management and investment consultation. Prior to the disposal of Deqing Hongsheng in December 2016, Deqing Hongsheng was wholly-owned by Zhejiang Sunlight.

HISTORY, DEVELOPMENT AND REORGANISATION

Disposal of Deqing Hongsheng

After our production lines were relocated to the Jiande Production Plant in 2015, the Deqing Production Plant had been leased to an Independent Third Party for a term commencing from August 2016 to August 2017.

As (i) we principally engage in the research and development, manufacturing and sale of coating agents and synthetic resins in the PRC and the permitted scope of business of Deqing Hongsheng is not related to our principal business; (ii) save for the holding of our property interests in the Deqing Production Plant, Deqing Hongsheng had not commenced any business for so long as it was wholly-owned by us; and (iii) we had intended to dispose of the Deqing Production Plant after we relocated our production lines to the Jiande Production Plant in 2015, in December 2016, Zhejiang Sunlight entered into an agreement for the transfer of its entire equity interest in Deqing Hongsheng to the two shareholders of the then lessee of the Deqing Production Plant (who are also Independent Third Parties) at a consideration of RMB19,800,000, which was determined on an arm's length basis with reference to the value of the property interests, i.e. Deqing Production Plant, as agreed by the parties. The consideration was settled by cash on 18 January 2017.

During the year ended 31 December 2016 and the period from 1 January 2017 up to the date of disposal of Deqing Hongsheng in February 2017, (i) the income contributed by Deqing Hongsheng, recognised in our other revenue, was approximately RMB0.4 million and RMB13,000 respectively; and (ii) the net loss contributed by Deqing Hongsheng was approximately RMB0.6 million and RMB42,000, respectively. During the Track Record Period and up to the date of our disposal of Deqing Hongsheng, Deqing Hongsheng did not have any business operation and its principal business was the holding of the property interests in the Deqing Production Plant.

We confirm that Deqing Hongsheng was not involved in any material non-compliance incidents, claims, litigation or legal proceedings during the Track Record Period and up to the date of the disposal.

HISTORY, DEVELOPMENT AND REORGANISATION

PREPARATION FOR LISTING ON CHINEXT

In September 2016, Zhejiang Sunlight initiated the early phase of preparation for listing on the ChiNext market of the Shenzhen Stock Exchange (深圳證券交易所創業板) (the “**ChiNext**”) Zhejiang Sunlight appointed a registered institution in the PRC (the “**Tutoring Sponsor**”) with the CSRC to provide tutoring to Zhejiang Sunlight. The Tutoring Sponsor lodged a registration with the Zhejiang Administration of the CSRC* (中國證券監督管理委員會浙江監管局) in respect of the commencement of the tutoring period of Zhejiang Sunlight (the “**Tutoring**”). The Tutoring is a prerequisite for submission of listing applications to ChiNext.

Termination of Tutoring

In February 2019, the Tutoring Sponsor announced its termination of the Tutoring. As at the Latest Practicable Date, Zhejiang Sunlight had not submitted the listing application in connection with its proposed listing on ChiNext and our Directors confirmed that it would not proceed with the listing plan on ChiNext.

Our Directors confirm that: (i) the decision of not proceeding with the listing plan on ChiNext was due to the then macroscopic market environment in the PRC; (ii) there were no material adverse findings by the Tutoring Sponsor during the Tutoring; and (iii) there are no further matters in relation to the Tutoring and the preparation for listing on ChiNext that need to be brought to the attention of the regulators and investors in Hong Kong.

Reasons for the termination of Tutoring

Our Directors believe that terminating the Tutoring and application for Listing on the Stock Exchange will be in the interests of our business development strategies, and would be beneficial to us and our Shareholders as a whole for the following reasons:

- (i) Hong Kong, being a gateway between the PRC and the international market, will offer us a direct access to the international capital markets and enhance our fund-raising capabilities and broaden our Shareholders base. In addition, the Shanghai and Shenzhen Stock Connect programmes between the PRC and Hong Kong will also allow mainland investors to invest in us through such programme after the Listing. Accordingly, the Listing would give us a better access to domestic and international investors and provide us with a viable source of capital to support our business growth;
- (ii) the Listing would give us a better international image which is important for us to develop the international market to expand our geographical coverage, which is in line with one of our business strategies. Please refer to the section headed “Business – Our business strategies” in this prospectus for further details; and

HISTORY, DEVELOPMENT AND REORGANISATION

- (iii) the amounts of funds raised from new listings and post-listing fund raising exercises by listed companies through the Stock Exchange in 2018 were approximately HK\$286.5 billion and HK\$255.2 billion, respectively. Our Directors believe that such substantial amounts of funds raised indicate a strong investor support for listed companies on the Stock Exchange, and the Listing will allow us to have a good channel for funds raising in the future.

The Tutoring Sponsor has confirmed that there were no matters with respect to the proposed listing on ChiNext that need to be brought to the attention of our Company and the Sole Sponsor. Based on the confirmation from the Directors and the interview with the Tutoring Sponsor, the Sole Sponsor concurs with our Directors that (i) nothing has come to its attention from the Tutoring that might materially and adversely affect our Company's suitability for the Listing or the accuracy of the information disclosed in this prospectus; and (ii) no matters that need to be brought to the attention of the regulators and investors in Hong Kong in relation to the Tutoring and the proposed listing on ChiNext.

RELATIONSHIP AMONG OUR SHAREHOLDERS

Pursuant to the Guidance Letter HKEX GL89-16 (the “**Guidance Letter**”) issued by the Stock Exchange, (i) Mr. Chen Hua, Ms. Zhu Jianqin, Mr. Li Xiangyu, Mr. He Zhangcai, Mr. Zhao Xuesheng, Mr. Cai Jianming, Mr. Chen Yong and Ms. Liu Jing are regarded as a group of Controlling Shareholders since they have decided to restrict their ability to exercise direct control over our Company by holding their interests in our Group through certain common investment holding companies (i.e. Huzhou Milan and Hangzhou Qiyue (before the Reorganisation) and Sunlight Global and Lilian Global (after the Reorganisation), details of which are set out in the paragraph headed “Reorganisation” in this section); (ii) Ms. Liu Jing and Mr. Chen Hua, being a spouse to each other, are deemed to be interested in the Shares held by each other by virtue of their spousal relationship; and (iii) although Lilian Global will not be individually entitled to exercise 30% or more of the share capital of our Company upon the Listing, by virtue of Ms. Liu Jing and Mr. Chen Hua as being spouses as mentioned above, Lilian Global, together with its beneficial owner, Ms. Liu Jing, and Mr. Chen Hua, are regarded as a group of Controlling Shareholders.

Accordingly, Sunlight Global and its beneficial owners, namely Mr. Chen Hua, Ms. Zhu Jianqin, Mr. Li Xiangyu, Mr. He Zhangcai, Mr. Zhao Xuesheng, Mr. Cai Jianming, Mr. Chen Yong, as well as Lilian Global and its beneficial owner, namely Ms. Liu Jing are a group of Controlling Shareholders within the meaning of the Listing Rules and will together be entitled to exercise and control 72.75% of the entire issued share capital of our Company upon completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme). For the biographies of Mr. Chen Hua, Ms. Zhu Jianqin, Mr. Li Xiangyu, Mr. He Zhangcai, Mr. Zhao Xuesheng, Mr. Cai Jianming and Ms. Liu Jing, please see the section headed “Directors and Senior Management” in this prospectus.

HISTORY, DEVELOPMENT AND REORGANISATION

Mr. Chen Yong (陳勇先生), aged 53, is one of our Controlling Shareholders by virtue of the Guidance Letter. Since November 2013, he invested in Huzhou Milan, then holding approximately 32.19% equity interest in Zhejiang Sunlight, as a passive investor and has not had active participation in the daily operations and management of Huzhou Milan and our Group.

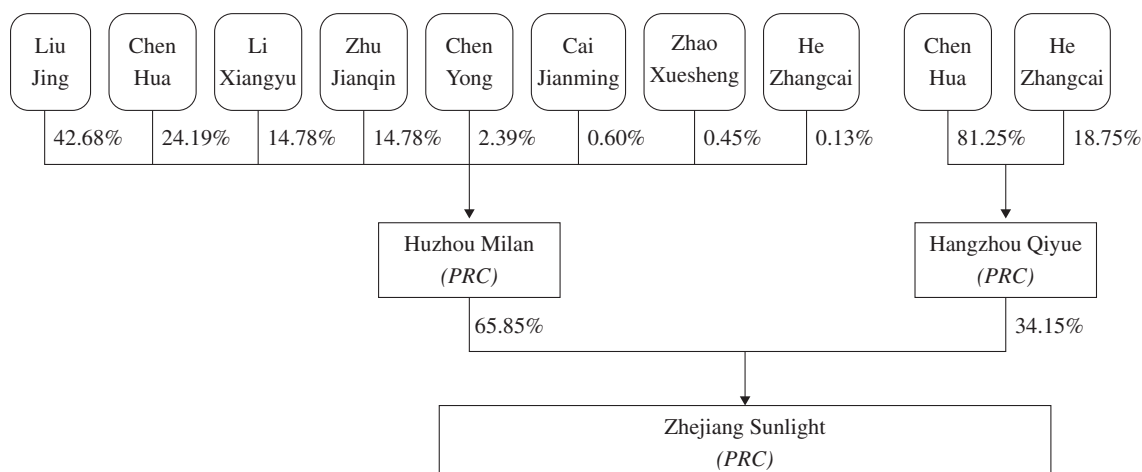
Mr. Chen Yong had substantive experience of investment and involvement in technological companies. Since July 2018, Mr. Chen Yong has been a shareholder, executive director and general manager of Zhou Wanqin (Hangzhou) Health Management Co., Ltd* (周萬芹(杭州)健康管理有限責任公司), a company principally engaged in, among other things, the development of internet and information technologies and computer software and hardware and the provision of non-medical health management consulting services in the PRC. Since January 2017, he has been a supervisor of Tongling Haochong Technology Co., Ltd.* (銅陵好充科技有限公司), a company principally engaged in the development of automobile recharging technologies. Since July 2016, he has also been a supervisor of Hangzhou Haochong Technology Co., Ltd.* (杭州好充科技有限公司), a company principally engaged in communication engineering and system design and construction for electric vehicles recharging stations.

As confirmed by Mr. Chen Yong and Mr. Chen Hua, our executive director, they have been acquaintance since 2010. Mr. Chen Yong was optimistic about the prospects of the faux leather chemicals manufacturing industry in the PRC and was impressed by Mr. Chen Hua's extensive industry knowledge in faux leather chemicals manufacturing industry, and thus decided to invest in Huzhou Milan.

HISTORY, DEVELOPMENT AND REORGANISATION

REORGANISATION

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



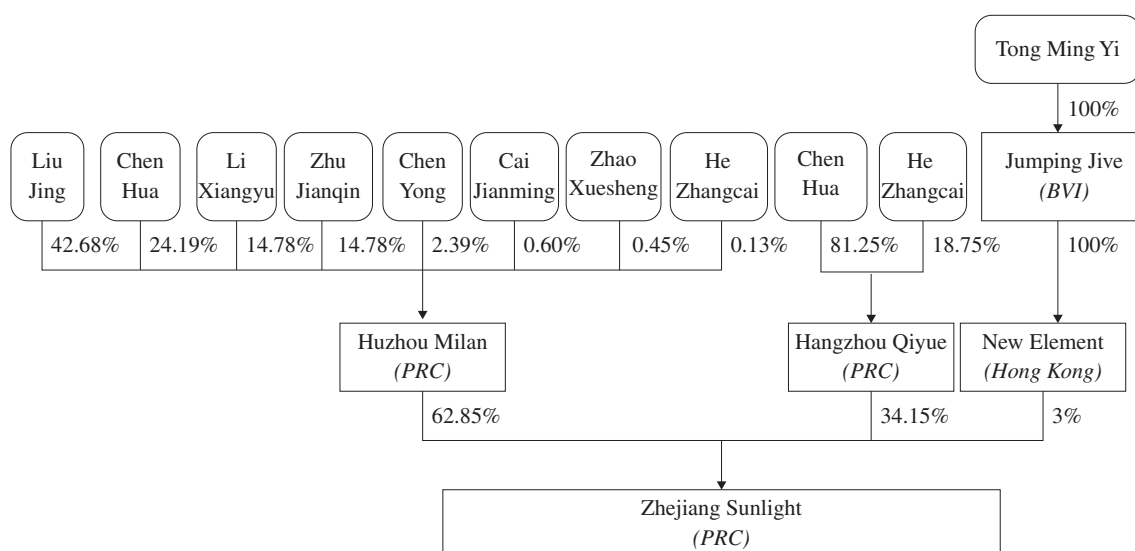
In preparation for the Listing, we underwent the Reorganisation to rationalise the corporate structure of our Group. The Reorganisation involved the following major steps:

(a) Pre-IPO Investment

In January 2019, New Element agreed to acquire 3% equity interests in Zhejiang Sunlight from Huzhou Milan at a consideration of RMB3.18 million, which was determined with reference to the net assets value of Zhejiang Sunlight as at 31 December 2018 pursuant to a valuation report prepared by an independent valuer. The consideration was fully settled and the Pre-IPO Investment was completed on 9 May 2019. For details, please refer to the paragraph headed “Pre-IPO Investment” in this section. Upon completion of the Pre-IPO Investment, Zhejiang Sunlight was owned as to 62.85% by Huzhou Milan, 34.15% by Hangzhou Qiyue and 3% by New Element.

The following chart sets out the corporate and shareholding structure of our Group immediately after completion of the Pre-IPO Investment:

HISTORY, DEVELOPMENT AND REORGANISATION



Immediately after completion of the Pre-IPO Investment, the effective interests in Zhejiang Sunlight were as follows:

Ultimate beneficial owners

Approximate effective interests

Mr. Chen Hua	42.95%
Ms. Liu Jing	26.82%
Ms. Zhu Jianqin	9.29%
Mr. Li Xiangyu	9.29%
Mr. He Zhangcai	6.49%
Mr. Chen Yong	1.50%
Mr. Cai Jianming	0.38%
Mr. Zhao Xuesheng	0.28%
Ms. Tong Ming Yi (“ Ms. Tong ”)	3.00%

(b) Incorporation of our Company and subsequent changes in share structure

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 January 2019. On the date of its incorporation, our Company had an authorised share capital of US\$50,000 divided into 50,000 Shares at a par value of US\$1.00 each.

On the date of incorporation, (i) one Share was allotted and issued to the initial subscriber to the memorandum of association of our Company, which was then transferred to Sunlight Global at par and credited as fully paid; and (ii) our Company allotted and issued to Sunlight Global 49,999 Shares at par and credited as fully paid.

HISTORY, DEVELOPMENT AND REORGANISATION

On 11 March 2019, to align with the effective interests in Zhejiang Sunlight of its equity owners, Sunlight Global transferred 13,410 Shares and 1,500 Shares to Lilian Global and Jumping Jive, respectively, at par and credited as fully paid. After such transfers, our Company was owned as to 70.18% by Sunlight Global, 26.82% by Lilian Global and 3% by Jumping Jive. Sunlight Global is an investment holding company incorporated in the BVI with limited liability, and is owned as to 61.20% by Mr. Chen Hua, 13.24% by Ms. Zhu Jianqin, 13.24% by Mr. Li Xiangyu, 9.24% by Mr. He Zhangcai, 2.14% by Mr. Chen Yong, 0.54% by Mr. Cai Jianming and 0.40% by Mr. Zhao Xuesheng. Lilian Global is an investment holding company incorporated in the BVI with limited liability wholly-owned by Ms. Liu Jing. Jumping Jive is an investment holding company incorporated in the BVI with limited liability wholly-owned by Ms. Tong.

On 17 April 2019, each Share then of a par value of US\$1.00 was subdivided into 1,000 Shares of a par value of US\$0.001 each. Upon completion of the share subdivision, the authorised share capital of our Company was US\$50,000 divided into 50,000,000 Shares of a par value of US\$0.001 each, all of which had been issued and credited as fully paid.

On 9 May 2019, the authorised share capital of our Company was increased from US\$50,000 divided into 50,000,000 Shares of US\$0.001 each to US\$1,000,000 divided into 1,000,000,000 Shares of US\$0.001 each by creation of additional 950,000,000 Shares of US\$0.001 each ranking pari passu in all aspects with the existing issued Shares.

(c) Incorporation of Darkblue Investment

Darkblue Investment is an intermediate holding company of our Group. It was incorporated in the BVI with limited liability on 31 January 2019. On the date of its incorporation, Darkblue Investment was authorised to issue a maximum of 50,000 ordinary shares with a par value of US\$1.00 each, of which 50,000 ordinary shares were allotted and issued at par and credited as fully paid to our Company on the same date. Darkblue Investment is an investment holding company.

(d) Incorporation of HongKong Gorgeous

HongKong Gorgeous is an intermediate holding company of our Group. It was incorporated in Hong Kong with limited liability on 7 March 2019. On the date of its incorporation, 10,000 ordinary shares were allotted and issued as fully paid to Darkblue Investment and the total amount of issued share capital was HK\$10,000. HongKong Gorgeous is an investment holding company.

HISTORY, DEVELOPMENT AND REORGANISATION

(e) Acquisition of Zhejiang Sunlight by HongKong Gorgeous and subsequent loan capitalisations

On 25 March 2019, HongKong Gorgeous entered into three respective equity transfer agreements with each of Huzhou Milan, Hangzhou Qiyue and New Element, pursuant to which HongKong Gorgeous acquired 62.85%, 34.15% and 3% equity interests in Zhejiang Sunlight from Huzhou Milan, Hangzhou Qiyue and New Element, respectively, in cash considerations of RMB22,627,317, RMB12,292,683 and RMB1,080,000, respectively. The considerations were determined with reference to the then registered capital of Zhejiang Sunlight and were fully settled on 19 June 2019. After the said acquisition, Zhejiang Sunlight became an indirect wholly-owned subsidiary of our Company.

The abovementioned considerations for acquisition of the equity interests in Zhejiang Sunlight were financed by the shareholders' loans from Sunlight Global, Lilian Global and Jumping Jive (the "Shareholders' Loans") and advanced to HongKong Gorgeous (at the direction of our Company).

On 19 June 2019, the Shareholders' Loans owed by our Company to Sunlight Global, Lilian Global and Jumping Jive were capitalised by way of our Company allotting and issuing 35,090,000, 13,410,000 and 1,500,000 Shares, credited as fully paid, to Sunlight Global, Lilian Global and Jumping Jive, respectively. After the said loan capitalisations, the shareholding of our Company remained unchanged, i.e. as to 70.18% by Sunlight Global, 26.82% by Lilian Global and 3% by Jumping Jive.

On 19 June 2019, the Shareholders' Loans owed by HongKong Gorgeous to our Company were capitalised by way of HongKong Gorgeous allotting and issuing 100 ordinary shares of HongKong Gorgeous, credited as fully paid, to Darkblue Investment (at the direction of our Company). After the said loan capitalisation, HongKong Gorgeous remained wholly-owned by Darkblue Investment, which in turn remained wholly-owned by our Company.

(f) Capitalisation Issue and Global Offering

On 10 February 2020, each Share then of a par value of US\$0.001 was subdivided into two Shares of a par value of US\$0.0005 each. Upon completion of the share subdivision, the authorised share capital of our Company was US\$1,000,000 divided into 2,000,000,000 Shares of a par value of US\$0.0005 each, each ranking pari passu with one another in all respects.

A total of 250,000,000 new Shares, representing 25% of the total issued share capital of our Company immediately after the Reorganisation and completion of the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme) will be offered for subscription pursuant to the Global Offering.

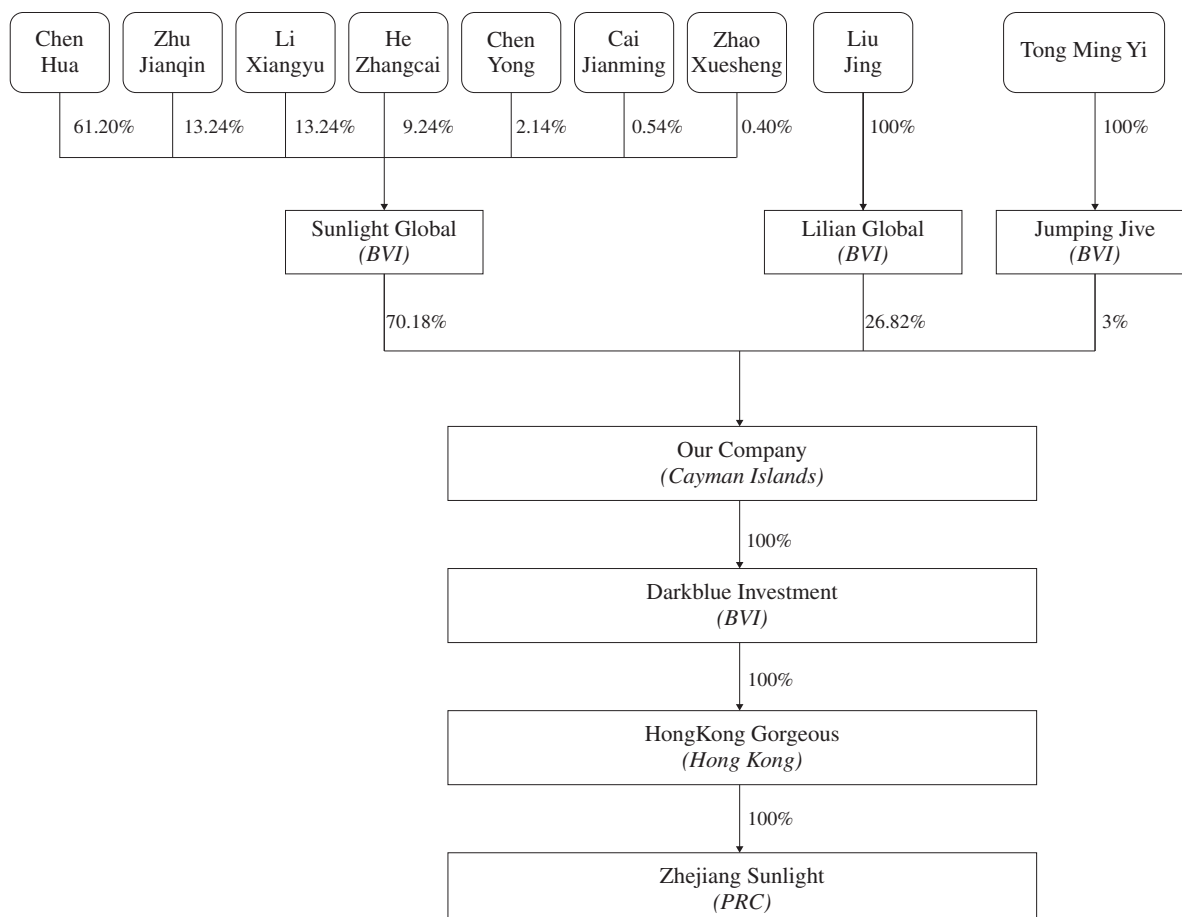
HISTORY, DEVELOPMENT AND REORGANISATION

Conditional on the share premium account of our Company being credited with the proceeds from the Global Offering, US\$275,000 will be capitalised from the share premium account of our Company and applied in paying up in full at par a total of 550,000,000 Shares for the allotment and issue to the existing Shareholders, namely Sunlight Global, Lilian Global and Jumping Jive on or prior to the Listing.

HISTORY, DEVELOPMENT AND REORGANISATION

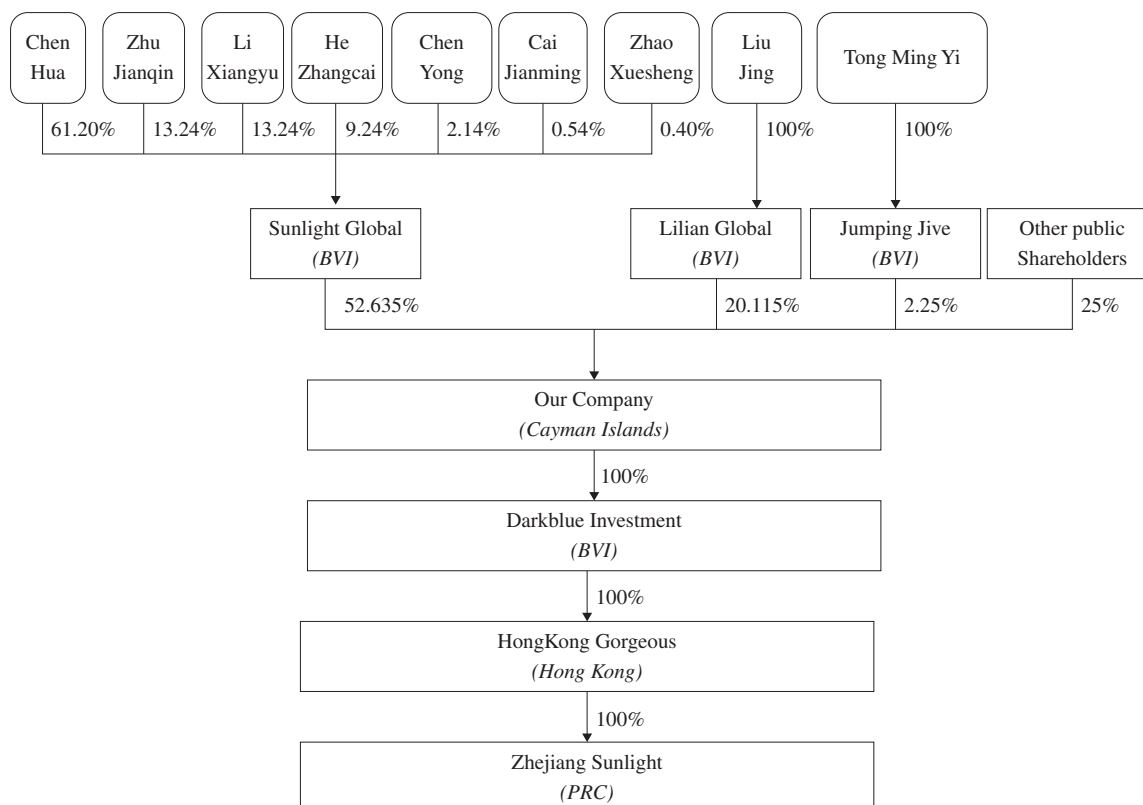
OUR CORPORATE STRUCTURE

The following chart sets out our corporate and shareholding structure immediately after completion of the Reorganisation but before completion of the Capitalisation Issue and the Global Offering:



HISTORY, DEVELOPMENT AND REORGANISATION

Immediately upon completion of the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised), the shareholding structure of our Group will be as follows:



PRE-IPO INVESTMENT

Overview

Through his business network, Mr. Chen Hua, our executive Director, became acquainted with Ms. Tong, an Independent Third Party, in February 2018. Considering the prospects and growth potential of our Group, in particular, the strong research and capabilities possessed by our Group and her interest in the prospect of the faux leather chemicals manufacturing industry, Ms. Tong decided to invest in our Group. Pursuant to the Pre-IPO Equity Transfer Agreement duly executed on 30 January 2019 (as supplemented by a supplemental agreement dated 25 February 2019) between Huzhou Milan as transferor and New Element (which has been ultimately and beneficially owned by Ms. Tong) as transferee, Ms. Tong, through her investment vehicle, New Element, acquired 3% equity interest in Zhejiang Sunlight from Huzhou Milan at a consideration of RMB3.18 million. Necessary filing to the relevant PRC authorities was completed on 1 March 2019 and, following the Pre-IPO Investment, Zhejiang Sunlight has been converted to a sino-foreign joint venture enterprise.

HISTORY, DEVELOPMENT AND REORGANISATION

Information on the Pre-IPO Investor and Ms. Tong

New Element is a company incorporated in Hong Kong with limited liability on 30 January 2019 wholly and beneficially owned by Jumping Jive, which is a company incorporated in the BVI with limited liability on 16 November 2018 wholly and beneficially owned by Ms. Tong. Ms. Tong is the sole director of New Element and Jumping Jive. Ms. Tong confirmed that she has funded the Pre-IPO Investment with her own source of funding.

Ms. Tong is a registered foreign lawyer by profession. Ms. Tong has worked in the legal industry for more than 10 years. In particular, she worked in various roles with law firms such as at Y.L. Yeung and Co. Solicitors from August 2007 to February 2013 and Fred Kan and Co. Solicitors & Notaries from February 2013 to February 2014, and as a legal executive at Stevenson, Wong & Co. Solicitors from February 2014 to March 2015. She has then been employed by Harneys (Asia) Limited since July 2015 and her current position is associate.

To the best of our Directors' knowledge, information and belief and having made all reasonable enquiries, save for the Pre-IPO Investment, each of New Element, Jumping Jive and Ms. Tong is an Independent Third Party and has no past or present relationships (business, family, employment, financial or otherwise) with our Group, their shareholders, directors, senior management or any of their respective associates, and our customers and suppliers.

Our Directors confirmed that, (i) save for the Pre-IPO Equity Transfer Agreement, there is no other agreement, arrangement or undertaking, verbal or in writing, among Ms. Tong and our Group as regards her investment in our Group; and (ii) save as mentioned above, there is no past or present relationship between Ms. Tong and the parties involved in the Listing (business, employment, shareholding or otherwise).

Details of the Pre-IPO Investment

The following table sets out the details of the Pre-IPO Investment:

Name of the Pre-IPO Investor	:	Jumping Jive
Consideration	:	RMB3.18 million
Basis of determination of consideration	:	Based on arm's length negotiation with reference to the net assets value of Zhejiang Sunlight as at 31 December 2018 according to a valuation report prepared by an independent valuer
Date of settlement of full payment	:	9 May 2019

HISTORY, DEVELOPMENT AND REORGANISATION

Cost per Share paid under the Pre-IPO Investment <i>(Note)</i>	:	Approximately RMB0.14 (equivalent to approximately HK\$0.165 per Share)
Discount to the Offer Price	:	Approximately 70.0% to the Offer Price of HK\$0.55 (being the mid-point of the Offer Price range stated in this prospectus)
Strategic benefits of the Pre-IPO Investment	:	Our Directors believe that the Pre-IPO Investment can diversify the shareholders' portfolio of our Group and our Group can obtain corporate governance-related advice through Ms. Tong, who is a registered foreign lawyer in Hong Kong and has experience and knowledge in the Hong Kong capital market.

HISTORY, DEVELOPMENT AND REORGANISATION

Our Directors consider that our Group has derived benefits from bringing in the Pre-IPO Investor since the early stage of considering alternative options and venues of its intended listing in early 2018, including but not limited to obtaining from Ms. Tong her insights prior to the engagement of the professional parties on (i) the latest development of Hong Kong capital market and the requirements and procedures of application for Listing on the Stock Exchange; (ii) the key steps of reorganisation of corporate structure in preparation for the listing and the rationales behind; (iii) recommended corporate governance and compliance practice as expected of a listed company in Hong Kong; and (iv) the roles and scope of work of different parties involved in the Listing given from a shareholder's perspective. In addition, our Directors also consider that as Ms. Tong is a registered foreign lawyer in Hong Kong, her investment in our Group can help strengthen our Group's corporate image and give confidence to the potential investors of our Group. Further, given her capital commitment and her role as our investor possessing a professional background, we expect to continue to benefit from Ms. Tong's professional knowledge in laws and Hong Kong capital market after Listing by continuing to seek her insights as additional points of view, from her shareholder's perspective, to facilitate our consideration on listing and corporate governance-related matters and to support our future development in the long run.

Shareholding in our Group upon the completion of the Pre-IPO Investment	:	3%
Shareholding in our Group immediately following completion of the Capitalisation Issue and the Global Offering	:	2.25% of the enlarged share capital of our Company (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any option as may be granted under the Share Option Scheme)
Lock-up period	:	Six months upon Listing
Special rights granted to Pre-IPO Investor	:	Nil

HISTORY, DEVELOPMENT AND REORGANISATION

Public float : Given that (i) the shareholding of the Pre-IPO Investor in our Company upon Listing is less than 10%; (ii) the Pre-IPO Investor is solely a passive investor in our Group; and (iii) it is an Independent Third Party, the Shares held by the Pre-IPO Investor will be counted as part of the public float of our Company upon completion of the Listing

Note:

This is derived based on the 22,500,000 Shares to be held by the Pre-IPO Investor upon completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be issued upon exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme).

Sponsor's confirmation

Since the Pre-IPO Investment was unconditionally completed and the consideration for the Pre-IPO Investment was fully settled more than 28 clear days before the date of our Company's submission of the Listing application form to the Stock Exchange, the Sole Sponsor is of the view that the Pre-IPO Investment is in compliance with the Guidance Letters titled "Interim Guidance on Pre-IPO Investments" (HKEX-GL29-12) issued by the Stock Exchange in January 2012 and updated in March 2017 and "Guidance on Pre-IPO Investments" (HKEX-GL43-12) issued by the Stock Exchange in October 2012 and updated in March 2017.

HISTORY, DEVELOPMENT AND REORGANISATION

PRC LEGAL COMPLIANCE

Overview

Our PRC Legal Advisers confirmed that the Reorganisation was carried out in accordance with the relevant PRC laws and regulations and there is no other governmental approval, permit and licence required under the PRC laws and regulations for the Reorganisation.

Compliance with the Regulations for 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》) (the “M&A Rules”)

The M&A Rules was promulgated by the MOFCOM, the State-owned Asset Supervision and Administration Commission of the State Council, the CSRC, the State Taxation Administration, the State Administration for Industry and Commerce and the SAFE, became effective on 8 September 2006 and was revised on 22 June 2009. Pursuant to the M&A Rules, if any domestic companies, enterprises or natural persons merges or acquires its affiliated domestic companies in the name of the companies in foreign countries legally established or controlled by the aforesaid domestic companies, enterprises or natural persons, it shall be subject to the approval of the MOFCOM. The term “merger and acquisition of domestic enterprises by foreign investors” in the M&A Rules shall mean (i) a foreign investor purchases the stock right of a shareholder of a non-foreign-invested enterprise in China (a “**domestic company**”) or capital increase of a domestic company so as to convert and re-establish a domestic company as a foreign-invested enterprise (i.e. equity merger and acquisition); or (ii) a foreign investor establishes a foreign-invested enterprise and purchases and operates the assets of a domestic company by the agreement of that company, or, a foreign investor purchases the assets of a domestic company by agreement and uses this asset investment to establish a foreign-invested enterprise and operate the assets (i.e. asset merger and acquisition).

Our PRC Legal Advisers advised that since Zhejiang Sunlight had already become a foreign-invested enterprise before it was acquired by our Company, the M&A Rules are therefore not applicable to the acquisition of Zhejiang Sunlight by HongKong Gorgeous, which was completed in accordance with the relevant equity transfer agreements on 18 April 2019.

HISTORY, DEVELOPMENT AND REORGANISATION

Compliance with the Circular of the SAFE on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“Circular 37”)

On 4 July 2014, the SAFE promulgated Circular 37, according to which, (i) “SPVs” is defined as overseas companies directly incorporated or indirectly controlled by domestic residents (including domestic entities and individual domestic residents) using the assets or rights and interests of domestic companies that they legally possess or the overseas assets or rights and interests they legally possess for the purpose of investments and financing; (ii) domestic residents shall apply to the SAFE to register foreign exchange for overseas investments before contributing money to SPVs with legitimate domestic and overseas assets or rights and interests; and (iii) in the event of any alteration in the basic information of the registered SPVs, such as the change of a PRC resident shareholder, name and operating duration, or in the event of any alteration in key information, such as increases or decreases in capital, or equity transfers, swaps, consolidations or splits of individual domestic residents, the registered PRC residents shall timely submit a change in the registration of the foreign exchange for overseas investments with the foreign exchange bureaus. Domestic residents must register the change in the foreign exchange for overseas investments before conducting any subsequent business (including re-exchanges of profits and bonuses), and failing to comply with the registration procedures as set out in the Circular 37 may result in penalties.

As confirmed by our PRC Legal Advisers, on 1 March 2019, Mr. Chen Hua, Ms. Zhu Jianqin, Mr. Li Xiangyu, Mr. He Zhangcai, Mr. Zhao Xuesheng, Mr. Cai Jianming, Mr. Chen Yong and Ms. Liu Jing, being the ultimate individual Shareholders, have completed the foreign exchange registration pursuant to Circular 37.

BUSINESS

OVERVIEW

We are an established faux leather chemicals manufacturer in the PRC principally engaged in the research and development, manufacturing and sale of coating agents and synthetic resins under our established brand of “深藍科技”. According to the CIC Report, we had a market share of approximately 0.75% in terms of revenue in 2018 in the faux leather chemicals manufacturing industry in the PRC, and ranked the fourth in the faux leather coating agents market in the PRC in terms of revenue in 2018 with a market share of approximately 1.9%.

Faux leather can be generally categorised into PU leather and PVC leather and has wide applications in different industries, including apparel, footwear, automobile interior decoration, home furnishings and sports equipment. Faux leather chemicals are chemicals used in the production process of faux leather. While resins form the primary components of different layers of faux leather, coating agents are used to give colour and desired effects in terms of hand feeling and pattern to faux leather. According to the CIC Report, the faux leather chemicals manufacturing industry in the PRC is fragmented, with the top ten players accounting for a market share of approximately 39.3% in terms of revenue in 2018. The faux leather coating agents market in the PRC represented approximately 33.8% of the faux leather chemicals manufacturing industry in the PRC in terms of revenue in 2018, with the top ten players accounting for a market share of approximately 21.2% in terms of revenue in 2018.

During the Track Record Period, our customers are mainly faux leather manufacturers in the PRC, which are mainly located in Zhejiang, Guangdong, Fujian and Jiangsu Provinces.

For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our revenue amounted to approximately RMB151.2 million, RMB157.6 million, RMB167.3 million and RMB130.1 million, respectively, and our net profit amounted to approximately RMB25.4 million, RMB35.0 million, RMB30.8 million and RMB15.2 million, respectively. The table below sets out the breakdown of our revenue by product for the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2016		2017		2018		2018		2019	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i> (unaudited)	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Coating agents										
Colourants										
– Colour paste	69,540	46.0	72,382	45.9	82,553	49.3	58,229	47.8	54,947	42.2
– Colour chips	–	–	–	–	3,459	2.1	1,850	1.5	9,179	7.1
Colourants sub-total	69,540	46.0	72,382	45.9	86,012	51.4	60,079	49.3	64,126	49.3
Finishes	65,396	43.3	63,954	40.6	55,906	33.4	42,739	35.1	45,170	34.7
Additives	2,777	1.8	3,069	1.9	2,908	1.8	2,159	1.8	1,993	1.5
Coating agents sub-total	137,713	91.1	139,405	88.4	144,826	86.6	104,977	86.2	111,289	85.5
Synthetic resins	13,447	8.9	18,236	11.6	22,481	13.4	16,764	13.8	18,825	14.5
Total	151,160	100	157,641	100	167,307	100	121,741	100	130,114	100

BUSINESS

Our production facility is currently located at Jiande County, Hangzhou City, Zhejiang Province, the PRC, with a gross floor area of approximately 22,490 sq. m.. As at the Latest Practicable Date, our Jiande Production Plant had 29, three and four production lines under operation for the production of our colour paste, colour chips and synthetic resins, respectively. In addition, we had nine production lines which can be used interchangeably to manufacture finishes and additives. For the year ended 31 December 2016, 2017 and 2018, and for the nine months ended 30 September 2019, the utilisation rates of our production lines for colour paste were approximately 84.6%, 90.6%, 96.3% and 86.5%, respectively; those for finishes and additives were approximately 43.2%, 40.7%, 34.9% and 37.7%, respectively; and those for synthetic resins were approximately 27.8%, 32.7%, 37.5% and 39.0%, respectively. The utilisation rates of our production lines for colour chips, the commercial production of which commenced in March 2018, were approximately 25% and 100.0% during the year ended 31 December 2018 and the nine months ended 30 September 2019, respectively. For details of our Jiande Production Plant and its production capacity, please refer to the paragraph headed “Production facility” in this section.

We are committed to environmental protection and safety in our production. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had obtained all material certificates, licences, permits and approvals in relation to environmental protection and safety production. In addition, we have obtained ISO9001:2008 quality system certification for the design, development and production of colourants and treatment agents for application on synthetic leather and successfully renewed such certificate (which has been revised to ISO9001:2015). For further details, please refer to the paragraph headed “Quality control and assurance” in this section.

We are committed to continue to enhance and improve our research and development capabilities. Our research institute, currently named as Zhejiang Sunlight Synthetic Leather Special Materials Research Institute* (浙江省深藍合成革用特種材料研究院), is situated at our leased premises at 16/F, Block E1, Zijin Zhongchuang Small Town, No. 3, Xiyuan 8th Road, Sandun, Xihu District, Hangzhou City, Zhejiang Province, the PRC. It was recognised by the Department of Science and Technology of Zhejiang Province* (浙江省科學技術廳), Development and Reform Commission of Zhejiang Province* (浙江省發展和改革委員會), and Zhejiang Provincial Economic and Information Commission* (浙江省經濟和信息化委員會) as an Enterprise Research Institute at Provincial Level* (省級企業研究院) in 2017. In addition, we have been collaborating with academic institutions to enhance the functionality, features and varieties of our existing products and develop new technologies to be used in our products. As at the Latest Practicable Date, we owned 36 patents and have made five patent applications in China. Over the years, we have also been awarded with a number of honours and recognitions for our products, such as “National Torch Plan Industrialisation Demonstration Project*” (國家火炬計劃產業化示範項目), “Zhejiang Excellent Industrial New Product*” (浙江省優秀工業新產品) and “Provincial Key High-tech Product*” (省重點高新技術產品). For further details, please refer to the paragraphs headed “Awards and recognition” in this section and the section headed “Statutory and General Information – B. Further information about the business of our Group - 2. Intellectual property rights of our Group” in Appendix VI to this prospectus.

OUR COMPETITIVE STRENGTHS

We believe that our success can be attributed to the following competitive strengths:

We are an established and active market player in the faux leather chemicals manufacturing industry in the PRC

The history of our Group can be traced back to 2003 and we have been operating in the faux leather chemicals manufacturing industry since then. According to the CIC Report, the faux leather chemicals manufacturing industry in the PRC is fragmented, with the top ten players accounting for a market share of approximately 39.3% in terms of revenue in 2018. The faux leather coating agents market in the PRC represented approximately 33.8% of the faux leather chemicals manufacturing industry in the PRC in terms of revenue in 2018, with the top ten players accounting for a market share of approximately 21.2% in terms of revenue in 2018. We ranked the fourth in the faux leather coating agents market in the PRC in terms of revenue in 2018, with a market share of approximately 1.9%.

According to the CIC Report, the barrier to enter into the faux leather chemicals manufacturing industry is increasingly high. In particular, the construction of qualified production facilities requires substantial capital investments and qualified personnel to comply with increasingly stringent regulatory requirements. The production of high-quality and diversified faux leather chemicals requires prominent technical expertise of production technology and know-how to handle the complex chemistry involved in the production, which in turn requires significant investment in research and development and testing capabilities to develop and offer sufficiently wide range of products according to customers' needs of downstream faux leather manufacturing industry. In addition, new market entrants face obstacles in obtaining customer acceptance without proven track record and established scale to respond to the evolving and increasingly stringent regulatory requirements and to obtain the necessary licences and approvals. According to CIC, our Group plays an active role in the faux leather chemicals manufacturing industry since the establishment in 2003. While new market entrants face relatively high entry barriers, we are advantaged for our prominent technical expertise and proven track record. In addition, our participation in the national association and in the drafting of certain industry standards, signifies the market recognition of our technology capability and enables us to gain confidence from our customers.

As one of the leading market players in the faux leather coating agents market, we were appointed as a Member of Artificial Leather and Synthetic Leather Standardisation Working Group* (人造革合成革標準化工作組委員單位) by National Technical Committee for Standardisation of Plastic Products* (全國塑料製品標準化技術委員會), and we have participated in the drafting of certain industry standards regarding, among others, “polyurethane finishes for synthetic leather*” (合成革用聚氨酯表面處理劑), “artificial leather and synthetic leather colour representation method*” (人造革合成革顏色表示方法), “test method of artificial leather and synthetic leather format determination of surface smoothness grade*” (人造革合成革試驗方法表面爽滑性的測定), “test method of artificial leather and synthetic leather format adhesive resistance*” (人造革合成革試驗方法抗粘效果的測定), “water-based polyurethane finishes for artificial leather and synthetic leather*” (人造革合成革用水性聚氨酯表面處理劑) and “interior wall decorative water-based polyurethane leather*” (內牆裝飾用水性聚氨酯壁革).

BUSINESS

We believe our participation in the national association and industry standard setting signify the market recognition of our technology capability, and also enable us to establish ourselves as a dedicated faux leather chemicals manufacturer with good reputation and prominent market presence, which in turn enables our Group to gain confidence from our customers.

We possess strong research and development capabilities which allow us to offer a wide spectrum of portfolio of products

We emphasise the continuous development of differentiated faux leather chemicals, including faux leather coating agents and synthetic resins, and improvement in our production processes in order to cater for the increasingly diversified and customised requirements in the functionalities and features of downstream faux leather products. Through communication with our customers, in particular, faux leather manufacturers, we believe we can gain a better understanding of our customers' needs and, along with our strong research and development capabilities, we are able to develop and improve products that cater to market trends, with specific functionalities and features, such as hydrolysis resistant, anti-abrasion, and different colour specifications, to better serve their downstream customers. Supported by our experienced research and development team, which comprised 41 members as at the Latest Practicable Date, we have developed and offered over 1,100 specification of products of coating agents and synthetic resins, with various colours, functionalities and features and owned 36 patents, including 16 invention patents, six utility model patents and 14 design patents, and five are under the patent application process in the PRC as at the Latest Practicable Date. For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our research and development expenses amounted to approximately RMB7.8 million, RMB7.0 million, RMB7.2 million and RMB6.1 million, representing approximately 5.2%, 4.4%, 4.3% and 4.7% of our total revenue for the same periods.

We are also collaborating with Zhejiang University and Sichuan University in the research and development of faux leather chemicals. Zhejiang University and Sichuan University are predominant universities in the field of chemical engineering in the PRC. The subject of leather chemistry and engineering* (皮革化學與工程) of Sichuan University is in the list of National Key Disciplines* (國家重點學科) published by the Ministry of Education of the People's Republic of China. For further details, please refer to the paragraph headed "Research and development" in this section. We believe our ability to continue to develop and offer a wide spectrum of faux leather chemicals in the market would enable us to maintain our market position and strengthen our brand loyalty and image among our customers.

CIC is of the view that given the faux leather chemicals manufacturing industry is fragmented and no single player could dominate the industry, any market participants which possess strong research and development capabilities to offer comprehensive product portfolio which can meet the increasingly diversified needs and requirements from downstream faux leather manufacturers would have competitive advantages and be well positioned to capture opportunities arising from the expected growth in the faux leather chemicals manufacturing industry in the PRC.

BUSINESS

According to CIC, our Group possesses strong research and development capabilities for the continuous development of faux leather chemicals and improvement of production processes. These capabilities allow us to widen our product portfolio that cater for the increasingly diversified and customised requirements in the downstream faux leather products regarding functionalities and features. Our capabilities also enable us to capture business opportunities arising from favourable government policies that encourage water-based and solvent-free products.

According to the CIC Report, the sales volume of faux leather chemicals manufacturing industry is expected to rebound and record a positive CAGR from 2019 onwards due to, among others, (i) small faux leather manufacturers are expected to be phased out; (ii) increasing demand from downstream applications; (iii) favourable government policy which encourages water-based faux leather chemicals; and (iv) increasing substitution of genuine leather by faux leather.

BUSINESS

Driven by a series of environmental policies implemented by the PRC government, the demand for water-based faux leather chemical products in the process of faux leather manufacturing is expected to increase. Our Group has endeavoured to develop water-based faux leather chemical products, in particular, water-based faux leather coating agents, through launching a number of research projects on the development and application of water-based faux leather chemical products, such as (i) collaboration with Zhejiang University in 2016 for the research and development of self-delustering water-based polyurethane resins for synthetic leather* (合成革用水性自消光聚氨酯樹脂), which has been awarded Provincial Level Industrial New Product* (省級工業新產品) in 2017; and (ii) collaboration with Sichuan University for the development of water-based PU for application on artificial and synthetic leather and microfibre leather and the application for government grant in respect of this research project under the Provincial Key Research and Development Scheme for Year 2020* (2020年度省重點研發計劃) is in process. Other water-based faux leather chemical products or production methodologies developed by us include: (i) water-based hot-stamp gradient colour resins for synthetic leather* (合成革專用水性烙印變色樹脂) (which was awarded Provincial Level Industrial New Product* (省級工業新產品) in 2015); (ii) the method for preparing environmentally-friendly water-based black paste for wet-processed synthetic leather by grinding with three-roller mill* (三輥機研磨法製備濕法合成革環保型水性黑色漿的方法) (which has been patented in the PRC since 2013); (iii) the colour paste, water-based ink for synthetic leather surface and preparation method thereof* (用於合成革人造革表面的載體色漿、水性油墨及其製備方法) (which we had lodged patent application); and (iv) delustred water-based polyurethane resins and preparation method thereof* (水性自消光樹脂的製備方法) (which we had lodged patent application). For details of our awards and patents, please refer to the sections headed “Business – Awards and recognition” and “Statutory and General Information – B. Further information about the business of our Group – 2. Intellectual property rights of our Group” in Appendix VI to this prospectus. For the years ended 31 December 2016, 2017 and 2018, our revenue derived from the sales of water-based faux leather chemical products amounted to approximately RMB19.0 million, RMB16.3 million and RMB17.2 million, representing approximately 12.5%, 10.4% and 10.3% to our total revenue, respectively. For the nine months ended 30 September 2019, our sales of water-based faux leather chemical products recorded a substantial growth, which accounted for approximately RMB23.7 million, representing approximately 18.3% to our total revenue. The increasing trend of our Group’s revenue derived from the sales of water-based faux leather chemical products since 2017 symbolised our efforts and focus on water-based faux leather chemical products as well as market acceptance of our products from the customers. Our Directors believe that the environmental policies which encourage the use of water-based faux leather chemical products in the process of faux leather manufacturing would help our Group differentiate from other manufacturers which have less technological know-how and experience in the manufacturing and sales of water-based faux leather chemical products.

BUSINESS

In the past several years, we have received various awards and recognitions for our research and development achievements. In 2017, our Zhejiang Sunlight Synthetic Leather Special Materials Research Institute* (浙江省深藍合成革用特種材料研究院) was recognised by the Zhejiang government as an Enterprise Research Institute at Provincial Level* (省級企業研究院) in relation to our research and development of faux leather chemicals. We have been recognised as a High and New Technology Enterprise* (高新技術企業) by the Zhejiang government since 2011 and were selected as one of the Key Industrial Enterprises* (重點工業企業) by the Jiande County People's Government (建德市人民政府) in 2017. We were also selected as a Synthetic Leather Industry Early Champion Pilot mill (合成革行業先鋒試點企業) by the China Plastics Processing Industry Association Artificial Leather and Synthetic Leather Professional Committee* (中國塑料加工工業協會人造革合成革專業委員會) in 2017. In addition, as at the Latest Practicable Date, we have 11 Provincial Level Industrial New Products certified by the Zhejiang government, three of which have been recognised to have reached international advanced level* (國際先進水平) in terms of technology standard. For further details, please refer to the paragraph headed "Awards and recognition" in this section.

We have established long-term business relationship with our major customers and suppliers

We value the relationship with our customers as we believe that it is crucial to the success of our business. We believe our recognised products and ability to offer a wide range of products have enhanced our brand awareness and helped us build a long-term relationship with our major customers. We also work closely with our customers to understand their needs for faux leather chemicals, which further helps strengthen our relationship with our customers. We believe our capability to respond to our customers' needs has also contributed to the above-mentioned solid customer base. We consider that our solid customer base will provide us with support for further business expansion and our close relationship with manufacturer customers gives us a competitive advantage to capture future growth opportunities in the downstream faux leather manufacturing industries. For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, five, four, four and four of our five largest customers had maintained business relationship with us for eight years or more.

According to CIC, our close relationship with our customers and our ability to understand their needs have enhanced our brand awareness and helped us build and further strengthen long-term cooperation with our major customers. Leveraging on our existing customers base, we are able to promote our new products.

According to CIC, we have also maintained a stable relationship with our suppliers which enables us to gain access to steady and cost-competitive supply of raw materials in the development of our new products and broaden our product portfolio.

We have an experienced management team with prominent industry expertise

Our management team has extensive industry knowledge in faux leather chemicals manufacturing industry. In particular, Mr. Chen Hua, our executive Director, has more than 19 years of experience in chemical engineering industry. Mr. Li Xiangyu and Ms. Zhu Jianqin, our executive Directors and chief engineers, have more than 27 years and 18 years of experience in research and development in the chemical engineering industry, respectively. Moreover, most of the members of our senior management team have served our Group for more than 13 years. For further details of the credentials of our Directors and senior management, please refer to the section headed “Directors and Senior Management” in this prospectus.

According to CIC, our management team has extensive and in-depth experience, knowledge and insight in the faux leather chemicals manufacturing industry, which enable them to lead our Group to excel in this competitive industry, to take advantage of our market position and to contribute to our future growth. We believe that our strong research and development capabilities, coupled with an experienced senior management team possessing in-depth knowledge of the faux leather chemicals manufacturing industry, have been and will continue to be valuable assets for the growth of our Group.

OUR BUSINESS STRATEGIES

Our business objectives are to maintain sustainable growth in our business and strengthen our market position in the faux leather chemicals manufacturing industry. We intend to achieve these by implementing the following strategies:

Further expand our production capacity for our colourant products

We seek to strengthen our market position in the faux leather chemicals manufacturing industry in the PRC by capturing the future growth of the market demand for quality faux leather chemical products from the downstream faux leather manufacturing industry by expanding our production capacity for existing products, in particular, colour paste, and by continuing to develop new products to cater for the increasingly diversified and customised specifications in the functionalities and features of downstream faux leather products. We will also strive to continuously assess and respond to the changes in market conditions in terms of product pricing and customers' demand, in particular, the demand from our faux leather manufacturer customers, by optimising our product mix.

According to the CIC Report, there will be market drivers for faux leather products including increasing demand for faux leather products from downstream industries such as the apparel, footwear, automobile interior decoration, home furnishings and sports equipment industries, favorable government regulations and policies and the shortage of genuine leather products and various other factors which lead to the growth in the substitution demand faux leather. As a result, it is expected that there will be growing demand for faux leather products, which in turn increases the demand for faux leather chemicals. We believe that, given our active participation in the faux leather chemicals manufacturing industry and our leading position in faux leather coating agents market, we are well positioned to capture such demand growth. As such, we aim to expand our footprints to these markets by (i) attending exhibitions and trade fairs to showcase our products to potential customers in these markets; (ii) conducting market research to better understand the latest trend and development in these markets; (iii) participating in the drafting of certain industry standards regarding faux leather chemicals applicable to the production of faux leather used in these markets; (iv) undertaking research projects in relation to the development of faux leather chemicals applicable to the production of faux leather used in these markets; and (v) working closely with our existing customers in these markets to better understand their needs.

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Our plans to expand our production capacity for our colourant products aim to cater for the above mentioned growing market demand in the long term. To capture the growing demand from downstream industries, we plan to increase our annual designed capacity of colour paste from approximately 5,400 tonnes at our existing Jiande Production Plant as at 31 December 2018 to an aggregate of approximately 15,400 tonnes by July 2022 by adding 12 production lines in the New Production Plant. For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our revenue from the sales of colour paste accounted for approximately 46.0%, 45.9%, 49.3% and 42.2% of our total revenue. The utilisation rates of our production of colour paste ranged from 84.6% to 96.3% for the Track Record Period, which were relatively high. Accordingly, our Directors consider such nearly saturated utilisation of our production lines of colour paste would result in inflexibility in scheduling our production schedule and lack of capacity to meet additional purchase orders from existing or potential customers, and hence it would limit the business development of our Group. Moreover, according to the CIC Report, it is estimated that there will be growing demand for faux leather products, which in turn increases the demand for faux leather chemicals from 2019 onwards, with the sale volume of resins reaching approximately 2.2 million tonnes and coating agents reaching approximately 0.5 million tonnes by 2023. Given that we are currently facing pressure from relatively high utilisation rates of our production facilities for colour paste, our Directors recognise the imminent need to expand our production capacity of colour paste to capture the expected growing demand for our colour paste products, along with the expected growth of the faux leather chemicals manufacturing industries from 2019 onwards. We plan to construct a new production site of approximately 30,000 sq. m. near our existing Jiande Production Plant, which is expected to commence productions progressively starting from

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September 2021. The New Production Plant is designed to have 12 production lines with a total annual designed capacity of approximately 10,000 tonnes. Upon its completion, the New Production Plant is expected to (i) increase our annual designed capacity of colour paste for PU leather by approximately 3,000 tonnes to approximately 7,900 tonnes; and (ii) increase our annual designed capacity of colour paste for microfibre leather by approximately 7,000 tonnes to approximately 7,500 tonnes by July 2022. We anticipate that our aggregate annual designed production capacity of colour paste will increase from approximately 5,400 tonnes as at 31 December 2018 to approximately 15,400 tonnes by July 2022 after the establishment of our New Production Plant is completed. We also plan to further increase our annual designed capacity of colour chips in our current Jiande Production Plant from approximately 800 tonnes as at 31 December 2018 to approximately 1,700 tonnes by the end of 2020 by adding one new production line, and further to approximately 3,600 tonnes by the end of 2021 by adding two new production lines.

Our Directors expect additional purchase orders for both our existing colourant products and our new product offering, comprising colour chips and colour paste for the production of microfibre leather, production of which may be enhanced by utilising our new production lines, will be placed by our existing and new customers as a result of the expected growth of faux leather manufacturing industry and increasing demand for quality faux leather chemicals in the process of faux leather manufacturing. The following table sets out a breakdown of the orders by secured and non-legally binding indicative orders received for the period commencing on 1 January 2019 from some of our customers by product as at the Latest Practicable Date:

	Secured and indicative orders received			Revenue recognised for the nine months ended 30 September 2019
	Secured orders	Non-legally binding indicative orders	Total	
	<i>tonne</i>	<i>tonne</i>	<i>tonne</i>	<i>RMB'000</i>
	<i>(approximate)</i>	<i>(approximate)</i>	<i>(approximate)</i>	
Colour paste				
– for PU leather	4,150	1,300	5,450	46,676
– for microfibre leather	550	400	950	8,271
Colour chips	940	660	1,600	9,179

Prospective investors shall note that the above table is set out for illustrative purpose only. While we believe that indicative orders can demonstrate some degree of customers' confidence in our products, we cannot assure prospective investors that such indicative orders must realise into secured orders, since market conditions can be subject to fluctuations and we may need to renegotiate prices and other terms with our customers later having reference to prevailing market conditions. Such indicative orders are by nature non-legally binding and are indicative of parties' intention to trade only, and may not realise into binding contracts eventually. Whether our customers will place orders according to the terms on the indicative orders is also subject to factors beyond our control, including the market demand for their own products.

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During the nine months ended 30 September 2019, we have sold approximately 2,749 tonnes of colour paste for PU leather, 312 tonnes of colour paste for microfibre leather and 506 tonnes of colour chips, respectively. Assuming that those customers would place the remaining amount of orders after 30 September 2019, our Group shall have further sales of approximately 2,701 tonnes of colour paste for PU leather, 638 tonnes of colour paste for microfibre leather and 1,094 tonnes of colour chips, respectively.

Further to the above, according to the CIC Report, it is estimated that there will be growing demand for faux leather products, which in turn increases the demand for faux leather chemicals from 2019 onwards, with the sale volume of resins reaching approximately 2.2 million tonnes and coating agents reaching approximately 0.5 million tonnes by 2023. Based on our business growth during the Track Record Period and leveraging on our competitive strengths as discussed in the section headed “Our Competitive Strengths” above, our Directors are of the view that the expansion of production capacity will also benefit our business and allow us to capture the growing business opportunities in the near future.

We believe that this increased production capacity will provide us with (i) more flexibility to schedule our production plan to meet additional purchase orders; (ii) enhanced capability to expand our product offering to cope with different needs and requirements of our customers; (iii) additional cost saving advantages from economies of scale; and (iv) increased competitiveness to further expand our market share. For further details of our expansion plan of production capacity, please refer to the paragraph headed “New production facility” in this section.

A substantial amount of investment in our expansion plans for our production facilities is to be spent on acquisition of land, constructing production facility, and acquiring new machinery and equipment for production of our colour paste products, which is in line with our long-term goal of demonstrating continuous dedication to producing high-quality products to our customers. In addition, our management team will closely monitor the progress of the expansion plans for our production facilities, and their implementation may be adjusted in accordance with the market demand and conditions. Our planned expenditures in 2020, 2021 and 2022 for our expansion plans and automation system enhancement for our production facilities are approximately RMB29.3 million, RMB31.2 million and RMB13.6 million, respectively, out of which RMB59.7 million is expected to be financed by the net proceeds from the Global Offering, while the remaining estimated expenditures will be funded with cash from operating activities and bank borrowings. For further details of the use of proceeds from the Global Offering, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

We believe that our expansion plans for our production facilities will bring us the following benefits:

- (a) our operational risks can be lowered by having two independent production plants producing one of our key products, i.e., colour paste;

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- (b) our expanded capacity will allow us to meet the increasing demand from our customers and help us capture the long-term demand growth in the faux leather coating agents market;
- (c) our New Production Plant is expected to be built with higher industry standard with more advanced production machinery and equipment, while the upgrade of the Jiande Production Plant with further automation is expected to bring about cost saving through improving production efficiency; and
- (d) assuming full utilisation of production capacity, and that there will not be any impact on the business and operating results due to our plan for automation or any fluctuation in market demand, inflations, increase in raw material costs and labour costs throughout the operation period, the increase in our scale of production will also further allow us to benefit from economies of scale by reducing the average cost of production allocated to each unit of our products, since (i) it allows us to negotiate better prices for our raw materials with bulk purchase; (ii) the expected direct labour costs allocated to each unit of our products will be reduced by approximately 20% per tonne; and (iii) the expected research and development costs allocated to each unit of our products will be reduced by approximately 10% per tonne.

Continue to strengthen our research and development capabilities and further expand our product portfolio and geographical coverage

We plan to continue to strengthen our research and development capabilities in developing differentiated and more profitable faux leather chemical products. In addition to continue to improve and modify our existing products, we aim to focus our research and development activities on the following areas:

– ***Water-based faux leather chemical products***

We plan to further expand into the market of water-based faux leather chemical products, in particular, water-based faux leather coating agents. For the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018, our revenue derived from the sales of water-based faux leather chemical products amounted to approximately RMB19.0 million, RMB16.3 million, RMB17.2 million and RMB10.0 million, representing approximately 12.5%, 10.4%, 10.3% and 8.2% to our total revenue, respectively. For the nine months ended 30 September 2019, our sales of water-based faux leather chemical products recorded a substantial growth, which accounted for approximately RMB23.7 million, representing approximately 18.3% to our total revenue. According to the CIC Report, as the PRC environmental regulations is becoming more stringent, it is expected that water-based faux leather chemicals will see wider applications in the future. We believe our leading position in the faux leather coating agents market provides us with competitive advantage to promote our water-based faux leather chemical products.

We believe that we are able to capture the market share for water-based products despite existence of industry players which also produce water-based products because:

- (i) according to CIC, water-based products are encouraged by governmental policy and water-based faux leather chemical products have been gaining wider applications and importance in the faux leather manufacturing industry. The demand for water-based faux leather chemical products in general has been increasing;
- (ii) we had a track record of research and development and manufacturing of water-based faux leather chemical products, and our ability to accumulate further technical knowhow and experiences in research and development and manufacturing over time enabled us to continue to produce quality water-based faux leather chemical products. During the Track Record Period, we had been engaged in continuous sales of water-based faux leather chemical products. Leveraging on our strong research and development capabilities, we are able to develop and offer a wide spectrum of water-based faux leather chemical products including coating agents and resins, with various colours, functionalities and features which could cater for the rising demand for water-based products in the market;

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- (iii) we planned to expand our production capacity for, among other things, water-based faux leather chemical products by constructing new production lines using the Listing proceeds. With the expanded production capacity, we expect that we can further capture the increase in demand for water-based faux leather chemical products in the future;
- (iv) we have established stable business relationship with our major customers, which facilitate us to promote our water-based faux leather chemical products. During the year ended 31 December 2016, 2017 and 2018 and the period ended 30 September 2019, there were five, four, four and four out of our five largest customers which had maintained not less than eight years of business relationship with us; and
- (v) according to the CIC Report, faux leather chemicals manufacturing industry is relatively fragmented with the top 10 players accounting for a market share of approximately 39.3% in terms of revenue in 2018, and we only had a market share of approximately 0.75% in terms of revenue in 2018. As such, we believe that there is considerable room for major players such as us to further expand market share in the future.

– *Colour chips of different colours*

Since March 2018, we have commenced commercial production of colour chips mainly offering colour chips of black and white. We recorded revenue from sales of colour chips of approximately RMB3.5 million for the year ended 31 December 2018 and approximately RMB9.2 million for the nine months ended 30 September 2019. We intend to develop colour chips of more other different colours because the gross profit margins of colourant products are generally higher in colours other than black and white. We believe our expansion into more diversified product range of colour chips will enable us to leverage on our existing customer base to cross sell our colour chip products because it is common that downstream faux leather manufacturers would consume both colour paste and colour chips in production. For the year ended 31 December 2018 and nine months ended 30 September 2019, 19 and 24 of our customers purchased both colour chips and colour paste from us, contributing approximately RMB3.2 million and RMB8.8 million to our revenue of colour chips for the corresponding periods. For the nine months ended 30 September 2019, our Group's revenue derived from the sales of colour chips was approximately RMB9.2 million, out of which approximately RMB5.7 million, representing approximately 62.0% of the revenue of colour chips, was contributed by repeated customers which also purchased colour chips from us in 2018.

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The expansion of our production capacity for colour chips will take place by stages by adding one new production line with an annual designed capacity of 900 tonnes by the end of 2020 and subsequently adding two new production lines with an aggregate of annual designed capacity of 1,900 tonnes by the end of 2021. The production capacity contributed by a new production line for a year will be in proportion to the number of working days on which such new production line has commenced commercial production during the year and will reflect its maximum annual designed capacity upon full operation in the following year. The resulting total effective designed capacity of colour chips for the years ending 31 December 2020, 2021 and 2022 are expected to be approximately 1,100 tonnes, 1,900 tonnes and 3,600 tonnes, respectively (assuming the commercial production of one and two production lines of colour chips to be commenced in October 2020 and December 2021 respectively).

According to CIC, as colour chips have certain advantages such as (i) more convenient to use as colour chips are in solid form; (ii) less volume of colour chips is required to achieve the same colour effect than that of colour paste; (iii) easier to transport and store; and (iv) less safety issues as colour chips do not contain liquid organic solvents that tend to be hazardous and inflammable, colour chips are also commonly consumed by downstream faux leather manufacturers. We believe that our plan to gradually increase the production capacity for colour chips can support us to develop and capture market demand and strengthen market acceptance for our colour chips products. Having considered (i) the historical growth in the sales of our colour chips products, that our sales of colour chips increased from approximately RMB3.5 million for the year ended 31 December 2018 to approximately RMB9.2 million for the nine months ended 30 September 2019; (ii) our ability to leverage on our existing customer base to cross sell our colour chips products; (iii) potential business opportunities in the sales of colour chips to other manufacturers faux leather colourants as certain colour paste can be produced by dissolving colour chips in solvents; and (iv) the anticipated increasing demand driven by the downstream faux leather manufacturing industry in the PRC after 2019 as forecasted by CIC, our Directors believe that there will be a sufficient demand for our colour chip products and the expansion of production capacity for colour chips over the two years ending 31 December 2021 is essential to our business strategies to capture the increasing demand for colour chips.

– *Colour paste products for the production of microfibre leather*

Microfibre leather is a type of synthetic leather with microfibre non-woven fabric covered by layers of high-performance faux leather chemicals. Microfibre leather provides the most realistic imitation of genuine leather in terms of hand feeling and is widely applied on high-end consumer products such as apparel, handbags and automobile interior decoration. According to the CIC Report, although the current consumption of microfibre leather only accounted for approximately 5% of the total consumption of the faux leather in the PRC, the growth of consumption of microfibre leather is expected to outpace that of other types of ordinary synthetic leather. In view of the above market development trend, we believe our planned expansion into more colour paste products applicable in the production of microfibre leather will enable us to capture more business opportunities resulting from growing demand for microfibre leather. We commenced commercial production of faux leather coating agents applicable in the production of microfibre leather in December 2018, and the corresponding revenue for the year ended 31 December 2018 and the nine months ended 30 September 2018 and 2019 were approximately RMB0.2 million, nil and approximately RMB8.3 million, respectively. Our Directors are of the view that our colour paste products applicable in the production of microfibre leather will have a great potential in the forthcoming years. In order to capture the expected increase in demand for faux leather chemical products for the production of microfibre leather driven by the increase in downstream applications of microfibre leather, we plan to dedicate eight out of the 12 additional production lines in the New Production Plant, the establishment of which will be funded with cash from the net proceeds from Global Offering, our operating activities and bank borrowings, to the production of colour paste for microfibre leather, which will substantially increase our production capacity for colour paste for microfibre leather from approximately 500 tonnes to 7,500 tonnes by July 2022. We aim at further upgrading the production process and expanding the product portfolio with our planned establishment of the New Production Plant.

Leveraging on our solid customer base and accumulated technical know-how in the production of faux leather chemicals, we believe we can successfully commercialise our new products and broaden our product portfolio. Moreover, as the major raw materials for the production of our new products are substantially the same as those for the production of our existing products, we believe our efforts in the selection of and maintaining stable relationship with our existing suppliers would enable us to gain better access to steady and cost-competitive supply of raw materials in the development of our new products and broaden our product portfolio.

To better satisfy the diversified requirements of our faux leather manufacturer customers and to capture the rising demands driven by the wide applications of faux leather by various downstream industries, we intend to further invest in our research and development capabilities by (i) relocating our existing research institute to our existing Jiande Production Plant to enhance efficiency of our product development; (ii) hiring more experienced experts and engineers; and (iii) acquiring more advanced research and development equipment and testing equipment. We consider that the relocation of our research institute to the Jiande Production Plant can (i) facilitate collaboration between our research team and other functions, including sales and marketing, procurement and production, as a result of the proximity to one another, thus enhancing our efficiency of product development; (ii) reduce the operational costs of our research institute since the transportation costs for delivering the materials for research purpose to and from the Jiande Production Plant (where our materials are stored) and the research institute are effectively eliminated; and (iii) reduce the time of transportation of materials for research purpose.

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As part of our plan to strengthen research and development capabilities, we plan to hire nine engineers and ten technicians, with corresponding annual salary range from approximately RMB170,000 to RMB240,000 and approximately RMB90,000, respectively.

Set out below is the number of each type of equipment to be purchased for our new research institute and their respective estimated useful lives:

Type of equipment	Number of units	Approximate estimated useful lives (years)
Analytical testing equipment	23	3 – 10
Application equipment <i>(Note 1)</i>	20	3 – 10
Product development equipment <i>(Note 2)</i>	49	3 – 10
General equipment <i>(Note 3)</i>	271	3 – 10

Note:

1. Application equipment includes laboratory colour mixing sampling machines, wet process sampling machines, etc.
2. Product development equipment includes colour testing system, colourimeter, etc.
3. General equipment includes a laboratory platform, fume hood, laboratory ventilation system, etc.

For the approximate useful lives and remaining useful lives of our major equipment used in our existing research institute, please refer to the paragraph headed “Research and development” in this section.

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Our planned expenditures in this connection amount to approximately RMB21.4 million, which will be funded with our proceeds from the Global Offering as to approximately RMB17.0 million while the short fall of our planned expenditures amounting to approximately RMB4.4 million will be funded by our internal resources and/or bank borrowings, without designation as to the source of funding for each planned expenditure item. The construction of the new research institute in our Jiande Production Plant is expected to take place in July 2020 and to be completed by September 2022. For further details, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus. In addition, we plan to continue to cooperate with Zhejiang University and Sichuan University in developing new types of faux leather chemicals, which we believe will continue to enhance our research and development capabilities.

In addition to our domestic market, we will further explore and develop the international market. We plan to expand our overseas sales network, particularly, to the Southeast Asian market. Leveraging on our diversified product portfolio with strong research and development capabilities, we believe that we are able to offer a wide spectrum of products which can cater for different needs and requirements of domestic and international customers. We intend to attend more exhibitions and trade fairs which provide good venues for us to showcase our technologies and products to potential customers. For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our sales to overseas customers amounted to approximately RMB1.4 million, RMB1.3 million, RMB3.7 million and RMB3.0 million, representing approximately 0.9%, 0.8%, 2.2% and 2.3% of our total revenue, respectively.

According to the CIC Report, the faux leather chemical manufacturing industry in the PRC is not dependent on the procurement of raw materials originated from the US. For details, please see “Industry Overview-Potential impacts of US-China trade war on faux leather chemicals manufacturing industry in China” in this prospectus. Moreover, our Directors believe that the impact of the US-China trade war on our Group’s business and financial performance is not material on the following grounds:

- (i) during the Track Record Period, (i) we did not purchase any raw materials directly from the US; and (ii) raw materials purchased by us which were originated from the US were all purchased indirectly through our suppliers in the PRC. For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, the purchase amounts of these raw materials were insignificant and only amounted to approximately RMB0.1 million, RMB0.2 million, RMB0.3 million and RMB0.2 million, respectively. None of these suppliers were our five largest suppliers during the Track Record Period and the relevant US-originated raw materials were primarily polymers and auxiliary materials which are also produced in the PRC and readily available from suppliers in the PRC. Our Directors believe that, should additional tariffs be imposed by the PRC government such that the prices of these raw materials become less competitive, we are still able to obtain replacement supplies in the domestic market at reasonable costs;
- (ii) during the Track Record Period, we did not directly sell our products to any customer in the US and to the best knowledge of our Directors, our trading entities and distributors did not resell our products to any customer in the US; and
- (iii) currently, we do not have any plan to expand our overseas sales network to the US market.

Enhance automation of our existing production facility and information management system

At present, our production predominantly relies on manual operation of our production processes such as feeding, packaging and carrying. This leads to operational risks such as manual errors going undetected, which compromises quality of our products. To alleviate the operational risks associated with our reliance on manual operation and to improve production efficiency, we intend to enhance automation of our present production facility by upgrading our existing machinery and equipment. We expect these new machinery and equipment to have more up-to-date designs and technologies. Together with our operating expertise, we expect to utilise these new machinery and equipment to improve our production efficiency and product quality, generate higher energy saving and lower our production costs. At the same time, for simple and repetitive work such as packaging and lifting, we plan to purchase automation equipment such as robotic arms to replace manpower, which will minimise unnecessary disruption of our production process and thus ensure consistency of product quality. We also intend to enhance our information management system by installation of specific software systems. Through these software systems, it is expected that we may conduct remote monitoring and operation of production machinery and equipment. In addition, we intend to build a video monitoring network within the Jiande Production Plant for on-site inspection in order to enhance operational efficiency. It is expected that the installation of specific software systems and video surveillance network allows us to promptly identify and deal with any issues which we may encounter during the production process.

We believe that by establishing a company-wide information management system, information can be shared among all operational departments in a timely manner such that operational efficiency can be improved. With the information of sales orders, production process and procurement being synchronised and connected, our management team can get informed of any abnormality or incidents in our operation in a timely manner, which will enhance our management efficiency.

Our Directors consider that, notwithstanding our Jiande Production Plant has operated for only four years, it is necessary for our Group to upgrade the existing machinery and equipment on the following grounds:

- (1) automatisisation generally improves production quality. Certain aspects of our existing production processes ranging from feeding to packaging still rely on manual operations. Further, without a central operation control room, dissemination of information and communication among various operational departments of our Group is not efficient. Reliance on manual operation will lead to higher operational risks, such as undetected manual errors, than other production plants with more advanced automation systems. We consider that implementation of automated production systems will help stabilise our overall production quality by reducing reliance on manual labour during the manufacturing process, thus lower the risk of operational errors;

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- (2) automatisisation generally improves production efficiency. Due to the nature of the business, our products generally have relatively short lead time for delivery. With the expected growth of our business and expected increase in our production attributable to the anticipated recovery of the faux leather chemicals manufacturing industry in the PRC, we consider that manual operation of the production processes has lower efficiency and that it is necessary to upgrade our Jiande Production Plant to increase the operational efficiency of the existing production facilities;
- (3) automatisisation generally improves the cost-effectiveness of our production. We have conducted an independent feasibility study which indicated that (i) with production processes being carried out by automated machines controlled by a centralised system, less amount of labour will be needed, thus reducing the labour costs directly incurred for the production; (ii) the lead time of each production can be shortened; and (iii) the installation and adoption of feeding machines for raw materials allows more efficient application of raw materials, reducing the risk of unnecessary or excessive consumption of raw materials, thus saving additional production costs that would otherwise be incurred;
- (4) as disclosed in the section headed “Business – Production facility – Our production machinery and equipment” in the Prospectus, the useful lives of our existing major production machinery and equipment generally ranged from five to ten years, with some of them approaching the end of their estimated useful lives as at 30 September 2019. Our Directors consider that our plan to commence automatisisation in 2020 and to complete by 2022 would be necessary before some of our existing production machinery and equipment reaching the end of their estimated useful lives which may result in reduced production efficiency; and
- (5) automatisisation also covers the aspect of environmental protection and industrial safety. To minimise the air and noise pollution that our Group might produce during our production, we plan to install real-time detectors of wasted gas, flammable gas, temperature, relative humidity, hazardous substance and noise. Fire alarm systems will also be installed in the existing two workstations and warehouse. These new machinery and equipment allow us to better monitor and control the environmental and safety risks associated with our production activities.

Based on the above, we believe that enhanced automation of our Jiande Production Plant will be necessary for our Group to further strengthen our competitiveness and achieve sustainable growth and development.

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As compared with the production system we currently use, the enhanced automation system will allow us to: (i) reduce the number of workers in production process; (ii) achieve higher production efficiency resulting from shorter production lead time; and (iii) reduce raw materials loss during production process. As a result, we expect the new automation system will reduce the per unit costs of our products as compared with our current production system. In particular, based on our current estimation, given the same production output and assuming there is no other change in any factor which may affect our production cost, the new automation system will reduce, among others, (i) our labour costs of approximately 15% per year; and (ii) the cost of raw materials of approximately 1-2% resulting from decrease of the wastage of raw materials during the production process.

We plan to apply approximately RMB12.8 million, representing approximately 16.4% of the net proceeds from the Global Offering, for strengthening the automation system, which comprises (i) the construction of fully automated production lines in our two existing workstations (comprising workstation 1 and workstation 2 referred to below) at our Jiande Production Plant where our 45 production lines are currently located, which includes the installation of intelligence robotic arms, product-lifting devices and other machinery; (ii) setting up of a central operation control room to facilitate collection of production data and monitoring of the product manufacturing process; and (iii) setting up of a system of production data analysis and tracking of the whole manufacturing process. The above plan of automatisisation has been commenced in February 2020 and is expected to be completed by December 2022.

We believe the enhancement of automation of our existing production facility will strengthen our ability to capture the expected increase in demand for quality faux leather chemical products from downstream industries by bringing us the following benefits:

- (i) the upgrade of our existing machinery and equipment will improve our production efficiency and generate higher energy saving, thus our costs of production can be lowered and we can achieve more competitive pricing; and
- (ii) according to CIC, as downstream industries such as apparel and footwear, automobile interior decoration and home furnishings witness a trend of favouring quality products and the demand for consumer products such as apparel and footwear, handbags and luggage which are made from quality faux leather is expected to expand, the implementation of automated production systems will help us stabilise our overall production quality by reducing reliance on manual labour during the manufacturing process. As such, we are able to produce products of better and more consistent quality to our customers in the downstream industries.

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Set out below is a breakdown of the total estimated expenditure in relation to strengthening the automation system summarising key items of expenditure for the years ending 31 December 2020, 2021 and 2022.

			Intended capital expenditure (a) <i>RMB' million</i>	Use of proceeds (b) <i>RMB' million</i>	From internal resources and/ or bank borrowings (a-b) <i>RMB' million</i>
	Number of units	Estimated useful lives (years)			
For the year ending 31 December 2020					
– Installation of new automation system			1.9	1.9	–
– Purchase of machinery and equipment for workstation 1 at our Jiande Production Plant, which include:			4.2	4.2	–
Intelligence robotic arms	1	5–10			
Automated packaging machine	1	5–10			
Pneumatic ball valve (氣動球閥) and nitrogen sealing valve (氮封閥)	36	5–10			
Flow meter (流量計)	8	5–10			
Stainless steel pressure gauge (不銹鋼壓力錶)	70	5–10			
For the year ending 31 December 2021					
– Refitting of facility ducting for our upgraded data monitoring system and purchase of machinery and equipment for workstation 2 and our warehouse at our Jiande Production Plant, which include:			8.5	6.7	1.8
Intelligence robotic arms	1	5–10			
Automated packaging machine	1	5–10			
Pneumatic ball valve (氣動球閥) and nitrogen sealing valve (氮封閥)	85	5–10			
Flow meter (流量計)	15	5–10			
Stainless steel pressure gauge (不銹鋼壓力錶)	100	5–10			

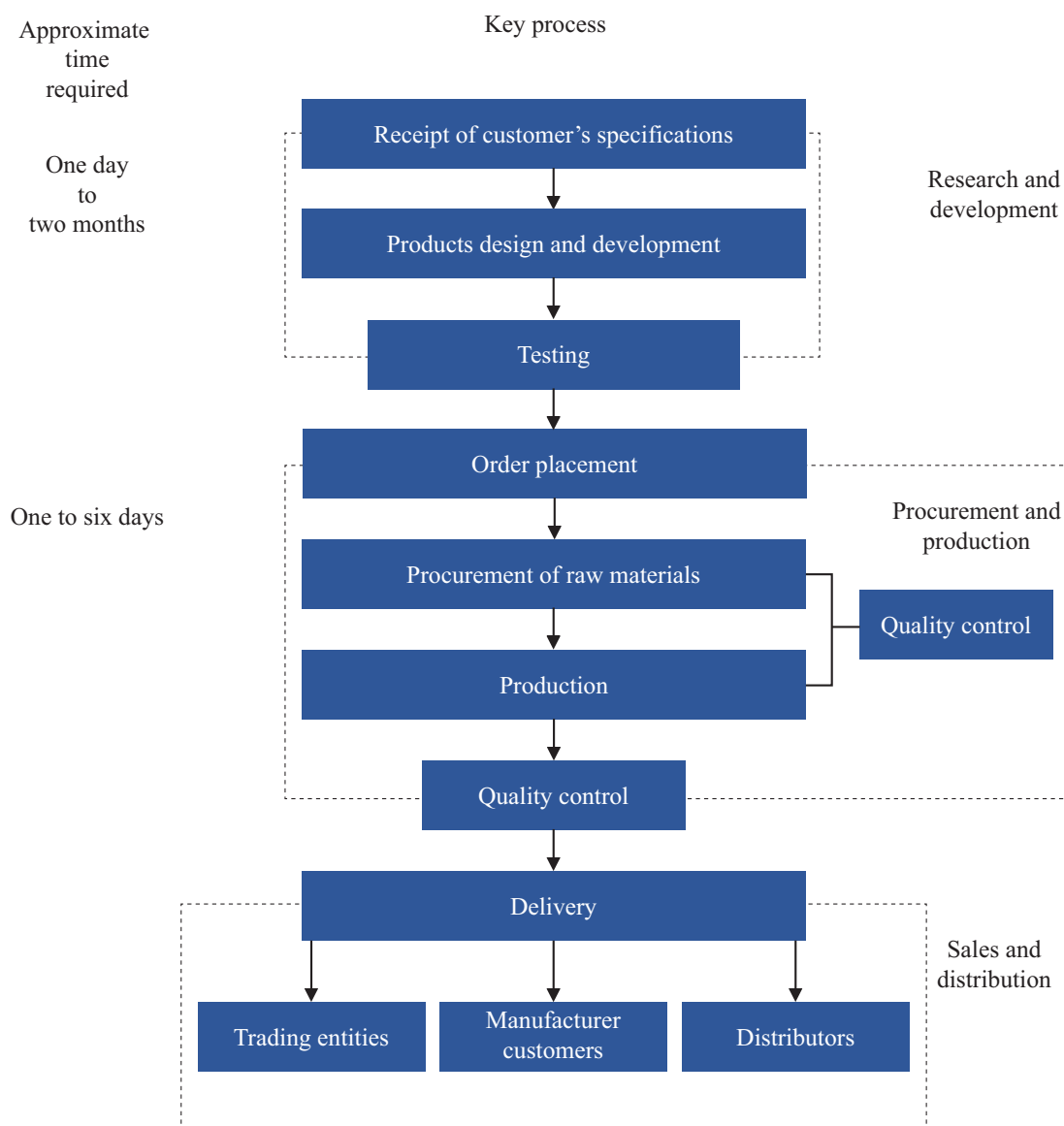
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	Number of units	Estimated useful lives (years)	Intended capital expenditure (a) <i>RMB' million</i>	Use of proceeds (b) <i>RMB' million</i>	From internal resources and/ or bank borrowings (a-b) <i>RMB' million</i>
For the year ending 31 December 2022					
– Purchase of machinery and equipment for video surveillance and alarm systems and upgrading of control room facilities	–	–	1.8	–	1.8
			16.4	12.8	3.6

For further details, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

OUR BUSINESS MODEL

The chart below summarises our business model:



Receipt of customer's specifications: Upon receiving our customers' enquiries, our sales and marketing team will communicate with them to obtain details about their order requirements.

Products design and development: Our product research and development team will analyse the information collected from our sales and marketing team on the enhancement of existing products, and formulate a new product based on the specifications and requirement provided by our customers.

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Testing: We will proceed to produce a small quantity of samples and perform a test to analyse if the designed product meets our customers' requirements. We will then deliver the sample to the customers for their approval.

Order placement: Once the product sample is accepted by our customers, we will proceed to prepare the sales confirmation and arrange the production. For recurring orders, the specifications of products are included in the sales confirmation with no sample provided to the customers. We generally do not enter into long-term agreements with our customers. For further details of the major terms in sales confirmation with our customers, please refer to the paragraph headed "Our customers" in this section.

Procurement of raw materials: Upon receipt of the production instruction from our customers, our procurement team will check the availability of inventory and source the necessary raw materials. For further details of our raw materials, please refer to the paragraph headed "Raw materials" in this section.

Production: All of our production processes are currently carried out at our Jiande Production Plant. Depending on the complexity of the production process and quantity of the order, our production lead time takes normally from one day to six days. For further details, please refer to the paragraph headed "Production process" in this section.

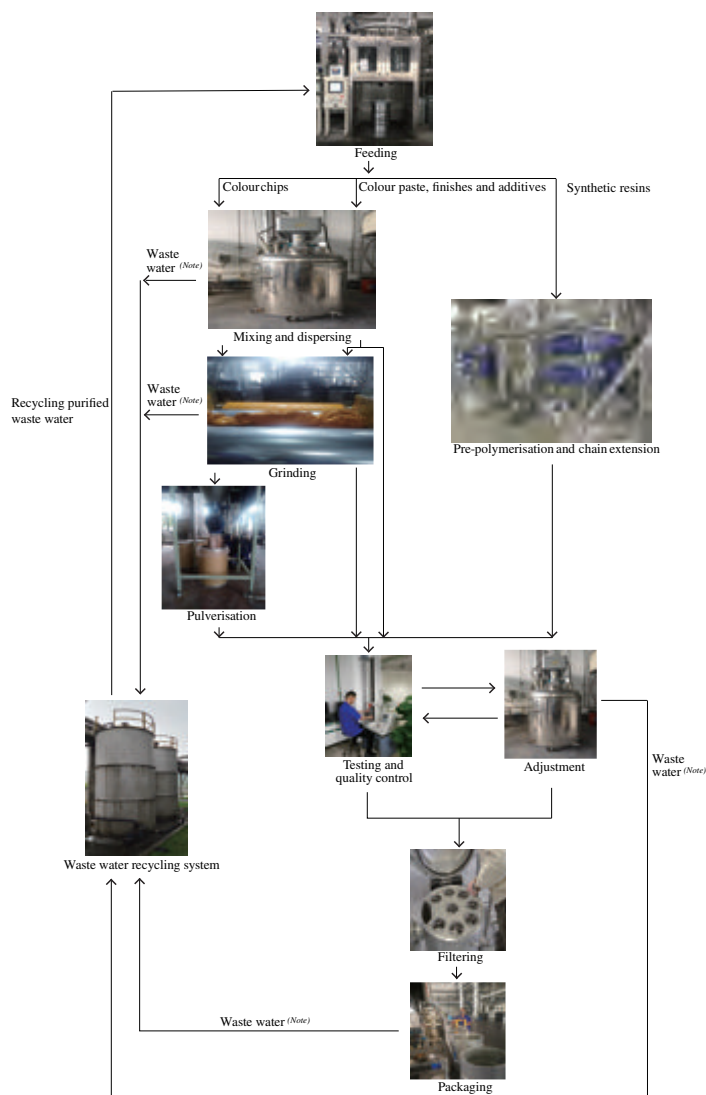
Quality control: We impose quality control throughout our production processes from the arrival of raw materials to finished products. For further details, please refer to the paragraph headed "Quality control and assurance" in this section.

Delivery: We rely on third party logistics companies to deliver our products to our customers in the PRC and other countries on FOB basis.

OUR PRODUCTION

Our colour paste, colour chips and finishes are mainly produced by way of mixing, which is a physical method. We also produce synthetic resins for our production use and sales to our customers.

We currently manufacture all our products at our Jiande Production Plant. Our quality control system over the production process is recognised by the ISO9001:2015 standard. For details, please refer to the paragraph headed “Quality control and assurance” in this section. Our production flow chart for the production of (i) colour chips; (ii) colour paste, finishes and additives; and (iii) synthetic resins is as follows:



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The following is a typical production flow of our products.

Feeding

The quantities of different raw materials are fed, measured and controlled by our staff and equipment.

Mixing and dispersing

Raw materials are mixed at a high speed and then are dispersed to an appropriate fineness for further processing.

Raw materials of colour chips are mixed by mixing equipment such as kneaders, and dispersed by hot-three roller mills, while raw materials of colour paste, finishes and additives are mixed and dispersed by disperse mixers.

Grinding

For colour chips and colour paste, the mixtures produced after mixing and dispersing are ground by the grinding equipment such as sand mills, bead mills, three-roller mills and hot-three roller mills to achieve the required level of fineness. Those mixtures are to be broken down further for processing. To obtain the proper degree of fineness, this step may have to be repeated.

For finishes and additives, some of the mixtures will be ground and some will be directly delivered to testing and quality control process.

Pulverisation

For colour chips, after undergoing the grinding process, the high-temperature mixtures are cooled down to solid form by coolers and are pulverised and moulded with pulverisers.

Pre-polymerisation and chain extension

Diisocyanates, solvents and ancillary materials are mixed with the polyol from feeding process to react with each other in reactors for pre-polymerisation. To improve the production yield, catalysts are applied during the reaction. Prepolymers produced from pre-polymerisation can be used for the synthesis of synthetic resins. Polyol is then further added to the prepolymers generated from the pre-polymerisation in reactors for chain extension reaction. Afterwards, synthetic resins are produced.

BUSINESS

In order to ensure the accomplishment of the reaction process and control the quality of the products, we will monitor the whole process and make any necessary adjustment on the specification and reaction conditions as and when appropriate.

Testing and quality control

In order to ensure the quality of our products, samples of finished products will be thoroughly inspected pursuant to the quality control requirements and the product specifications in respect of the physical or chemical characteristics and other standard requirements applicable to corresponding products.

Adjustment

Finished products of (i) colour chips and (ii) colour paste, finishes and additives are adjusted to fulfil the required colour standards of finished products.

Finished products of synthetic resins are slowly pumped by self-priming pumps to adjust the viscosity. After the viscosity of the resins reach the required value, a reaction terminator is added to terminate the reaction.

Finished products after adjustment will be delivered back to testing and quality control process to ensure that products meet the required standards.

Filtering

The mixtures from the adjustment process are filtered through the filtration equipment to remove possible impurities in final products.

Packaging

Our products after filtering will be packed and moved to the warehouse for finished products pending for delivery.

Waste water

Our production machinery and equipment are washed clean regularly and therefore waste water is discharged. We have adopted a waste water recycling system for the purpose of purifying and recycling waste water. This operational design allows us to reduce costs relating to discharge of waste water and save our production cost.

BUSINESS

PRODUCTION FACILITY

Our existing production facility

During the Track Record Period and up to the Latest Practicable Date, our production facility was located at 2, Jiangshan Road, Meicheng Town, Jiande County, Hangzhou City, Zhejiang Province, the PRC* (中國浙江省杭州市建德市梅城鎮薑山路2號), with a gross floor area of approximately 22,490 sq. m.. For further details, please refer to the paragraph headed “Properties” in this section.

Our production facility comprises production lines for our colour paste, colour chips, finishes, additives and synthetic resins products. As at the Latest Practicable Date, our Jiande Production Plant had a total of 45 production lines under operation, comprising 29, three and four production lines for the production of our colour paste, colour chips and synthetic resins, respectively and nine production lines which can be used interchangeably to manufacture finishes and additives.

Production capacity

The following table sets out our (i) effective designed capacity; (ii) actual production volume; and (iii) utilisation rate of our production facility for the periods indicated:

	For the year ended 31 December									For the nine months ended 30 September		
	2016			2017			2018			2019		
	Effective designed capacity	Actual production volume	Utilisation rate	Effective designed capacity	Actual production volume	Utilisation rate	Effective designed capacity	Actual production volume	Utilisation rate	Effective designed capacity	Actual production volume	Utilisation rate
	(Note 1)	(Note 1)	(Note 2)	(Note 1)	(Note 1)	(Note 2)	(Note 1)	(Note 1)	(Note 2)	(Note 1)	(Note 1)	(Note 2)
	tonne	tonne	%	tonne	tonne	%	tonne	tonne	%	tonne	tonne	%
Colour paste	5,200	4,400	84.6	5,300	4,800	90.6	5,400	5,200	96.3	3,700	3,200	86.5 (Note 4)
Colour chips (Note 3)	-	-	N/A	-	-	N/A	800	200	25.0	600	600	100.0
Finishes and additives	8,100	3,500	43.2	8,100	3,300	40.7	8,300	2,900	34.9	6,100	2,300	37.7
Synthetic resins	5,400	1,500	27.8	5,500	1,800	32.7	5,600	2,100	37.5	4,100	1,600	39.0

Notes:

- The effective designed capacity is estimated based on the maximum capacity of the machines multiplied by eight working hours per day multiplied by 245, 246, 250 and 184 days for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, respectively (taking into account factors primarily including staff holidays and public holidays). Both the effective designed capacity and the actual production volume have been rounded to the nearest hundred tonnes.

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2. Effective utilisation rate is calculated by dividing the actual production volume by the effective designed capacity.
3. The commercial production of colour chips commenced in March 2018. After each batch of production, such production line must be shut down for cleaning before production of colour chips with another colour can commence. The utilisation rates of the production lines after taking into account the time for machine cleaning would be approximately 28.6% and 100.0%, for the year ended 31 December 2018 and for the nine months ended 30 September 2019, respectively (with both the adjusted effective designed capacity and the actual production volume being rounded to the nearest hundred tonnes).
4. The utilisation rate decreased to approximately 86.5% for the nine months ended 30 September 2019 from approximately 96.3% for the year ended 31 December 2018, mainly due to the freeing up of production capacity in favour of our production of colour paste for the production of microfibre leather and colour paste of non-black-and-white colours, which had relatively higher gross profit margins.

As at the Latest Practicable Date, we had three production lines for manufacturing colour chips, with utilisation rate of approximately 100.0% for the nine months ended 30 September 2019. Since non-black-and-white colour chips products generally have higher profit margins, we plan to diversify our product portfolio of colour chips to include more different colours. However, each production line can only produce colour chips of a single colour at one time. After each batch of production, such a production line must be shut down for one to four hours for cleaning before production of colour chips with another colour. Therefore, our current production of colour chips of different colours with only three production lines may result in less efficiency. The lower utilisation rate for the year ended 31 December 2018 was mainly due to our customers usually placed purchase orders of relatively smaller volumes at the commencement of our offering of colour chip products. To cope with the expected increase in sales of our colour chips, we plan to increase our annual designed capacity of colour chips in our Jiande Production Plant to approximately 1,700 tonnes by the end of 2020 by adding one new production line which has an annual production capacity of 900 tonnes, and further to approximately 3,600 tonnes by the end of 2021 by adding two new production lines which have in aggregate annual production capacity of 1,900 tonnes.

With the establishment of additional production lines for colour chips, we will have more flexibility to schedule our production of colour chips to assign each production line of colour chips to manufacture specific colours. As such, we expect that the time required to stop the machines for cleaning in the course of our production of colour chips with different colours will be reduced and the operational efficiency of our production of colour chips will be enhanced.





With the establishment of additional production lines, our Group can have more flexibility in formulating the production schedule for manufacturing colour chips of different colours, which will also enhance our Group's competitiveness to cope with increasing purchase orders from customers, including those from existing customers, and improve the overall utilisation rate of our production lines for manufacturing colour chips.

BUSINESS

Our production machinery and equipment

We purchase our production machinery and equipment from Independent Third Parties in the PRC. All of our production machinery and equipment are owned by us. We have a comprehensive maintenance system for our production machinery and equipment, including regular inspection of our production facilities in order to ensure our production lines run smoothly. During the Track Record Period, we have not experienced any material or prolonged interruption to our production processes due to machinery and equipment failure.

The table below sets out information on our major production machinery and equipment as at 30 September 2019.

Types of machinery and equipment		Principal use	Estimated useful lives (years)	Approximate average remaining useful lives (years) ^(Note)	
(i)	Bead mill (珠磨機)		A machine used for grinding and dispersing particles down to the micro and nano scales.	10	0
(ii)	Colourimeter (分光測色儀)		A machine used for measuring the intensity or contraction of the colour.	10	1.8
(iii)	Disperse mixer (分散機)		A machine comprising a rotating shaft with blades in a cylinder or tank used for mixing various raw materials for the production of colour paste, finishes and additives.	5-10	1.5
(iv)	Kneaders (捏合機)		A machine comprising a rotating shaft with blades in a cylinder on tank used for mixing various raw materials for the production of colour chips	5-10	3.3

BUSINESS

Types of machinery and equipment		Principal use	Estimated useful lives (years)	Approximate average remaining useful lives (years) ^(Note)	
(v)	Hot-three roller mill (熱三輥研磨機)		A machine used for grinding and dispersing highly viscous materials in the production of colour chips.	10	–
(vi)	High low temperature test chamber (高低溫試驗箱)		A machine used for simulating the climate conditions in different environments.	10	5.7
(vii)	Sand mill (砂磨機)		A machine used for grinding and dispersing materials to an appropriate fineness.	5-10	1.5
(viii)	Synthetic resin reactor (合成反應釜)		A chemical reaction vessel which can conduct a reaction under pressure for producing synthetic resins.	10	3.0
(ix)	Three-roller mill (三輥研磨機)		A machine used for grinding and dispersing highly viscous materials in the production of colour paste, finishes and additives.	5-10	2.4

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Note: The average remaining useful lives of our major production machinery and equipment were estimated based on (i) the historical usage of such production machinery and equipment since its acquisition; and (ii) the current and expected condition of such production machinery and equipment.

New production facility

We expect the demand for our faux leather chemicals products will continue to increase. Moreover, we consider that the utilisation rates of our production facility for colour paste of approximately 84.6%, 90.6%, 96.3% and 86.5% for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, respectively, has reached a high level. As such, we plan to increase our production capacity to meet the anticipated increasing market demand.

To achieve this objective, we intend to build 12 additional production lines for our colour paste, which will be located in our New Production Plant. The implementation of the production lines will be carried out in two phases according to our expansion plan.

The phase I and phase II of our expansion plan are expected to be completed and commenced production in September 2021 and July 2022, respectively. There will be six new production lines for each phase of the expansion plan. The expected total site area of the New Production Plant is approximately 30,000 sq. m., of which the expected gross floor area of our new production facility is approximately 10,850 sq. m.. The following table sets out a breakdown of the gross floor area of our Jiande Production Plant and New Production Plant by usage:

Usage	Jiande Production Plant <i>(sq.m.)</i>	New Production Plant <i>(sq.m.)</i> <i>(estimated)</i>
Production workshops	11,132	6,200
Warehouses	8,490	4,050
Office and research institute	2,680	–
Environmental protection and/or safety facilities	188	600
	<hr/>	<hr/>
Total	22,490	10,850
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BUSINESS

Our Directors believe that the estimated gross floor area of New Production Plant is essential to our business development due to the following reasons:

- (a) Increased storage needs: after the installation of the new production lines, our production capabilities and capacities are expected to be enhanced. As a result, we would need more spaces in our warehouse to store (i) raw materials specifically for the production of colour chips and colour paste for microfibre leather; and (ii) more inventories in respect of our expected increase in production volume and product offering;
- (b) Space reserved for environmental protection and safety facilities: our Directors expect that, with the PRC laws and regulations relating to environmental protection and industrial safety becoming more stringent, additional facilities in relation to waste treatment may be required in the future and it is necessary for our Group to reserve additional space at the New Production Plant for construction of such relevant facilities; and
- (c) Spaces reserved for future expansion of production capacity: a substantial amount of time, efforts and investment are required for identifying a suitable site and constructing a new production plant. If we decide to lease an additional production facility, it is uncertain that we will be able to find a qualified production facility at suitable location and at acceptable rental cost. Hence, our Directors consider that it is in the interest of our Group to reserve additional spaces at the New Production Plant for future expansion of our production capacity and constructing new production lines.

In selecting the location of the New Production Plant, we have considered a number of criteria, among others, including (i) whether there exist mature infrastructure development in terms of water supply, water drainage, electricity supply, heat supply and transportation network for such location; and (ii) whether the land is in close proximity to our existing production plant to allow more efficient management of daily operations and facilitate collaboration among our different departments. As at the Latest Practicable Date, we have identified a parcel of land in the Jiande County, which is close to our Jiande Production Plant, to be a feasible location of our New Production Plant and we are in the course of negotiating with the relevant authorities on proposed acquisition of the land and construction of production facility.

BUSINESS

Further information of our expansion plan in respect of colour paste production is set out below:

Purpose	Expansion plan	
	Phase I	Phase II
Number of production lines		
– <i>for the production of colour paste for PU leather</i>	2	2
– <i>for the production of colour paste for microfibre leather</i>	4	4
Maximum designed annual production capacity (<i>tonne</i>)	5,000	5,000
Expected completion date of installation of production machinery	May 2021	March 2022
Expected commencement date of commercial production	September 2021	July 2022

We believe that the establishment of the New Production Plant and additional production lines will bring us the following benefits:

- (a) our operational risks can be lowered by having two independent production plants producing one of our key products, i.e., colour paste;
- (b) our expanded capacity will allow us to meet the increasing demand from our customers and help us capture the long-term demand growth in the faux leather coating agents market;
- (c) our New Production Plant is expected to be built with higher industry standard with more advanced production machinery and equipment, while the upgrade of the Jiande Production Plant with further automation is expected to bring about cost saving through improving production efficiency; and
- (d) assuming full utilisation of production capacity, and that there will not be any impact on the business and operating results due to our plan for automation or any fluctuation in market demand, inflations, increase in raw material costs and labour costs throughout the operation period, the increase in our scale of production will also further allow us to benefit from economies of scale by reducing the average cost of production allocated to each unit of our products, since (i) it allows us to negotiate better prices for our raw materials with bulk purchase; (ii) the expected direct labour costs allocated to each unit of our products will be reduced by approximately 20% per tonne; and (iii) the expected research and development costs allocated to each unit of our products will be reduced by approximately 10% per tonne.

Payback period and breakeven point

For reference and illustration purpose only, set forth below is a highly hypothetical analysis on the payback period and breakeven points in respect of our new production lines to be completed and commenced production under our expansion plan and it is not indicative of our future performance as our Group's revenue, expenses and operating results may vary from period to period in response to a variety of factors beyond our control.

We consider that a production line achieves breakeven when the revenue it generated is able to cover its costs and expenses arising in the same year on an accounting basis. The production scale required to achieve breakeven varies depending on various factors, including but not limited to general economic and market conditions, market demands, utilisation rate of our production lines, market competition and costs of production. We consider that a production line achieves investment payback when the total future net cash flow generated from operating activities since the commencement of commercial production is able to cover the total investment amount. The time required to achieve investment payback also varies depending on various factors, including those mentioned above and the capital expenditure such as costs of machinery and equipment.

The New Production Plant is designed to have 12 production lines for colour paste with additional annual production capacity of 10,000 tonnes. It is estimated that, based on our Directors' knowledge and experience, the payback period for the new production capacity will be approximately 25 months and that breakeven could be achieved within approximately two months.

Upon completion of three additional production lines for colour chips, our annual designed capacity of colour chips in our current Jiande Production Plant will increase by approximately 2,800 tonnes to 3,600 tonnes by the end of 2021. It is estimated that, based on our Directors' knowledge and experience, the payback period for the additional production capacity of colour chips will be approximately 20 months and that breakeven could be achieved within approximately two months.

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The total estimated expenditure in relation to the upgrading of our existing Jiande Production Plant and the establishment of New Production Plant is approximately RMB74.1 million, details of which are set out as follows:

Purpose	Upgrade of Jiande Production Plant	Establishment of New Production Plant	
	(RMB'000)	Phase I (RMB'000)	Phase II (RMB'000)
Land acquisition cost	–	11,000	–
Construction of our production facility and warehouse	–	25,300	–
Purchase of machinery and equipment	14,500	11,000	4,500
Other related expenses <i>(Note)</i>	1,900	3,500	2,400
Total	16,400	50,800	6,900

Note: This mainly represents installation costs and trial run costs.

We plan to apply approximately RMB59.7 million out of the net proceeds from the Global Offering to implement our expansion plan outlined above. For further details, please refer to the section headed “Further Plans and Use of Proceeds” in this prospectus.

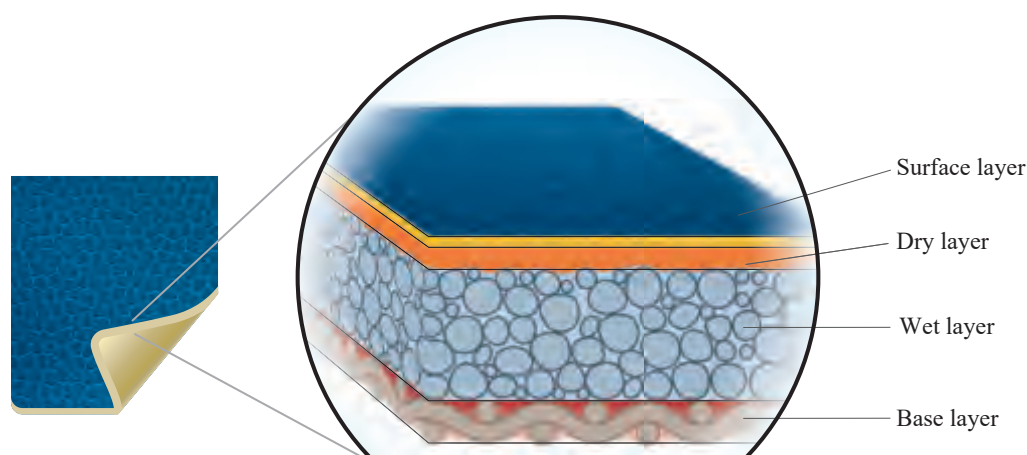
The following table sets out the breakdown of the major types of machinery and equipment to be purchased for our New Production Plant and their respective estimated useful lives:

	Estimated useful lives (years)	Number of units to be purchased	Estimated expenditure (RMB'000) <i>(Approximate)</i> <i>(Note)</i>
Production machinery and equipment			
– Automatic feeding system	10	1	1,400
– Mixers	10	12	1,800
– Sand mill	5–10	8	2,400
– Nano grinding machine	10	4	1,600
– Control system and other devices	5–10	26	2,500
Auxiliary equipment	5–10	86	1,000
Environmental protection and safety equipment	5–10	17	4,400
Testing and office equipment	3–10	36	400
Total			15,500

OUR PRODUCTS

We offer a wide range of faux leather chemical products, including colourants, namely, colour paste and colour chips, finishes, additives and synthetic resins, for the manufacturing of PU leather and PVC leather.

For illustrative purpose, the typical structure of synthetic leather is as follows:











The materials used for producing synthetic leather are basically divided into four categories, namely, the base cloth, synthetic resins, solvents and coating agents. During the Track Record Period, our major products were as follows:

- Coating agents
 - Colourants – these include colourants in paste and chip forms, which are generally used as pigments to give colour to different layers of the faux leather.
 - Finishes – these are chemical substances which are generally used to change the physical and chemical characteristics of the surface of faux leather to achieve desired effects such as hand feeling and brightening effect.
 - Additives – these are chemical substances which are generally used to accelerate and facilitate chemical reactions in the production of faux leather and to enhance functionalities of faux leather such as hydrolysis resistance and abrasion resistance.
- Synthetic resins – these are polymers composing the major components of the dry layer of faux leather which we produced for the use in our production of finishes and for sale to customers.

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The following table sets out an illustration of our products and their respective applications during the Track Record Period:

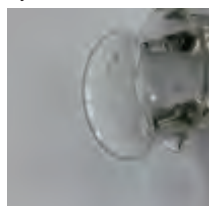
Product type	Description	Application in synthetic leather	Effect (for illustrative purpose)
Coating agents			
Colour paste 	A sort of pigment, in liquid form, used to give colour to materials	<ul style="list-style-type: none"> • Base layer • Wet layer • Dry layer • Surface layer 	 Colour paste applied on faux leather
Colour chips 	A sort of pigment, in solid form, used to give colour to materials	<ul style="list-style-type: none"> • Base layer • Wet layer • Dry layer • Surface layer 	 Colour chips applied on faux leather
Finishes 	Chemical substances used to change the physical and chemical characteristics of surfaces of materials to achieve desired effects	<ul style="list-style-type: none"> • Surface layer 	 Certain finishes applied on faux leather, effecting colour conversion detail
Additives 	Chemical substance to accelerate and facilitate chemical reactions in the production of faux leather and to enhance functionalities such as hydrolysis resistance and abrasion resistance	<ul style="list-style-type: none"> • Wet layer • Dry layer • Surface layer 	 Certain additives applied on faux leather surfaces, making them waterproof

BUSINESS

Product type	Description	Application in synthetic leather	Effect (for illustrative purpose)
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Coating agents

Synthetic resins



Synthetic resins are polymers composed of organic units joined by urethane links

Dry layer



Certain synthetic resins applied on faux leather, enhancing its resistance to yellowing

Sales volume and average selling prices

The following sets out the sales volume and the average selling prices of our principal products during the Track Record Period:

	For the year ended 31 December								
	2016			2017			2018		
	Revenue	Sales volume	Average selling prices	Revenue	Sales volume	Average selling prices	Revenue	Sales volume	Average selling prices
	(RMB'000)	(tonne)	(RMB'000)/ tonne	(RMB'000)	(tonne)	(RMB'000)/ tonne	(RMB'000)	(tonne)	(RMB'000)/ tonne
Coating agents									
Colourants									
– Colour paste	69,540	4,531	15.3	72,382	4,749	15.2	82,553	5,303	15.6
– Colour chips	–	–	–	–	–	–	3,459	164	21.1
Colourants sub-total	69,540	4,531	15.3	72,382	4,749	15.2	86,012	5,467	15.7
Finishes	65,396	3,467	18.9	63,954	3,187	20.1	55,906	2,909	19.2
Additives	2,777	102	27.2	3,069	114	26.9	2,908	91	32.0
Coating agents sub-total	137,713	8,100		139,405	8,050		144,826	8,467	
Synthetic resins	13,447	799	16.8	18,236	1,020	17.9	22,481	1,332	16.9
Total	151,160	8,899		157,641	9,070		167,307	9,799	

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	For the nine months ended 30 September					
	2018			2019		
	Revenue	Sales volume	Average selling prices	Revenue	Sales volume	Average selling prices
	RMB'000 (unaudited)	(tonne)	(RMB'000/ tonne)	RMB'000	(tonne)	(RMB'000/ tonne)
Coating agents						
Colourants						
– Colour paste	58,229	3,902	14.9	54,947	3,061	18.0
– Colour chips	1,850	103	18.0	9,179	506	18.1
Colourants sub-total	60,079	4,005	15.0	64,126	3,567	18.0
Finishes	42,739	2,246	19.0	45,170	2,241	20.2
Additives	2,159	68	31.8	1,993	65	30.7
Coating agents sub-total	104,977	6,319		111,289	5,873	
Synthetic resins	16,764	1,006	16.7	18,825	1,027	18.3
Total	121,741	7,325		130,114	6,900	

We believe that, notwithstanding the slowdown in the faux leather chemicals industry, our Group was still able to maintain stable growth in sales volume for the years ended 31 December 2016, 2017 and 2018 because:

- (i) we have strong research and development capabilities. Leveraging on our strong research and development capabilities, we are able to develop and offer a wide and diversified spectrum of faux leather chemical products which allows us to better satisfy the various requirements of various downstream customers;
- (ii) we have a track record of research and development and manufacturing of water-based faux leather chemical products and are able to cater to rising market demand of water-based faux leather chemicals products. According to CIC, as environment regulations become more stringent, water-based faux leather chemicals are encouraged and the demand for water-based products in the faux leather chemicals manufacturing industry has been increasing. Therefore, manufacturers which offered water-based faux leather chemical products could enjoy more business opportunities, despite the decline in sales value in overall faux leather chemicals market;
- (iii) we have commenced sales of colour chips products in 2018 and continue to develop colour chips of more other different colours. Because it is common that downstream faux leather manufacturers would consume both colour paste and colour chips in production, we are able to leverage on our existing customer base to cross sell our colour chip products;

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- (iv) we have established stable business relationship with our major customers. During the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, there were five, four, four and four of our five largest customers which had maintained not less than eight years of business relationship with us. This allows us to work closely with our customers to understand their needs for faux leather chemicals, which further helps strengthen our relationship with our customers. We believe our capability to respond to our customers' needs has also contributed to the above-mentioned solid customer base. We believe our close relationship with our customers gives us a competitive advantage to capture more business opportunities; and
- (v) more stringent environmental regulations in recent years have led to the phasing out of many small-scale faux leather chemical manufacturers. Environmental regulations also imposed pressure on the market participants who had less focus on or did not have strong research capabilities to develop environmental-friendly products. As many small-scale faux leather chemical manufacturers have been phased out, we are able to leverage on our strength in market recognition and research and development capabilities to increase our market share. According to the CIC Report, faux leather chemicals manufacturing industry is relatively fragmented and our Group only had a market share of approximately 0.75% in terms of revenue in 2018. As such, we had enjoyed considerable room to expand market share during the Track Record Period notwithstanding the slowdown in the faux leather chemicals industry.

BUSINESS

OUR CUSTOMERS

The table below sets out the breakdown of our revenue by customer type for the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2016		2017		2018		2018		2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000 (unaudited)	% of total revenue	RMB'000	% of total revenue
Manufacturers	124,270	82.2	122,428	77.7	133,190	79.6	95,522	78.5	105,930	81.4
Trading entities	18,177	12.0	24,802	15.7	27,056	16.2	20,453	16.8	19,274	14.8
Distributors <i>(Note)</i>	8,713	5.8	10,411	6.6	7,061	4.2	5,766	4.7	4,910	3.8
Total	151,160	100	157,641	100	167,307	100	121,741	100	130,114	100

Note: This refers to the sales to the PRC distributors which have entered into a distributorship agreement with our Group.

Manufacturers

For the years ended 31 December 2016, 2017 and 2018, and nine months ended 30 September 2019, we mainly sold our products to manufacturers of synthetic leather and our revenues from such manufacturers were approximately RMB124.3 million, RMB122.4 million, RMB133.2 million and RMB106.0 million, representing approximately 82.2%, 77.7%, 79.6% and 81.4% of our total revenue for the same periods. Generally, we enter into framework agreements with our manufacturer customers in each year specifying major terms such as the type of products to be purchased, the amount to be purchased, product specification, packaging standard, means of delivery and dispute resolution.

Set out below are the principal terms of the framework agreements typically entered into with our major manufacturer customers.

Principal terms	Summary
Details of products	The purchase order sets out the product type, quantity, unit price and total purchase amount
Term of agreement	Up to one year
Credit term	Usually between 30 and 90 days
Delivery	We shall be responsible for the delivery of our products to the warehouses of our customers and the cost of delivery

BUSINESS

Return or exchange of products	We may arrange product return or exchange if there is a product quality problem
Liability for breach of contract	We shall be responsible for the quality of our products, and our customers shall be responsible for punctual payment

Trading entities

Certain faux leather manufacturers would procure new materials through trading entities, thus our customers also include such trading entities. For the year ended 31 December 2016, 2017 and 2018, and nine months ended 30 September 2019, our revenues derived from trading entities were approximately RMB18.2 million, RMB24.8 million, RMB27.1 million and RMB19.3 million, representing approximately 12.0%, 15.7%, 16.2% and 14.8% of our total revenue for the same periods. During the Track Record Period, our trading entities included Customer B, Customer F and Supplier J, which are our five largest customers. All of our trading entities were Independent Third Parties and private companies located in Guangdong Province, Jiangsu Province, Henan Province, Shanghai, Fujian and Zhejiang Province.

Generally, we signed sales contract valid for one year with our trading entities during the Track Record Period. Set out below are the principal terms of the sales contract typically entered into with our major trading entities:

Principal terms	Summary
Details of products	The purchase order sets out the product type, quantity, unit price and total purchase amount
Credit term	Usually between 45 and 90 days
Delivery	We shall be responsible for the delivery of our products to the warehouses of or locations designated by our trading entities and the cost of delivery
Return or exchange of products	We may arrange product return or exchange if there is a product quality problem
Liability for breach of contract	We shall be responsible for the quality of our products, and our customers shall be responsible for punctual payment

BUSINESS

Distributors

We have also entered into distributorship agreements with certain Independent Third Parties for the sale of our products to end users that may be distant from us in the PRC. For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our revenues derived from our distributors were approximately RMB8.7 million, RMB10.4 million, RMB7.1 million and RMB4.9 million, representing approximately 5.8%, 6.6%, 4.2% and 3.8% of our total revenue for the same periods. Our distributors are all Independent Third Parties established in the PRC. During the Track Record Period, we had four distributors, which included Customer D, one of our five largest customers. All of them were private companies located in the Fujian Province, Jiangxi Province and Zhejiang Province engaging in the sales and trading of leather manufacturing raw materials.

We have entered into written agreements with all of our four distributors. Our Directors confirmed that our distribution arrangement does not relate to sales of any overseas customers. Our agreements with distributors are generally valid for five years. The following table sets out a summary of the principal terms of our distributorship agreements with our distributors as at the Latest Practicable Date:

Principal terms	Summary
Distribution within a designated geographical area	The distributor shall identify customers in the designated geographical area and shall not solicit customers outside the designated geographical area without our approval. The designated geographical areas for the distributors include, among others, certain areas and districts in Fujian Province, Guangzhou City, Wenzhou City and Shaoxing City, and do not include any overseas region.
Designated products/series of products	No
Selling price	The distributor can determine the price themselves provided that such price shall not create a disorderly market
Sales target	N/A
Minimum purchase amount	N/A
Rebate	N/A

BUSINESS

Principal terms	Summary
Return or exchange of products	Our distributors are not allowed to request for product return unless there is a product quality problem
Credit terms	Usually between 90 and 120 days
Confidentiality undertaking	Yes
Non-competition undertaking	Distributors shall not sell or distribute other products which compete or likely to compete with our products

To avoid disorderly market due to unreasonable selling prices set by our distributors, we will randomly visit our distributors to make enquiries to their selling prices. Our Directors believe that such visits and communication with our distributors would provide us with useful information on the operations of our distributors. Although our Group does not have direct control over the selling prices set by our distributors, our Directors consider that the above measures and the practice of our distribution arrangement are adequate to prevent disorderly market having considered that:

- (i) our Group did not offer any profit guarantee nor buy-back to our distributors. The title and risks of our products were transferred to distributors upon delivery and generally our distributors are not allowed to request for product return unless there is product quality problem. If they suffer any loss as a result of reselling of products at a low price, they would have to bear such loss themselves. In addition, we did not offer any rebate to distributors, so we believe that they did not have the incentive to purchase an excessive amount of products which may result in a pressure for them to resell at an unduly low price. Therefore, our Directors are of the view that the incentive for distributors to resell our products at a price unduly below the prevailing market price to their own customers is limited;
- (ii) during the Track Record Period, we had four distributors and our revenue derived from distributors accounted for only less than 7% of our total revenue. Our distributors have no exclusive right to any particular type of our products. With our strong research and development capabilities which allow us to offer a wide spectrum of portfolio of products, our Directors consider that we do not significantly rely on our distributors on business development;

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- (iii) our Group continuously monitors the purchase amount of distributors. In the event that any distributor places a particularly high amount of purchase order beyond historical level, our Group will take particular caution and further check with such distributor to understand the circumstances for placing such order to avoid potential inventory risks and disorderly market; and
- (iv) pursuant to the distribution agreement with our distributors, our Group has the rights to inquire and investigate into any non-compliance of the terms of the distributorship agreement by our distributors. If our Group discovers such non-compliance, we may terminate the distributorship agreement with the relevant distributor.

During the Track Record Period and up to the Latest Practicable Date, there was no material non-compliance with the terms of our distributorship agreements and nothing has caused us to believe that any disorderly market of our products was resulted from unduly low selling price set by our distributors.

To avoid disorderly market due to unreasonable selling prices set by our trading entities, we will also randomly visit our trading entities to make enquiries to their selling prices. Our Directors believe that such visits and communication with our trading entities would provide us with useful information on the operations of our trading entities. Although our Group does not have direct control over the selling prices set by our trading entities, our Directors consider that the incentive for our trading entities to resell our products at a price unduly below the prevailing market price to their own customers is limited because our Group did not offer any profit guarantee nor buy-back to our trading entities and we generally do not arrange product return unless there is product quality problem. They would have to bear the loss themselves if they suffer any loss as a result of reselling at a low price. In addition, we did not offer any rebate to trading entities, so we believe that they did not have the incentive to purchase an excessive amount of products which may result in a pressure for them to resell at an unduly low price.

During the Track Record Period and up to the Latest Practicable Date, nothing has caused us to believe that any disorderly market of our products was resulted from unduly low selling price set by our trading entities.

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The key differences between the agreements signed with our trading entities and our distributors are as follows:

	Agreements with our trading entities	Agreements with our distributors
Term of agreements	One year	Five years
Sales of products within a designated geographical area	No	Yes
Restriction on sales of competing products	No	Yes

Our trading entities and distributors also enable us to develop markets that are relatively remote from our Jiande Production Plant and/or where we have not established a business presence. There might be circumstances where the customers of our trading entities and distributors, i.e. the end customers, are located in the same geographical areas where we also sell our products to our customers, but we believe that it is still beneficial of us to continue to sell our products to those end customers through the relevant trading entities and distributors due to the following reasons:

- (a) the faux leather chemicals manufacturing market in the PRC is fragmented and we only had a market share of approximately 0.75% in terms of revenue in 2018. Through expanding our sales channels by selling our products to trading entities and distributors, we can leverage on their established sales networks and local intelligence, thus enhancing and expediting the market penetration of our products;
- (b) as our contractual relationships are established with the trading entities or distributors instead of the large quantity of end customers behind them, we are able to save considerable time and costs that would otherwise be incurred for managing our contractual relationships individually with each of the end customers and for collecting payments in respect of each order from the end customers. As our relationships are with the trading entities or distributors, we can avoid the credit risks associated with possible default or delay in payments by each of the end customers; and
- (c) the demands for our certain products such as finishes and additives from individual customers may not be regular or in relatively small quantities. By leveraging on the distribution networks of our trading entities and distributors, we are more capable of securing accumulated and sizeable orders which enables us to better schedule our production and enhance our production efficiency.

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The following table sets out the number and movement of each type of our customers for the periods indicated:

	Manufacturers	Trading entities	Distributors	Total
As at 1 January 2016	159	6	1	166
Addition during the year	39	1	3	43
Reduction during the year	(55)	(1)	–	(56)
As at 31 December 2016	<u>143</u>	<u>6</u>	<u>4</u>	<u>153</u>
As at 1 January 2017	143	6	4	153
Addition during the year	30	1	–	31
Reduction during the year	(57)	(1)	–	(58)
As at 31 December 2017	<u>116</u>	<u>6</u>	<u>4</u>	<u>126</u>
As at 1 January 2018	116	6	4	126
Addition during the year	42	1	–	43
Reduction during the year	(27)	–	–	(27)
As at 31 December 2018	<u>131</u>	<u>7</u>	<u>4</u>	<u>142</u>
As at 1 January 2019	131	7	4	142
Addition during the period	42	7	–	49
Reduction during the period	(34)	(1)	(1)	(36)
As at 30 September 2019	<u>139</u>	<u>13</u>	<u>3</u>	<u>155</u>

Geographical locations of our customers

Our customers are mainly manufacturers of synthetic leather in the PRC, which are mainly located in Zhejiang, Guangdong, Fujian and Jiangsu Provinces. During the Track Record Period, we also had certain overseas customers located in Brazil, Mexico, Turkey and Vietnam.

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

	For the year ended 31 December						For the nine months ended 30 September			
	2016		2017		2018		2018		2019	
	% of total		% of total		% of total		% of total		% of total	
	<i>RMB'000</i>	<i>revenue</i>	<i>RMB'000</i>	<i>revenue</i>	<i>RMB'000</i>	<i>revenue</i>	<i>RMB'000</i>	<i>revenue</i>	<i>RMB'000</i>	<i>revenue</i>
							(unaudited)			
PRC										
Zhejiang Province	63,947	42.3	67,469	42.8	68,293	40.8	52,313	43.0	44,702	34.4
Guangdong Province	28,879	19.1	30,868	19.6	33,260	19.9	22,766	18.7	21,988	16.9
Fujian Province	19,468	12.9	26,321	16.7	32,054	19.1	22,083	18.1	28,249	21.7
Jiangsu Province	15,257	10.1	11,542	7.3	10,810	6.5	8,055	6.6	11,831	9.1
Other provinces and cities <i>(Note 1)</i>	22,250	14.7	20,138	12.8	19,212	11.5	14,168	11.6	20,356	15.6
Sub-total	149,801	99.1	156,338	99.2	163,629	97.8	119,385	98.0	127,126	97.7
Overseas <i>(Note 2)</i>	1,359	0.9	1,303	0.8	3,678	2.2	2,356	2.0	2,988	2.3
Total	151,160	100	157,641	100	167,307	100	121,741	100	130,114	100

Note:

1. Other provinces and cities mainly represent Henan Province, Anhui Province, Shanghai etc.
2. This represents Brazil, Mexico, Turkey and Vietnam.

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Our five largest customers

The table below sets out details of our five largest customers during the Track Record Period:

For the year ended 31 December 2016

Rank	Customer	Background	Major products provided by us	Commencement of business relationship with us	Approximate amount of revenue <i>RMB'000</i>	% of total revenue	Credit term(s) <i>Days</i>
1	Customer A	A PRC private company based in Guangdong Province engaging in the production and sales of synthetic leather with a registered capital of approximately RMB99.0 million	Colour paste, finishes and synthetic resins	2010	22,223	14.7	60
2	Customer B	A PRC private company based in Henan Province engaging in the trading of leather colour paste, colourants, leather auxiliaries, etc. with a registered capital of RMB1.0 million	Colour paste, finishes and synthetic resins	2011	11,405	7.5	30
3	Customer C	A PRC private company based in Zhejiang Province engaging in the production and sales of synthetic leather with a registered capital of RMB20.0 million	Colour paste, finishes, additives and synthetic resins	2007	8,140	5.4	30
4	Customer D	A PRC private company based in Fujian Province engaging in the trading of leather raw materials with a registered capital of RMB500,000	Colour paste and finishes	2006	7,048	4.7	90
5	Customer E	A PRC private company based in Fujian Province engaging in the production and sales of synthetic leather with a registered capital of RMB41.0 million	Colour paste, finishes, additives and synthetic resins	2011	6,439	4.3	30
					Sub-total	55,255	36.6

BUSINESS

For the year ended 31 December 2017

Rank	Customer	Background	Major products provided by us	Commencement of business relationship with us	Approximate amount of revenue <i>RMB'000</i>	% of our total revenue	Credit term(s) <i>Days</i>
1	Customer A	A PRC private company based in Guangdong Province engaging in the production and sales of synthetic leather with a registered capital of approximately RMB99.0 million	Colour paste, finishes, additives and synthetic resins	2010	26,621	16.9	90
2	Customer B	A PRC private company based in Henan Province engaging in the trading of leather colour paste, colourants, leather auxiliaries, etc. with a registered capital of RMB1.0 million	Colour paste, finishes, additives and synthetic resins	2011	11,030	7.0	60
3	Customer D	A PRC private company based in Fujian Province engaging in the trading of leather raw materials with a registered capital of RMB500,000	Colour paste, finishes and additives	2006	8,858	5.6	90
4	Customer E	A PRC private company based in Fujian Province engaging in the production and sales of synthetic leather with a registered capital of RMB41.0 million	Colour paste, finishes, additives and synthetic resins	2011	6,142	3.9	90
5	Customer F	A PRC private company based in Zhejiang Province engaging in the trading of coating agents with a registered capital of RMB500,000	Colour paste	2017	6,137	3.9	60
					58,788	37.3	
				Sub-total			

BUSINESS

For the year ended 31 December 2018

Rank	Customer	Background	Major products provided by us	Commencement of business relationship with us	Approximate amount of revenue RMB'000	% of our total revenue	Credit term(s) Days
1	Customer A	A PRC private company based in Guangdong Province engaging in the production and sales of synthetic leather with a registered capital of approximately RMB99.0 million	Colour paste, colour chips, finishes, additives and synthetic resins	2010	26,764	16.0	90
2	Customer F	A PRC private company based in Zhejiang Province engaging in the trading of coating agents with a registered capital of RMB500,000	Colour paste and synthetic resins	2017	14,994	9.0	90
3	Customer B	A PRC private company based in Henan Province engaging in the trading of leather colour paste, colourants, leather auxiliaries, etc. with a registered capital of RMB1.0 million	Colour paste, colour chips, finishes, and synthetic resins	2011	11,132	6.7	90
4	Customer E	A PRC private company based in Fujian Province engaging in the production and sales of synthetic leather with a registered capital of RMB41.0 million	Colour paste, colour chips, finishes, additives and synthetic resins	2011	8,503	5.1	90
5	Customer D	A PRC private company based in Fujian Province engaging in the trading of leather raw materials with a registered capital of RMB500,000	Colour paste, finishes and additives	2006	6,696	4.0	90
					Sub-total	68,089	40.8

BUSINESS

For the nine months ended 30 September 2019

Rank	Customer	Background	Major products provided by us	Commencement of business relationship with us	Approximate amount of revenue <i>RMB'000</i>	% of our total revenue	Credit term(s) <i>Days</i>
1	Customer A	A PRC private company based in Guangdong Province engaging in the production and sales of synthetic leather with a registered capital of approximately RMB99.0 million	Colour paste, colour chips, finishes and synthetic resins	2010	18,942	14.6	90
2	Customer E	A PRC private company based in Fujian Province engaging in the production and sales of synthetic leather with a registered capital of RMB41.0 million	Colour paste, colour chips, finishes, additives and synthetic resins	2011	11,350	8.7	90
3	Customer B	A PRC private company based in Henan Province engaging in the trading of leather colour paste, colourants, leather auxiliaries, etc with a registered capital of RMB1.0 million	Colour paste, colour chips, finishes and synthetic resins	2011	8,368	6.4	90
4	Customer G	A PRC private company based in Zhejiang Province engaging in the production and sales of synthetic leather with a registered capital of RMB78.0 million	Colour paste, colour chips, finishes, additives and synthetic resins	2006	6,085	4.7	90
5	Supplier J ^(Note)	A PRC private company based in Shanghai engaging in the trading of chemical products with a registered capital of RMB1.0 million	Synthetic resins	2019	4,356	3.3	45
					Sub-total	49,101	37.7

Note: Supplier J is also one of our five largest suppliers for the nine months ended 30 September 2019.

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For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our sales to the five largest customers amounted to approximately RMB55.3 million, RMB58.8 million, RMB68.1 million and RMB49.1 million, representing approximately 36.6%, 37.3%, 40.8% and 37.7%, respectively, of our total revenue for the same periods. During the Track Record Period and up to the Latest Practicable Date, none of our Directors or their respective close associates or any Shareholder who owned more than 5% of the issued share capital of our Company as at the Latest Practicable Date, to the best knowledge of our Directors, has any interests in any of our five largest customers, all of whom are Independent Third Parties.

During the Track Record Period and up to the Latest Practicable Date, there were no litigations or arbitration or disputes which were material between us and our major customers.

Pricing policy

Our pricing policy aims to facilitate our profitable and sustainable growth strategy. In determining the prices of our products, we take into account a number of factors including costs of raw materials, labour costs and the specification requirements of the products.

The prices of our products are generally determined on a “cost-plus” basis, comprising mainly the costs of raw materials, labour costs and our profit margin. By adopting a “cost-plus” pricing strategy, the costs, including any increase in the costs of raw materials, will be taken into account in determining the selling prices of our products.

Payment method and credit terms

During the Track Record Period, our customers usually settled our invoice by means of bank acceptance bills or bank transfer, and we issued invoices to our customers at the fixed time every month after our customers accept delivery of our products. Generally, for customers in the PRC we give a credit period of 30 to 120 days. For overseas customers, we generally offered a credit period of up to 60 days after bill of lading date, and they usually paid before shipped on board date or pay by bill of lading.

Products return policy and warranty

We carry out internal quality control assessments to ensure that the finished products comply with the specifications or quality standards required by our customers. According to the contract we signed with the customers, if they have any questions about the quality of our products, they need to inform us within one week of delivery of our products. If we find any quality problem of our products after communicating with the customers, we will recall our products and refund our customers in accordance with our return policy.

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Our Directors confirm that we did not receive any material complaint from our customers and did not encounter any material incident of product return during the Track Record Period and up to the Latest Practicable Date.

Delivery and logistics

Our suppliers are concentrated in Eastern China and mainly rely on land transportation to deliver raw materials to our production site.

Our finished goods delivery cost is included in the purchase price we charge our customers. We appoint and pay to third party logistics companies to handle the transportation of finished goods, and settle logistics expenses with logistics service providers at the end of each month. We set our prices offered to overseas customers through an FOB basis, and we are responsible for payment to and appointing third party logistics companies to transport products from our plants to the port of shipment.

Seasonality

Our sales are subject to seasonality. Based on our sales trends, we generally deliver products to customers and experience higher sales during the second and third quarters of the year as the demand for products of our downstream industries, such as apparel and footwear grow towards the summer and winter seasons of each calendar year. Therefore, the sales of faux leather chemicals reaches its peak around the second quarter and the third quarter of each calendar year.

SALES AND MARKETING

During the Track Record Period, we mainly directly marketed our products to customers through our sales department. Our sales department is responsible for business development and cooperates with our research and development department to carry out marketing campaigns when necessary.

Marketing and promotion

During the Track Record Period, we attended a number of exhibitions and trade fairs, such as All China Leather Exhibition held in the PRC. These exhibitions provide a venue for us to showcase our technologies and products, explore new business opportunities and expand our customer base.

For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our marketing expenses were approximately RMB0.3 million, RMB0.1 million, RMB0.2 million and RMB0.2 million, respectively.

BUSINESS

RAW MATERIALS

The principal raw materials used in the production of our products include polymers, pigments, solvents and auxiliary materials. During the Track Record Period, we sourced our raw materials from suppliers in the PRC.

As at the Latest Practicable Date, our procurement department comprised of three staff members. Our production department, based on the customers' confirmed purchase order, will formulate the production plan and place the raw material purchase request with our procurement department.

Raw materials was the major component of our cost of sales, amounting to approximately RMB78.9 million, RMB91.1 million, RMB100.7 million and RMB71.4 million for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, respectively, representing approximately 82.2%, 85.2%, 86.3% and 84.4% of our total cost of sales for the same periods, respectively.

During the Track Record Period, we have implemented a number of control measures to manage our exposure to the risk of rising raw material prices. Our control measures on the costs of raw materials include, among others, (i) continuously monitoring the market price of raw materials; (ii) searching for alternate sources for raw materials of comparable quality at a more competitive price and retaining multiple suppliers for our major raw materials to ensure the best available prices and quality; and (iii) continuously monitoring and managing our inventory level of raw materials with our ERP system considering factors including our purchase orders from customers, production schedule and the estimated trend of costs of raw materials to ensure the due execution of production plan while preventing unnecessary obsolescence of raw materials. For the risk relating to the fluctuation of costs of our raw materials, please refer to the section headed "Risk factors – Risks relating to our business – Changes in costs of raw materials may materially and adversely affect our financial results and could face shortage in supply of our raw materials" in this prospectus.

Please see also "Financial Information – Principal Components of Consolidated Statements of Profit or Loss and other Comprehensive Income – Cost of sales" in this prospectus. Moreover, our Group aims to diversify our product portfolio to include products with higher profit margins, such as non-black-and-white colour chips. For details, please refer to "Continue to strengthen our research and development capabilities and further expand our product portfolio and geographical coverage – colour chips of different colours" in this section. It is expected that the sales of products with higher profit margins would help mitigate the effect of the impact of raw materials costs to the overall profit margin of our Group.

BUSINESS

The following table sets out the breakdown of our costs of raw materials for the periods indicated:

	For the year ended 31 December						For the nine months ended 30 September			
	2016		2017		2018		2018		2019	
	% of total		% of total		% of total		% of total		% of total	
	costs		costs		costs		costs		costs	
	of raw		of raw		of raw		of raw		of raw	
	RMB'000	materials	RMB'000	materials	RMB'000	materials	RMB'000	materials	RMB'000	materials
	(unaudited)									
Polymers	21,773	27.6	25,312	27.8	28,140	28.0	21,237	28.3	17,749	24.8
Solvents	20,406	25.9	26,423	29.0	29,018	28.8	22,164	29.5	15,940	22.3
Pigments	20,054	25.4	23,482	25.8	28,904	28.7	20,609	27.4	24,823	34.8
Auxiliary materials	16,662	21.1	15,859	17.4	14,590	14.5	11,082	14.8	12,934	18.1
Total	78,895	100	91,076	100	100,652	100	75,092	100	71,446	100

OUR SUPPLIERS

We purchase raw materials used in our product development and manufacturing process only from approved suppliers. We adopt a systematic procedure in selecting our suppliers. We conduct evaluation of our suppliers from time to time, which includes the stability and schedule of supply, quality control system and the validity of their relevant licences and permits.

Our Directors believe that maintaining stable relationships with our major suppliers is important for our operation as this will enable us to have a stable source of quality raw materials. For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, five, four, three and three of our five largest suppliers have business relationship with us for over three years. Our suppliers generally grant us a credit term ranging from 30 days to 90 days and our purchases are generally settled by bank acceptance bills or bank transfer. We do not enter into any long term agreement with our suppliers. However, given that the raw materials purchased from our suppliers are general chemical products and are mass produced in the market, we do not foresee any significant difficulty in finding alternate suppliers for our raw materials and packaging materials.

During the Track Record Period, we did not experience any material dispute with our suppliers, nor any disruption, shortage or delay in relation to the supply of our raw materials which may materially and adversely affect our operations and financial condition.

Our five largest suppliers

The table below sets out details of our five largest suppliers during the Track Record Period.

BUSINESS

For the year ended 31 December 2016:

Rank	Supplier	Background	Major products purchased by us	Commencement of business relationship with us	Approximate amount of purchase <i>RMB'000</i>	% of our total purchase	Credit term(s) <i>Days</i>
1	Supplier A	A PRC private company engaging in the sales of organic chemical products	Solvents	2007	6,312	7.4	75
2	Supplier B	A PRC private company engaging in the production and sales of resins	Polymers	2013	4,422	5.2	60
3	Supplier C	A PRC private company engaging in the sales of titanium dioxide	Pigments	2014	4,304	5.0	45
4	Supplier D	A PRC private company engaging in the sales of chemical products and chemical materials	Auxiliary materials and polymers	2014	4,076	4.8	60
5	Supplier E	A PRC private company engaging in the production of artificial leather resins	Polymers and solvents	2012	3,712	4.3	Upon delivery
					Sub-total	22,826	26.7

BUSINESS

For the year ended 31 December 2017:

Rank	Supplier	Background	Major products purchased by us	Commencement of business relationship with us	Approximate amount of purchase <i>RMB'000</i>	% of our total purchase	Credit term(s) <i>Days</i>
1	Supplier A	A PRC private company engaging in the sales of organic chemical products	Auxiliary materials and solvents	2007	6,543	6.7	75
2	Supplier C	A PRC private company engaging in the sales of titanium dioxide	Pigments	2014	4,606	4.7	Upon delivery
3	Supplier F	A PRC private company engaging in the sales of chemical products and production of titanium dioxide	Pigments	2017	4,214	4.3	Upon delivery
4	Supplier G	A PRC company listed on the Shanghai Stock Exchange engaging in the research and development, production and sales of synthetic leather, automobile and sole material	Polymers	2007	4,171	4.2	60
5	Supplier H	A PRC private company engaging in the production of pigments and additives	Pigments	2016	3,529	3.6	75
					Sub-total	23,063	23.5

BUSINESS

For the year ended 31 December 2018:

Rank	Supplier	Background	Major products purchased by us	Commencement of business relationship with us	Approximate amount of purchase RMB'000	% of our total purchase	Credit term(s) Days
1	Supplier H	A PRC private company engaging in the production of pigments and additives	Pigments	2016	7,602	6.9	75
2	Supplier F	A PRC private company engaging in the sales of chemical products and production of titanium dioxide	Pigments	2017	7,410	6.7	Upon delivery
3	Supplier A	A PRC private company engaging in the sales of organic chemical products	Solvents	2007	5,481	5.0	75
4	Supplier G	A PRC company listed on the Shanghai Stock Exchange engaging in the research and development, production and sales of synthetic leather, automobile and sole material	Polymers	2007	5,078	4.6	60
5	Supplier I	A PRC private company engaging in the sales of DMF and DMC	Solvents	2017	4,200	3.8	45
					Sub-total	29,771	27.0

BUSINESS

For the nine months ended 30 September 2019:

Rank	Supplier	Background	Major products purchased by us	Commencement of business relationship with us	Approximate amount of purchase RMB'000	% of our total purchase	Credit term(s) Days
1	Supplier J ^(Note)	A PRC private company engaging in the trading of chemical products	Auxiliary materials	2019	5,145	6.1	60
2	Supplier H	A PRC private company engaging in the production of pigments and additives	Pigments	2016	4,419	5.2	75
3	Supplier K	A PRC private company engaging in the production and sales of pigments	Pigments	2010	3,980	4.7	75
4	Supplier G	A PRC company listed on the Shanghai Stock Exchange engaging in the research and development, production and sales of synthetic leather, automobile and sole material	Polymers	2007	3,203	3.8	60
5	Supplier F	A PRC private company engaging in the sales of chemical products and production of titanium dioxide	Pigments	2017	3,092	3.7	Upon delivery
					19,839	23.5	
					Sub-total		

Note: Supplier J is also one of our five largest customers for the nine months ended 30 September 2019.

For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our purchase from our five largest suppliers amounted to approximately RMB22.8 million, RMB23.1 million, RMB29.8 million and RMB19.8 million, representing approximately 26.7%, 23.5%, 27.0% and 23.5%, respectively, of our total purchase for the same periods. During the Track Record Period and up to the Latest Practicable Date, none of our Directors or any of their respective close associates or any Shareholders who owned more than 5% of the issued share capital of our Company as at the Latest Practicable Date, to the best knowledge of our Directors, had any interests in any of our five largest suppliers, all of whom are Independent Third Parties.

Overlapping of Major Suppliers and Customers

During the Track Record Period, we sold some of our products to three of our five largest suppliers, Supplier A, Supplier B and Supplier J. Supplier J was also one of our five largest customers for the nine months ended 30 September 2019.

Supplier A is a company engaging in the trading of chemical products. During the Track Record Period, Supplier A supplied materials such as solvents for our production. During the nine months ended 30 September 2019, Supplier A, as a trading company, had purchased colourants from us for sale to its customers and our revenue attributable to such purchases accounted for only approximately RMB30,000 and our gross profit margin for the transaction conducted with Supplier A was approximately 33.4%, which was comparable to our gross profit margin of colourants.

Supplier B comprises two companies under common control which respectively engage in (i) the production and sales of chemical raw materials and (ii) the manufacturing and sales of faux leather. As a chemical products supplier, Supplier B supplied materials such as polymers for our production, while we sold to it colourants, finishes, additives and synthetic resins for its production. During the Track Record Period, our gross profit margins for the transactions conducted with Supplier B were 44.3%, 36.3%, 37.2% and 43.9% respectively, which were comparable to the gross profit margin of our respective products.

Supplier J is a company engaging in the trading of chemical products. As a trading company, Supplier J purchased from us for sales to its customers our new water-based synthetic resins, the production of which required the use of certain auxiliary materials which Supplier J was able to source and supply at reasonable prices. During the nine months ended 30 September 2019, our gross profit margin for the transactions conducted with Supplier J was 23.3%, which was comparable to our gross profit margin of synthetic resins.

During the Track Record Period, we also purchased raw materials from two of our five largest customers apart from Supplier J, namely Customer C and Customer F.

Customer C is a company principally engaging in the production and sales of synthetic leather. We sold our colourants, additives, finishes and synthetic resins to it for its production, while it sold DMF, a type of raw materials required by us for the production of finishes and resins, generated during its production process to us. During the Track Record Period, our gross profit margins for the transactions conducted with Customer C were 35.7%, 30.9%, 31.1% and 32.7% respectively, which were similar to our overall gross profit margins.

Customer F engaged in the trading of, among others, coating agents and other chemical products. Customer F purchased colourants and synthetic resins from us for sales to its customers, while we purchased other chemical products, such as pigments and polymers from it. During the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our gross profit margins for the transactions conducted with Customer F were nil, 8.4%, 14.4% and 18.5%, respectively, which were lower than our overall gross profit margin mainly because the major products that Customer F purchased from us were black and white colour paste, which is of a relatively lower gross profit margin. During the years ended 31 December 2017 and 2018, and the nine months ended 30 September 2019, the order amounts of black and white colour paste by Customer F from us accounted for over 90% of its total purchase.

BUSINESS

According to CIC, it is not uncommon in the industry for an entity to be a supplier and a customer at the same time concerning raw material used in the production of faux leather chemicals.

The table below sets out the total sales and total purchases attributable to Supplier A, Supplier B, Supplier J, Customer C and Customer F (collectively the “**Customers – Suppliers**”) for the periods indicated:

	For the year ended 31 December			For the nine months ended 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Number of Customers – Suppliers transacted with	2	3	3	3
Sales to Customers – Suppliers				
Revenue	12,856	16,389	25,923	8,600
Percentage of our total revenue	8.5%	10.4%	15.5%	6.6%
Related cost of sales	7,858	12,453	20,038	5,718
Gross profit	4,998	3,936	5,885	2,882
Gross profit margin	38.9%	24.0%	22.7%	33.5%
Purchases from Customers – Suppliers				
Purchase	4,752	4,069	3,564	8,397
Percentage of our total purchase	5.6%	4.1%	3.2%	10.0%

The major terms of our sales to and purchases from the Customers – Suppliers were similar to those transactions with our other customers and suppliers. The sales and purchases were neither inter-connected nor inter-conditional with each other. To the best information and knowledge of our Directors, each of our Customers – Suppliers was an Independent Third Party during the Track Record Period and up to the Latest Practicable Date.

INVENTORY MANAGEMENT

We manage our inventory with our ERP system to monitor the movements and utilisation of our raw materials inventory and assure sufficient supply of raw materials to support our production on a continuous basis. In order to avoid accumulating large inventories of raw materials and the risk of inventory obsolescence, we only maintain such level of inventory that is sufficient for our production for 30 to 45 days, and for the raw materials that are not commonly used, we generally only place orders for such raw materials after we have received confirmed purchase orders from our customers. Our inventory includes mainly raw materials and finished goods. As at 31 December 2016, 2017, 2018 and 30 September 2019, our inventory balance was RMB14.1 million, RMB14.6 million, RMB13.0 million and RMB18.3 million, respectively. As at 31 December 2016, 2017, 2018 and 30 September 2019, the average inventory turnover days were approximately 51 days, 49 days, 43 days and 50 days, respectively.

QUALITY CONTROL AND ASSURANCE

We place significant emphasis on quality control. We have adopted a quality management system covering our production process. In September 2010, we first obtained ISO9001:2008 quality system certification for the design, development and production of colourants and treatment agents for application on synthetic leather and we have successfully renewed such certification (which has been revised to ISO9001:2015, as amended from time to time), which is valid until 15 August 2022. Our certification to ISO9001 standard indicates that we have established a consistent quality management system, which serves to provide an objective standard against which third parties can assess the quality of our management process.

Our quality control division under our production department is responsible for the overall implementation of our quality control policy. Our research and development department, production divisions under our production department and our administration department also assist in implementing our quality control policy.

Our research and development department is responsible for formulation of our quality control standards. We adopt a two-staged inspection system, in that our production division and quality control division are respectively responsible for initial inspection and re-inspection of our raw materials, work-in-progress and products. The inspection results are then compared and reviewed. Only if the subject matter under test has passed both inspections will they be considered satisfactory.

BUSINESS

It is our policy to purchase raw materials from qualified suppliers. We request samples from our potential suppliers for inspection during our supplier selection process to ensure that raw materials to be supplied conform to our quality standards. Upon arrival of the raw materials, our quality control division conducts inspection and testing on a sampling basis to ensure the quality of the raw materials meets our required standard quality. All of the finished products are tested on a sampling basis. Our quality control division assists in the testing of our new production lines and gathering quantitative data for the relevant departments.

We conduct routine checks on our equipment used in quality management. We also provide pre-service training for our employees to ensure proper usage and maintenance of testing equipment. We require our staff to maintain proper records of the different stages of our production process, subject to inspection by our administration department.

During the Track Record Period and up to the Latest Practicable Date, there had not been any litigation or arbitration between us and our customers due to product quality issue.

RESEARCH AND DEVELOPMENT

We pride ourselves in our outstanding research and development capability.

The production of our products involves the application of specialist knowledge, technology and technical know-how of chemical engineering. Our customers may also require us to produce certain special and customised products. Our research and development department is responsible for testing, improving and adjusting the appearance, quality and functions of products according to the requirements of customers, and striving to enable the developed products to meet the expectations of customers. Our research and development department also works closely with our sales team to understand the market demand and carries out the relevant feasibility studies according to market changes, so as to capture and make good use of market opportunities in a timely manner. As at the Latest Practicable Date, our research and development department comprised 41 members, of which 13 held a bachelor's degree or above. Our research and development department is led by our chief engineers, Mr. Li Xiangyu and Ms. Zhu Jianqin (who are also two of our executive Directors). For details of the background of Mr. Li Xiangyu and Ms. Zhu Jianqin, please refer to the section headed "Directors and Senior Management" in this prospectus.

We established our research institute (currently named as Zhejiang Sunlight Synthetic Leather Special Materials Research Institute*(浙江省深藍合成革用特種材料研究院)) in our Deqing Production Plant in 2007. In May 2015, we moved our research institute to our leased premises at 16/F, Block E1, Zijin Zhongchuang Small Town, No. 3, Xiyuan 8th Road, Sandun, Xihu District, Hangzhou City, Zhejiang Province, the PRC.

BUSINESS

We established our research institute in 2007, which was recognised as Enterprise Research Institute at Provincial Level* (省級企業研究院) in 2017. We intend to relocate our research institute to the Jiande Production Plant by 2022 to facilitate research-production collaboration and to enhance product development efficiency. As at the Latest Practicable Date, we owned 16 invention patents, six utility model patents and 14 design patents in the PRC. The following table sets out the approximate useful lives and remaining useful lives of our major equipment used in our existing research institute as at 30 September 2019:

		Approximate useful lives (years)	Approximate average remaining useful lives (years)
	Principal use		
Gas chromatograph (氣相色譜儀)	For determining and analysing the composition and content of materials	5 – 10	2.3
Colourimeter (分光測色儀)	For measuring the chromatic aberration of the colour	10	0
Prototype making machine (小樣機)	For making prototype	5 – 10	4.4
Disperse mixer (分散機)	For mixing various materials	5 – 10	0.4
Grinding machine (研磨機)	For grinding materials	5 – 10	2.2
Reactor (反應釜)	Reaction vessels which can conduct a reaction under pre-set temperature or reaction condition	5	0
Oven (烘箱)	For drying	5 – 10	0
Weighing equipment (稱重設備)	To determine the weight of materials	5	0

BUSINESS

We intend to further invest in our research and development capabilities by (i) relocating our existing research institute to our Jiande Production Plant to enhance efficiency of our product development; (ii) hiring more experienced experts and engineers; and (iii) acquiring more advanced research and development equipment and testing equipment. For further details, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

As recognition for our research and development capability, we have been awarded a number of honours and recognitions. Please refer to the paragraph headed “Awards and recognition” in this section for details.

BUSINESS

For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our research and development expenses amounted to approximately RMB7.8 million, RMB7.0 million, RMB7.2 million and RMB6.1 million, representing approximately 5.2%, 4.4%, 4.3% and 4.7% of our total revenue for the same periods. For more information on the nature of our research and development expenses, please refer to the section “Financial Information – Administrative and general expenses – Research and development costs” in this prospectus.

Research collaboration with tertiary institutions

We believe establishing research collaboration with tertiary institutions is beneficial to our operations as it would enable us to have access to the latest technology and chemical knowledge from the academia. During the Track Record Period, we have collaborated with Zhejiang University and Sichuan University.

Our research collaboration with Zhejiang University can be traced back to 2013, when we entered into a cooperation agreement with Zhejiang University for the development of water-based resins for application on synthetic leather. In January 2016, we entered into another cooperation agreement with Zhejiang University for the research and development of water-based self-fading PU resins for application on synthetic leather with enhanced adhesion and scratch and heat resistance for a term of five years. Pursuant to the cooperation agreement with Zhejiang University, Zhejiang University shall mainly be responsible for designing product formulae, supervising testing and inspection of the outcome products while we shall be responsible for conducting testing and the production and marketing of the outcome products. We shall own the intellectual property rights of the research outcome that is independently completed by us. Where the research outcome is jointly developed by us and Zhejiang University, we and Zhejiang University shall jointly own the intellectual property rights of such research outcome. In January 2018, we also launched a research project for the development of water-based PU for application on artificial and synthetic leather and microfibre leather with Sichuan University for a term of two years. Pursuant to the cooperation agreement with Sichuan University, we shall fund the research and development expenses to be incurred by Sichuan University. Sichuan University shall provide technical guidance and training to our staff. We and Sichuan University shall jointly own the intellectual property rights created. As confirmed by our PRC Legal Advisers, the aforesaid cooperation agreements with Zhejiang University and Sichuan University are legally binding on the respective parties.

In November 2018, we received approval from Zhejiang Postdoctoral Office (浙江省博士後辦工室) to establish a postdoctoral workstation at our research institute since November 2018. We expect to recruit postdoctoral researchers to join our research and development department.

INTELLECTUAL PROPERTY

We place great emphasis on protecting our intellectual property rights.

Trade secrets

In manufacturing our faux leather chemical products, we develop certain technological know-how, formulae and data which we believe are not covered or are not able to be covered by patents. We have established an information protection system (including operational protection measures and confidentiality agreement with key employees), which is described below, to protect our intellectual property rights.

Patents, trademarks and domain names

In addition to the protection of trade secrets, we have also applied for and have been granted patents in the PRC to protect our intellectual property rights. As at the Latest Practicable Date, we owned 36 patents, including 16 invention patents, six utility model patents and 14 design patents in the PRC, and had five patent applications in the PRC. As at the Latest Practicable Date, we also had nine trademarks registered in the PRC and four domain names. For further details, please refer to the paragraph headed “Statutory and General Information – B. Further information about the business of our Group – 2. Intellectual property rights of our Group” in Appendix VI to this prospectus.

Protection of intellectual property rights

In order to protect our trade secrets and other proprietary know-how, we take the following key measures: (i) we have installed encryption software on the computers of all our employees and the approval of its department head is required if encrypted documents need to be decrypted and sent to external parties; (ii) the labour contracts with our employees contain confidentiality clause and provide that the rights to all of their inventions, designs, technologies and any other intellectual property they develop or obtain during their employment belong to us; (iii) our key research and development records are encrypted by passwords and only a limited number of key personnel have access to such information; and (iv) certain key chemical formulae, manufacturing procedures and technical know-how are stored on password protected computer hard drives, which are only accessible by the relevant key employees and research and development personnel.

During the Track Record Period and up to the Latest Practicable Date, we were not subject to any material infringement of intellectual property rights or allegations of infringements by any third party.

BUSINESS

AWARDS AND RECOGNITION

Since our establishment, we have been focusing on the research and production of faux leather chemical products and have established strong market reputation. We have received various awards and honours, and have been appointed as members of certain renowned industry associations. Set out below are some of the awards, certifications and recognitions granted to our Group:

Year	Award/Certification	Issuing institution
2011	Provincial Level Industrial New Product (Special foggy black finishes applied in back-end processing for synthetic leather)* (省級工業新產品(應用於合成革後段的特殊霧黑表面處理劑))	Zhejiang Provincial Economic and Information Commission* (浙江省經濟和信息化委員會)
2011, 2014, 2017	High and New Technology Enterprise* (高新技術企業)	Department of Science and Technology of Zhejiang Province*(浙江省科學技術廳), Department of Finance of Zhejiang Province*(浙江省財政廳), State Taxation Bureau of Zhejiang Province*(浙江省國家稅務局), Zhejiang Local Taxation Bureau*(浙江省地方稅務局)
2012	Technology Innovation Prize* (科技創新獎)	China Plastics Processing Industry Association* (中國塑料加工工業協會)
2012	High and New Technology Enterprises Research and Development Centre of Zhejiang* (浙江省級高新技術企業研究開發中心)	Department of Science and Technology of Zhejiang Province* (浙江省科學技術廳)
2013	National Torch Plan Industrialisation Demonstration Project (Special foggy black finishes applied in back-end processing for synthetic leather)* (國家火炬計劃產業化示範項目(應用於合成革後段的特殊霧黑表面處理劑))	Torch High-tech Industrial Development Centre of the Ministry of Science and Technology* (科學技術部火炬高技術產業開發中心)

BUSINESS

Year	Award/Certification	Issuing institution
2014	Zhejiang Province Enterprise Technical Centre* (浙江省企業技術中心)	Zhejiang Provincial Economic and Information Commission* (浙江省經濟和信息化委員會), Department of Finance of Zhejiang Province* (浙江省財政廳), State Taxation Bureau of Zhejiang Province* (浙江省國家稅務局), Zhejiang Local Taxation Bureau* (浙江省地方稅務局) and Custom of Hangzhou of PRC* (中華人民共和國杭州海關)
2015	Provincial Level Industrial New Product (water based hot-stamp gradient colour resins for synthetic leather)* (省級工業新產品(合成革專用水性烙印變色樹脂))	Zhejiang Provincial Economic and Information Commission* (浙江省經濟和信息化委員會)
2016	Second Prize of Zhejiang Excellent Industrial New Product for the year 2017 (Abrasion-resistant and dry-cleaning tolerant finishes for sofa leather)* (2017年度浙江省優秀工業新產品二等獎(沙發革用耐磨耐乾洗表面處理劑))	Zhejiang Provincial Economic and Information Commission* (浙江省經濟和信息化委員會) and Department of Finance of Zhejiang Province* (浙江省財政廳)
2017	Provincial Level Industrial New Product (self-delustering water-based polyurethane resins for synthetic leather)* (省級工業新產品(合成革用水性自消光聚氨酯樹脂))	Zhejiang Provincial Economic and Information Committee* (浙江省經濟和信息化委員會)
2017	Key Industrial Enterprises* (重點工業企業)	Jiande County People's Government* (建德市人民政府)
2017	ZDHC-CPASL Synthetic Leather Industry Early Champion Pilot mill* (合成革行業先鋒試點企業)	China Plastics Processing Industry Association Artificial Leather Synthetic Leather Professional Committee* (中國塑料加工工業協會人造革合成革專業委員會)

BUSINESS

Year	Award/Certification	Issuing institution
2017	Enterprise Research Institute at Provincial Level* (省級企業研究院)	Department of Science and Technology of Zhejiang Province* (浙江省科學技術廳), Development and Reform Commission of Zhejiang Province* (浙江省發展和改革委員會), Zhejiang Provincial Economic and Information Commission* (浙江省經濟和信息化委員會)
2018	Advanced Group of Safety and Environmental Protection in the Gaotie New Area in 2017* (2017年度高鐵新區(高新園)安全環保工作先進集體)	Gaotie New Area Administration Committee of Jiande County* (建德市高鐵新區管委會)
2018	Hangzhou Famous Brand Product (colourants for synthetic leather coating)* (杭州市名牌產品(合成革塗層用著色劑))	Hangzhou Famous Brand Strategy Promotion Committee* (杭州市名牌戰略推進委員會)

COMPETITION

According to the CIC Report, faux leather chemicals manufacturing industry is relatively fragmented, with the top 10 players accounting for a market share of approximately 39.3% in terms of revenue in 2018. The faux leather coating agents market in the PRC represented approximately 33.8% of the faux leather chemicals manufacturing industry in the PRC in terms of revenue in 2018, with the top ten players accounting for a market share of approximately 21.2% in terms of revenue in 2018.

There are stringent licence requirements for chemicals manufacturers in the PRC. For example, faux leather chemical manufacturers must obtain a Pollutant Discharge Permit* (污染物排放許可證), a Registration Certificate for the Production of Hazardous Chemicals* (危險化學品登記證), and a Work Safety Licence* (安全生產許可證). There are substantial costs involved in starting a faux leather chemicals production business, purchasing waste treatment equipment and complying with the environmental protection regulations, which create an essential entry barrier for new entrants.

BUSINESS

Established market players of the industry have usually accumulated proprietary knowledge and techniques which enable them to produce high performance products. The lack of such knowledge and techniques constitutes one of the major entry barriers for new market entrants. The established market players have also invested a significant amount of time and resources to build stable relationships with raw materials suppliers and with downstream customers. Well-managed connections with downstream customers, in particular, faux leather manufacturers help companies in this industry to gain better understanding of the latest trend which gives the company an edge in both new product development and quick response to the change of demand. Access to raw materials at reasonable prices is also a key success factor for faux leather chemicals manufacturers.

For further information on the competition in the market in which we operate, please refer to the section headed “Industry Overview” in this prospectus.

According to the CIC Report, the sales volume of faux leather chemicals manufacturing industry is expected to rebound and record a positive CAGR from 2019 onwards due to, among others, (i) small faux leather manufacturers have been phased out; (ii) increasing demand from downstream applications; (iii) favourable government policy which encourages water-based faux leather chemicals; and (iv) increasing substitution of genuine leather by faux leather. Although our Group only had a market share of approximately 0.75% in terms of revenue in 2018, our Directors believe that with our (i) established market presence in the faux leather chemicals manufacturing industry and market recognition of technology capability; (ii) possession of strong research and development capabilities which allow us to offer a wide spectrum of portfolio of products including water-based faux leather chemical products and faux leather coating agents applicable in the production of microfibre leather; (iii) stable business relationship with our major customers and suppliers which facilitate us to commercialise our new products; and (iv) experienced management team with prominent industry expertise, our Group is well-positioned to capture more business opportunities from the expected growth of faux leather chemicals manufacturing industry in China.

OCCUPATIONAL HEALTH AND SAFETY

We attach great importance to the occupational health and safety of our employees and has put in place a set of guidelines on issues relating to occupational health and safety and have developed a comprehensive management system to implement our policies and procedures in this respect.

Medical check-ups

All potential employees must pass the pre-employment medical check-ups carried out in our designated medical institution as part of the recruitment process, and different types of medical check-ups were arranged for candidates going into different departments. We also arrange annual medical check-ups for our employees.

Safety management for production facilities

The facilities maintenance team of our production department is responsible for the centralised management and daily maintenance of production facilities and safety facilities and formulating corresponding overhaul plans and maintenance plans. Facilities maintenance staffs shall conduct inspections of our production facilities both regularly and on a random basis. They shall keep written records of any issues or abnormalities encountered in the course of production.

Prevention and control of fire and explosion

Our administration department is responsible for the overall fire and explosion control of our Group, and each of the department head are responsible for the fire and explosion control of their respective departments. We have designated smoking and non-smoking areas with their respective signs displayed in prominent areas.

Production machinery and equipment working under fire or explosion risks are fully equipped with preventive devices such as thermometers, pressure gauge and alarm system. Appropriate fire-fighting equipment were installed and fire-fighting measures were adopted for open-fire operations. Lightning protection devices were installed in dangerous goods warehouses, power distribution facilities, buildings stored with inflammable goods, and such devices were inspected once a year before the commencement of monsoon seasons.

We have in place a guideline for prevention and control of fire and explosion, which sets out the management standard and measures adopted in this regard.

Trainings and qualifications requirements

Pursuant to applicable laws and regulations, employees working in specific units, including without limitation to welders, electricians and fork-lifting truck operators, need to apply for a qualification certificate. No person would be allowed to work in those specific units without the requisite certificate and we would render assistance in the application of the qualification certificate when required.

Our production and operation also involve the procurement, transportation, storage and use of hazardous chemicals. Employees having contact with hazardous chemicals were trained and assessed on the relevant safety knowledge and hazardous chemicals handling skills, including but not limited to, donning of safety gears, operation of safety equipment and their storage location. All of them had passed the pre-requisite examinations before taking up their roles.

We also provide the new employees with fire safety training on the fire prevention measures, fire-fighting skills and use of fire-fighting equipment. Advanced fire safety trainings were provided to our fire safety manager, fire control room operators and flammable and explosive chemicals warehouse manager in accordance with applicable laws and regulations.

Hazardous chemicals management

With respect to the management of hazardous chemicals, we have in place a safety management system regarding hazardous chemicals. There were anti-leakage measures which applied to equipment, workstations and hazardous chemicals warehouses corresponding to their risk profiles, and risk assessments were conducted regularly to minimise the risk of leakage of hazardous chemicals. Anti-leakage measures were also adopted in all operating procedures. The safety management system regarding hazardous chemicals also sets out the steps to be taken in case of hazardous chemicals leakage.

BUSINESS

In areas where large quantities of hazardous chemicals are stored, leak control equipment has been installed to prevent hazardous chemicals from leakage. Regular checks and maintenance works are also carried out to prevent leakage of hazardous chemicals.

Relevant signs or safety labels are posted in our hazardous chemicals warehouse to indicate their danger and emergency treatment methods.

Incident handling and records

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

For the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, there were nil, nil, three and one industrial accidents occurred during our production process. Details of the accidents and the corresponding remedial measures taken by us are set out as follows:

Date of accidents	Details of accidents	Corresponding remedial measures
January 2018	An employee turned on the kneader when his right hand stayed on the kneader and suffered from wound and fracture in his finger.	Reminded our workers of safety measures and added safety warning signs.
June 2018	An employee, when maintaining our production equipment, accidentally stepped on a switch which released a blade and suffered from perineal injury.	Issued an internal notice to highlight the importance of safety precautions and reminded our workers of safety measures on operating our machines.
August 2018	An employee, when trying to remove material caught in a machine, was injured by the machine in operation and suffered from wound and fracture in his finger.	Put in place specific tools for removal of materials from our machines and posted appropriate instructions for operating our equipment.
April 2019	An employee, when trying to remove material caught in a machine, was injured by the machine in operation and suffered from wound and fracture in his fingers.	Provided trainings to our workers on safe use of machinery and our workers were required to pass the relevant assessments conducted by us.

BUSINESS

Our Directors confirm that certain losses incurred and claims arising from such accidents were not fully covered by insurance and were borne by our Group. The losses and claims arising from accidents occurred in the year ended 31 December 2018 and the nine months ended 30 September 2019 not covered amounted to approximately RMB12,000 and RMB2,000, respectively. Our Directors confirm that the amounts did not have any material impact on our Group's business operation and financial performance.

We reported the incidents to the relevant authorities in the PRC and submitted the industrial injury insurance claim for the employees concerned. Our Directors confirm that since none of these accidents (i) resulted in fatality; (ii) resulted in failure or damage to our production facilities; (iii) resulted in administrative penalty imposed on our Group; or (iv) led to revocation or suspension of any material licences, approvals or permits required for our business operation, none of these accidents were material incidents that disrupted our production process. Furthermore, none of the incidents during the Trade Record Period had resulted in any arbitration or litigation for personal or property damage between us and our employees.

ENVIRONMENTAL AND SOCIAL MATTERS

We generate air, noise, water and solid waste pollutants from our business operation which exposes us to environment-related risks. The environmental protection requirements for the production facilities of our Group in the PRC are regulated by national and local laws and regulations in the PRC. Please refer to the section headed "Regulatory Overview" in this prospectus for details.

We have implemented the following environmental protection measures:

- conducted environmental impact assessments before construction of production facilities;
- engaged two qualified waste disposal companies for the disposal of the solid waste generated during our production process, which shall (i) handle rinsing and disposal of our wastes in compliance with the applicable laws and regulations; and (ii) bear the risks relating to the transportation of our solid wastes; and
- installed environmental protection facilities and procedures in place to treat and dispose of exhaust gases and waste water in accordance with the applicable national and local environmental laws and regulations.

Environmental, social and governance policy

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

- We imposed measures to achieve electricity-saving, such as encouraging employees to switch off lights in public areas during non-working hours and setting the air-conditioning temperature at optimal temperature;

BUSINESS

- We engaged qualified waste disposal companies to handle potentially hazardous waste;
- We encouraged employees and raise their awareness to conserve water and we also put in place recycling bins and recyclers to collect waste;
- We performed assessment and management of environment-related risks associated with our production process;
- We have a policy of providing equal opportunities in employment and career development regardless of gender, age and religion; and
- We provided training to our workers on safe use of machinery and our workers were required to pass the relevant assessments conducted by us.

We have also established a safety and environment protection division (consisting of five staff members as at the Latest Practicable Date) which is led by Mr. Cai Jianming, one of the deputy general managers of Zhejiang Sunlight, responsible for overseeing the implementation of our environmental protection policies in our business operation to ensure strict compliance with the PRC relevant laws and regulations, policies and industry standards. Our safety and environment protection division is charged with duties to (i) communicate with the production department, external waste disposal companies and third party environmental impact assessment agencies to monitor our pollutants discharged from the production process; (ii) review the implementation of our environmental protection policies and procedures; and (iii) report any material environment-related issues to our executive Director Mr. Chen Hua.

Assessment of environment-related risks

Production facilities

We carried out an environmental impact assessment before commencing the construction of production facilities as required by the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》). The environmental impact assessment covers air quality impact assessment, noise impact assessment, water quality and sewage impact assessment, waste management impact assessment, and set out environmental monitoring and audit requirements.

BUSINESS

Pollutants discharge permit

We are also required under PRC law to obtain the relevant pollutants discharge permits for our production facilities. As advised by our PRC Legal Advisers, we had obtained all relevant pollutants discharge permit. Please refer to the paragraph headed “Certificates, licences and permits” in this section for details. If our Group fails to comply with the relevant laws and regulations, we would be subject to fines, suspension of business or cessation of operations.

Shown below is the level of certain pollutants that were discharged and the regulatory permitted level of such discharge during the relevant period:

	For the year ended 31 December						For the nine months ended 30 September			
	2016		2017		2018		2018		2019	
	<i>Permitted discharge</i> <small>(Note 1)</small>	<i>Actual discharge</i> <small>(Note 2)</small>	<i>Permitted discharge</i> <small>(Note 1)</small>	<i>Actual discharge</i> <small>(Note 2)</small>	<i>Permitted discharge</i> <small>(Note 1)</small>	<i>Actual discharge</i> <small>(Note 2)</small>	<i>Permitted discharge</i> <small>(Note 1)</small>	<i>Actual discharge</i> <small>(Note 2)</small>	<i>Permitted discharge</i> <small>(Note 1)</small>	<i>Actual discharge</i> <small>(Note 2)</small>
Chemical oxygen demand (COD) (Tonne)	4.4	0.4	4.4	0.3	4.4	0.1	4.4	Minimal	4.4	Minimal
Solid wastes (Tonne)	N/A	223	N/A	67	N/A	19	N/A	19	N/A	80.4

Notes:

- COD value is determined by the amount of oxygen consumed in total chemical oxidation of the organic constituents to inorganic end products. The permitted discharge volume of COD is based on discharge permits obtained by our Group in compliance with the applicable laws and regulation. Please refer to the paragraph headed “Certificates, licences and permits” in this section for details. The solid wastes discharge permit did not specify permitted discharge volume and, as advised by our PRC legal advisers, the PRC law has not set any cap specifically in relation to permitted discharge volumes of solid wastes that applies to our business. Nevertheless, in connection with our generation and disposal of solid wastes, we are subject to the requirements to (i) carry out environmental impact assessment, including waste management impact assessment, before commencing construction of our production facilities; and (ii) engage qualified waste disposal companies to handle disposal of such wastes in accordance with the PRC legal requirements.
- The actual discharge COD value is derived from multiplying the number of tonnes of waste water discharged during the relevant period (based on the relevant water bills or by linear interpolation) by the averaged COD value of samples tested over the relevant period. The figures are approximate figures only. Minimal represents a figure less than 0.1. The actual discharge quantity of solid waste is calculated from our internal record during the relevant period.

Our Directors believe that the production process of our principal business does not generate environmental pollutants exceeding regulatory permitted level, the impact of our operations on the environment is not material.

Environment-related risk management

The third party environmental impact assessment agencies may conduct inspection regarding our compliance with various environmental protection laws and regulations. We also monitor our water and noise pollution level to ensure that we comply with the relevant PRC environmental laws and regulations. If the actual discharge volume deviated from the normal amount or permitted discharge volume, the head of our safety and environmental protection division shall take the lead to investigate the cause, make recommendations to our executive Director, Mr. Chen Hua, and carry out the remedial actions.

Our production involves the use of solvents as raw materials. Among our solvents used is DMF, which is prone to vaporisation and produces exhaust gases that are harmful to the environment. We have implemented the following system which aims to reduce the emission of exhaust gases associated with the use of solvents and recycle our wastes produced:

- (1) solvents such as DMF evaporate and produce exhaust gas, which is collected and channelled into spray towers (水噴淋塔). In the spray towers, they are mixed with water which results in (i) dissolution of part of the exhaust gas in the water, and (ii) separation of exhaust gas which cannot be dissolved;
- (2) dissolution of the exhaust gas in water results in the production of waste water. Such waste water will be treated for removal of wastes and purification and will be available for use as raw materials for our production of water-based colour paste;
- (3) the separated exhaust gas which cannot be dissolved will be treated by our active charcoal canisters (活性炭罐) for absorption of harmful substances. Gas that has undergone this purification process will become clean air and be discharged into the atmosphere;
- (4) when the active charcoal canisters reach their saturation capacity, the canisters will be treated with injection of water vapour of high temperature such that the exhaust gases will be desorbed from the active charcoal canisters. After this process, the canisters restores its capacity and will be reused; and
- (5) the exhaust gases desorbed from the active charcoal canisters will be incinerated in furnace with natural gas under high temperature. Gas treated by incineration that meets a satisfactory standard of purity will be discharged into the atmosphere.

BUSINESS

For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, the cost incurred by us for complying with the applicable environmental laws were approximately RMB1.4 million, RMB0.9 million, RMB1.0 million and RMB0.8 million respectively. Our cost of compliance going forward is expected to be generally in line with our historical compliance with applicable environmental protection laws and regulations. Our Directors confirm that our Group has been complying with all the applicable laws and regulations in the PRC relating to environmental protection and, as advised by our PRC Legal Advisers, no penalty has been imposed on our Group by any PRC government authorities in relation to any environmental matters.

BUSINESS

EMPLOYEES

As at the Latest Practicable Date, we had a total of 140 full-time employees, all of which are located in the PRC. The following table sets out the breakdown of our employees by function as at the Latest Practicable Date:

Function	Number of employees
Management	5
Administration	13
Finance and accounting	4
Sales and marketing	10
Procurement	3
Production	54
Research and development	41
Quality control	4
Safety and environmental protection	6
Total	140

We actively pursue a strategy to recruit, develop and retain employees by (i) providing them with on-the-job trainings according to their job requirements with regard to our training policy; and (ii) aligning employees' compensation and incentives with their performance by reviewing their remuneration packages periodically.

Recruitment and remuneration policies

With regard to our recruitment policy, we recruit our employees by, among others, posting job recruitment notices on recruitment websites. We intend to use our best effort to attract and retain suitable personnel. We assess the available human resources on a continuous basis and will determine whether additional personnel are required to cope with our business development.

We determine our employees' remuneration based on factors such as qualifications, duty, contributions and work experience. The key principle of our remuneration policy is to remunerate employees in a manner that is market competitive.

As required by PRC laws and regulations, we participate in various employees' social security plans for our employees that are administered by local governments, including housing provident fund, pension, medical, maternity insurance, work-related injury insurance and unemployment insurance.

BUSINESS

Labour union and labour disputes

We have one workers' union. Our Directors confirm that we did not experience any significant difficulty in recruiting our employees nor did we have any significant employees compensation or labour disputes during the Track Record Period. We consider we have maintained satisfactory relations with our employees.

PROPERTIES

As at the Latest Practicable Date, we owned the land use rights and the buildings erected thereon of two parcels of land with a total gross floor area of approximately 22,490 sq. m. both situated at 2, Jiangshan Road, Meicheng Town, Jiande County, Hangzhou City, Zhejiang Province, the PRC* (中國浙江省杭州市建德市梅城鎮薑山路2號), which was used as our production plant, warehouse and office, for an initial term of 50 years. We have obtained the ownership certificate in respect of our owned properties. For details of our owned properties, please refer to Appendix IV to this prospectus.

Disposal of property which was subsequently leased to us

In December 2013, we entered into a property transfer agreement with the landlord (who is an Independent Third Party) to purchase a premises located at 16/F and 17/F, Block E1, Zijin Zhongchuang Small Town, No. 3, Xiyuan 8th Road, Sandun, Xihu District, Hangzhou City, Zhejiang Province, the PRC* (中國浙江杭州市西湖區三墩西園八路3號紫金眾創小鎮 E1-16層及17層) with a gross floor area of approximately 3,170 sq. m. for office and research use, at a consideration of approximately RMB25.4 million. The premises were handed over to us for our use since May 2014, while the relevant certificate of ownership was expected to be transferred to us by 30 May 2019 pursuant to the property transfer agreement. As advised by our PRC Legal Advisers, since the completion inspection filing of the above premises had been obtained, our Group has the right to lawfully use and occupy the above premises. However, the landlord subsequently went into bankruptcy proceedings and we were not able to obtain the relevant certificate of ownership. The landlord is under the control of the administrator with respect to its bankruptcy restructuring.

With a view to mitigating the uncertainty as to the title of the premises and given that our Group did not need the entire premises for our operation at that time, on 20 March 2018, our Group entered into a transfer agreement (as supplemented and amended) (the **“Transfer Agreement”**) with Hangzhou Qiyue (which was then owned by our Controlling Shareholders), pursuant to which we transferred the relevant rights and risks of the above premises to Hangzhou Qiyue at a consideration of RMB30.0 million with reference to a valuation as at 28 February 2018 appraised by an independent valuer. After that, we continued to use part of the premises (being part of 16/F, Block E1, Zijin Zhongchuang Small Town, No. 3, Xiyuan 8th Road, Sandun, Xihu District, Hangzhou City, Zhejiang Province, the PRC (the **“Leased Premises”**)) for our office and research and development use, and we will continue to use such premises after the Listing pursuant to a leasing agreement entered into between Zhejiang Sunlight and Hangzhou Qiyue on 29 May 2019 as supplemented by a supplemental agreement entered into on 28 November 2019 (the **“Leasing Agreement”**) at a monthly rent of RMB27,500. For further details, please refer to the section headed “Connected Transaction” in this prospectus.

BUSINESS

Since the Leased Premises have been subject to the bankruptcy proceedings instigated against its previous landlord, as at the Latest Practicable Date, Hangzhou Qiyue had not obtained the certificate of ownership in respect of the Leased Premises. However, as advised by our PRC Legal Advisers, (i) the Transfer Agreement is lawful and enforceable, (ii) the rights and risks of the above premises have been transferred to Hangzhou Qiyue, and (iii) the Lease Agreement is lawful and enforceable.

INSURANCE

We maintain accidental damage insurance for all of our properties, production facilities and inventories. According to the PRC laws and regulations, we are not required to purchase any insurance for our business operation (such as business interruption insurance), or any product liability insurance for possible claims arising from the products sold. We have not purchased such insurance. We have not purchased any insurance relating to war or terrorist attacks either.

We believe that the coverage of our insurance is adequate and in line with the general industry practice in the PRC. During the Track Record Period, we had not received any insurance claims arising from major industrial accidents or product liability. During the Track Record Period, we provided pension, medical care, work-related injury, maternity and unemployment insurance contribution to our employees.

For further details, please refer to the section headed “Risk Factors – Risks relating to our business – Our business operations are subject to significant operational risks and other unforeseen risks that may not be fully covered by insurance policies or at all” in this prospectus.

INFORMATION TECHNOLOGY

Our information technology system is essential to our business operation and management. Our Company currently adopts the ERP system, which covers many areas including finance and accounting, production management, inventory management, sales and marketing, etc.. During the Track Record Period, we have not experienced any major defects in our ERP system.

CERTIFICATES, LICENCES AND PERMITS

According to the relevant PRC laws and regulations, we are required to obtain certain certificates, licences and permits for our business operation. As confirmed by our Directors and our PRC Legal Advisers, (i) we have obtained material requisite certificates, licences, permits and approvals required in the course of our business operation; (ii) all such certificates, licences, permits and approvals remain valid; and (iii) save as disclosed in the paragraph headed “Legal proceedings and legal compliance - Legal compliance” in this section, we have been in compliance with the relevant laws and regulations in all material aspects in the course of our operation.

BUSINESS

Major certificates, licences and permits that we have obtained are as follows:

Certificates, licences and permits	Registration number	Date of last grant	Expiry date
Hazardous Chemical Registration Certificate	330110324	24 June 2019	23 June 2022
Work Safety Licence	(ZJ) WH An Xu Zheng Zi [2019]-A-2340	13 August 2019	18 August 2022
Hangzhou Pollutant Discharge Permit	330182260143-103	22 December 2016	21 December 2021
High and New Technology Enterprise Certificate	GR201733002089	13 November 2017	12 November 2020
Registration Certificate of Customs Declaration Unit	3301964J50	30 November 2016	Nil
Entry-exit Inspection and Quarantine Recordation Form for Inspection and Quarantine Declaration Enterprises	3333400385	26 September 2018	Nil
Record Registration Form for Foreign Trade Operators	02307818	4 March 2019	Nil

Some of the aforesaid certificates, licences, permits and approvals are subject to periodic review and renewal. As such, we will renew all existing certificates, licences, permits and approvals before their expiry.

As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we had obtained all material requisites certificates, licences, permits and approval required to engage in the relevant businesses within the scope of business set out in our business licence, and there were no foreseeable major obstacles for us to continue to hold and renew such licences, certificates, permits and approvals as at the Latest Practicable Date.

LEGAL PROCEEDINGS AND LEGAL COMPLIANCE

Legal Proceedings

During the Track Record Period up to the Latest Practicable Date, none of our Company, any of our subsidiaries or our Directors was a party to any litigation, arbitration or claim that may have a material adverse effect on our financial conditions or results of operations. Our Directors, to the best of their knowledge, information and belief having made all reasonable enquiries, are not aware of any litigation proceedings pending or threatened against us which could have a material adverse effect on our financial condition or results of operations.

Legal Compliance

According to our PRC Legal Advisers, save for the non-compliance incidents disclosed below, during the Track Record Period and up to the Latest Practicable Date, we had been in compliance with the relevant PRC laws and regulations in all material aspects in our business operation, and our Group had obtained all material licences, approvals and permits issued by relevant regulatory authorities for our business operation. Please refer to the paragraph headed “Certificates, licences and permits” in this section for details.

Legal consequences including potential maximum penalty and other financial liabilities	Reasons for the non-compliance	Particulars of non-compliance incident	Remedial actions
<p>According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), late charges and fines may be imposed on us if we fail to make the social insurance contributions for our employees in full amount in a timely manner. We may be ordered to pay the shortfall within a specified period, together with a late charge equivalent to 0.05% of the shortfall per day. As advised by our PRC Legal Advisers, should we continue to fail to pay the shortfall and/or the late charge, we may be subject to a fine that equals up to three times of the total shortfall of our social insurance contributions.</p> <p>However, pursuant to the Regulation of the Labour Protection Monitoring (《勞動保障監察條例》), any non-compliance with labour protection laws and regulations will not be investigated if it is not discovered or reported within two years from the date when such breach is committed or if such breach is a continuing breach, the date of cessation of such breach. Also, part of the outstanding social insurance contribution involved some of our ex-employees whose employment with us have been terminated for more than two years. As advised by our PRC legal Advisers, if no complaint was filed by such ex-employees with the Jiande Human Resources and Social Security Bureau* (建德市人力資源及社會保障局) within two years after the termination of their employment, the risk of the Jiande Human Resources and Social Security Bureau* (建德市人力資源及社會保障局) demanding payment of the outstanding social insurance contribution for such ex-employees is remote. Hence, after excluding the outstanding social insurance contribution in relation to such ex-employees, we estimate that our maximum penalty exposure for the non-compliance is a fine of approximately RMB9.0 million as at the Latest Practicable Date.</p>	<p>The non-compliance incidents were primarily due to (i) that certain individual employees who had contributed to social insurance in their own hometowns not willing to enrol for social insurance in Jiande County; and (ii) inconsistent implementation or interpretation of the relevant regulations by local authorities in the PRC.</p>	<p>During the Track Record Period, Zhejiang Sunlight failed to make adequate social insurance contributions and housing provident fund contributions for their employees as required by the relevant PRC laws and regulations.</p> <p>We estimate that the aggregate unpaid amount of social insurance payments and housing provident fund contributions for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019 were approximately RMB1.3 million, RMB0.99 million, RMB0.93 million and nil, respectively, with respect to social insurance payments, and approximately RMB178,000, RMB8,000, RMB7,000 and nil, respectively, with respect to housing provident fund contributions.</p>	<p>During the Track Record Period and up to the Latest Practicable Date, we had not received any orders or demands from the relevant government authorities requesting us to pay the shortfall in social insurance or housing provident fund contributions or any penalties.</p> <p>We have obtained a written confirmation from the Jiande Human Resources and Social Security Bureau* (建德市人力資源及社會保障局) dated 26 April 2019 confirming that (i) it would not initiate any request for payment of the outstanding balance; (ii) it would not administer any penalties in relation to the above non-compliance; (iii) Zhejiang Sunlight has not been subject to any litigations, investigations, claims, arbitration or disputes in relation to the above non-compliance and there has not been any circumstances leading to such litigations, investigations, claims, arbitrations or disputes; and (iv) since 1 January 2019, Zhejiang Sunlight has paid social insurance premiums in full for all its employees in accordance with the applicable PRC laws and regulations.</p> <p>We have obtained a written confirmation from Jiande Branch of Hangzhou Provident Fund Management Centre* (杭州公積金管理中心建德分中心) dated 26 April 2019 confirming that (i) it would not initiate any request for payment of the outstanding balance; (ii) it would not administer any penalties in relation to the above non-compliance; (iii) Zhejiang Sunlight has not been subject to any investigations, claims or penalties in relation to the above non-compliance and there has not been any circumstances leading to such investigations, claims or penalties; and (iv) since April 2019, Zhejiang Sunlight has paid housing provident fund premiums in full for all its employees in accordance with the applicable PRC laws and regulations.</p>

Particulars of non-compliance incident	Reasons for the non-compliance	Legal consequences including potential maximum penalty and other financial liabilities	Remedial actions
		<p>According to the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》) and other relevant regulations, if an employer fails to complete the registration and open a housing provident fund account for its employees, the Housing Provident Fund Management Centre shall order it to complete the registration formalities within the prescribed time limit. If the employer fails to complete the registration formalities within the prescribed time limit, it will be subject to a fine from RMB10,000 to RMB50,000. If the employer fails to pay the housing provident fund in full, the Housing Provident Fund Management Centre shall order the employer to make up the outstanding payment within the prescribed time limit. If no payment is made within the prescribed time limit, the Housing Provident Fund Management Centre may apply to the PRC court for an order of payment.</p>	<p>The above authorities have confirmed that they are the competent authorities. Based on the written confirmations, our PRC Legal Advisers are of the view that the risk of Zhejiang Sunlight being fined for failing to make contributions to the social insurance and housing provident fund in full amount on time or being required to make up the shortfalls in social insurance contributions or housing provident fund is remote. Accordingly, our Directors are of the view that no provision is necessary in respect of the social insurance and housing provident fund contributions.</p> <p>In order to prevent future potential non-compliance incidents in relation to social insurance and housing provident fund contributions, we have formulated written policies and procedures and strengthen our internal control specifying that:</p> <ul style="list-style-type: none"> (i) the registration and account opening for social insurance and housing provident fund contributions of all employees will be completed within the prescribed time limit; (ii) personnel of our human resources department with relevant knowledge and expertise will be responsible for the calculation of social insurance and housing provident fund contributions in accordance with the relevant PRC laws and regulations, which shall then be checked by human resources manager to ensure the correctness and compliance with regulatory requirements; (iii) training will be provided to the relevant personnel of our human resources department on the social insurance and housing provident fund contributions requirements under the relevant PRC laws and regulations; and (iv) Mr. Chen Weibo, one of the joint company secretaries of our Group, will regularly review policies and procedures in relation to the social insurance and housing provident fund contributions to ensure compliance with the regulatory requirements. <p>Pursuant to the Deed of Indemnity, our Controlling Shareholders have agreed to indemnify us for all claims, costs, expenses and losses incurred by us arising from such non-compliance incidents that exceed our provisions for the under paid amount of social insurance contributions and housing provident fund contributions.</p>

RISK MANAGEMENT AND INTERNAL CONTROL

We have adopted or expect to adopt a set of risk management measures and internal control policies to identify, evaluate and manage risks arising from our operations prior to Listing. Our internal control system is summarised as follows:

- we shall form an audit committee comprising three independent non-executive Directors as part of our measures to improve corporate governance. The primary duties of the audit committee are to provide our Directors with an independent review of the effectiveness of the financial reporting process, internal control, and risk management system of our Group, to oversee the audit process, and to perform other duties and responsibilities as assigned by our Directors;
- we have adopted and implemented comprehensive control policies in respect of various aspects of our business operations such as (i) risk management policies; (ii) conflict of interest guidelines; and (iii) disclosure guidelines;
- we shall establish system and manuals in relation to, among others, distribution of annual or interim reports and publication, handling and monitoring of inside information prior to public announcement and other requirements under the Listing Rules;
- our Directors have attended training sessions conducted by our legal advisers as to Hong Kong law on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange;
- we will comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. To avoid potential conflicts of interest, we will implement corporate governance measures as set out in the paragraph headed “Relationship with Our Controlling Shareholders – Corporate governance measures” in this prospectus. Our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance reports to be included in our annual reports after Listing;
- we have engaged Giraffe Capital Limited as our compliance adviser and will, upon Listing, engage a legal adviser as to Hong Kong laws, which will advise and assist our Board on compliance matters in relation to the Listing Rules and/or other relevant laws and regulations applicable to our Company; and
- when considered necessary and appropriate, we will seek professional advice and assistance from independent internal control consultants, external legal advisers and/or other appropriate independent professional advisers with respect to matters relating to our internal controls and legal compliance.

BUSINESS

In February 2019, we engaged an independent internal control consultant (the “**Internal Control Consultant**”) to perform a review over certain key areas of our internal control system. The Internal Control Consultant provided recommendations for our management’s consideration to enhance our internal controls and procedures.

The following table sets out the major findings of the internal control review and the corresponding measures recommended to be taken by our Group:

Major findings	Corresponding measures
We have not set up Board committees and appointed company secretary as required under the Listing Rules.	We should set up the audit committee, remuneration committee and nomination committee and appoint company secretary to ensure compliance with the Listing Rules before Listing.
We have not established an internal audit function.	We should appoint an Independent Third Party to perform annual review of the risk management and internal control system of our Group and report directly to our audit committee.
We have no insurance coverage in respect of legal proceedings against our Directors.	We should arrange appropriate insurance coverage on our Directors’ liabilities in respect of legal proceedings against our Directors arising out of corporate activities upon the Listing.

BUSINESS

The Internal Control Consultant conducted a follow-up review in April 2019 and to assess whether we have implemented the internal control measures recommended by the Internal Control Consultant and whether the deficiencies identified in the review have been rectified. Based on the result of this follow-up review, save for the setting up of our Board committees, appointment of an Independent Third Party to perform annual review of the risk management and internal control system of our Group and the arrangement for insurance coverage on our Directors' liabilities which will be done upon or shortly after Listing, we demonstrated we have implemented all major internal control measures recommended. No material deficiencies were identified during the internal control review.

CONNECTED TRANSACTION

OVERVIEW

We have, in the ordinary and usual course of our business, entered into the following transaction with a connected person of our Company, which is expected to continue on a continuing basis after the Listing. As such, upon the Listing, this transaction will constitute a continuing connected transaction for our Company under Chapter 14A of the Listing Rules.

CONNECTED PERSON

As at the Latest Practicable Date, Hangzhou Qiyue was owned as to 71.08% by Huzhou Milan, 23.50% by Mr. Chen Hua and 5.42% by Mr. He Zhangcai. Huzhou Milan is owned as to 42.68% by Ms. Liu Jing, 24.19% by Mr. Chen Hua, 14.78% by Ms. Zhu Jianqin, 14.78% by Mr. Li Xiangyu, 2.39% by Mr. Chen Yong, 0.60% by Mr. Cai Jianming, 0.45% by Mr. Zhao Xuesheng and 0.13% by Mr. He Zhangcai, who are regarded as a group of Controlling Shareholders. Ms. Liu Jing, Mr. Chen Hua, Ms. Zhu Jianqin and Mr. Li Xiangyu are also our executive Directors. Therefore, Hangzhou Qiyue is an associate of Ms. Liu Jing, Ms. Zhu Jianqin, Mr. Li Xiangyu, Mr. Chen Yong, Mr. Cai Jianming, Mr. Zhao Xuesheng and Mr. He Zhangcai and will become a connected person of our Company upon Listing under Chapter 14A of the Listing Rules.

EXEMPT CONTINUING CONNECTED TRANSACTION

Background

From 1 April 2018 to 31 May 2019, Hangzhou Qiyue leased to Zhejiang Sunlight a portion of 16/F, Block E1, Zijin Zhongchuang Small Town, No. 3, Xiyuan 8th Road, Sandun, Xihu District, Hangzhou City, Zhejiang Province, the PRC* (中國浙江杭州市西湖區三墩西園八路3號紫金眾創小鎮E1-16層) with a lettable area of approximately 500 sq. m. (the “**Leased Premises**”) for office and research and development use without charge.

Principal terms

On 29 May 2019, Zhejiang Sunlight as lessee entered into a lease agreement, as supplemented by a supplemental lease agreement entered into on 28 November 2019, with Hangzhou Qiyue as lessor for the lease of the Leased Premises for office and research and development use (collectively, the “**Lease Agreement**”). Pursuant to the Lease Agreement, the lease shall be for a term commencing on 1 June 2019 and ending on 30 June 2020 at a monthly rent of RMB27,500 (excluding utilities and management fees) and renewable with one-month prior written notice.

The rent payable by Zhejiang Sunlight under the Lease Agreement was determined with reference to the prevailing market rent for similar properties at the same development and in neighbouring areas at which the Leased Premises are located. Our property valuer, AVISTA Valuation Advisory Limited, has reviewed the Lease Agreement and confirmed that the rent payable by Zhejiang Sunlight under the Lease Agreement is fair and reasonable and consistent with the market rent for similar premises in similar locations.

CONNECTED TRANSACTION

Listing Rules implications

The expected maximum amount payable by Zhejiang Sunlight under the Lease Agreement shall be RMB357,500. Since the applicable percentage ratios (other than the profits ratio) as defined under the Listing Rules in respect of the transaction contemplated under the Lease Agreement is less than 5% and the total consideration is less than HK\$3,000,000, the transaction contemplated under the Lease Agreement is fully exempt from reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONFIRMATION FROM DIRECTORS

Our Directors (including our independent non-executive Directors) confirm that the continuing connected transaction described in this section has been entered into in the ordinary and usual course of business of our Company, and is on normal commercial terms, fair and reasonable and in the interests of our Company and our Shareholders as a whole.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), Sunlight Global and Lilian Global will be interested in an aggregate of 72.75% of the issued share capital of our Company. By virtue of the Guidance Letter HKEX GL89-16 Sunlight Global, Lilian Global, Mr. Chen Hua, Ms. Zhu Jianqin, Mr. Li Xiangyu, Mr. He Zhangcai, Mr. Zhao Xuesheng, Mr. Cai Jianming, Mr. Chen Yong and Ms. Liu Jing are a group of Controlling Shareholders within the meaning of the Listing Rules. Accordingly, Sunlight Global and its beneficial owners, namely, Mr. Chen Hua, Ms. Zhu Jianqin, Mr. Li Xiangyu, Mr. He Zhangcai, Mr. Zhao Xuesheng, Mr. Cai Jianming and Mr. Chen Yong, as well as Lilian Global and its beneficial owner, Ms. Liu Jing (collectively as a group of Controlling Shareholders), will be our Controlling Shareholders.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders or their respective close associates upon or shortly after the Listing. Having considered the following factors, our Directors consider that, our Group is capable of carrying out our business independently, and does not place undue reliance on our Controlling Shareholders and their respective close associates after Listing.

Management independence

Our Board comprises four executive Directors and three independent non-executive Directors. Our Board comprises a balanced composition of independent non-executive Directors who have sufficient character, integrity and calibre for their views to carry weight, and thus can effectively exercise independent judgment. In addition, each of our Directors is aware of his or her fiduciary duties as a director which require, among others, that he or she must act for the benefit of and in the best interests of our Company and does not allow any conflict between his or her duties as a director and his or her personal interests. If there is any potential conflict of interests arising out of any transactions to be entered into between our Group and our Directors or their respective close associates, the interested Directors shall declare such interest to our Board at or prior to the meeting of our Board in which the relevant transactions are to be considered as soon as he or she is aware of the conflicts in accordance with the Articles, and shall abstain from voting at the relevant Board meetings in respect of such transactions and shall not be counted in the quorum in accordance with the Articles.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

In addition, our Group has a senior management team which is capable of carrying out the business decision of our Group independently. None of our senior management team has any family relationship with our Controlling Shareholders or any of their respective close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Three of our Board members are independent non-executive Directors who are experienced in different professions to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions.

Our Directors believe that the presence of Directors from different backgrounds provides a balance of views and opinions.

Furthermore, our Board's main functions include approving our overall business plans and strategies, monitoring the implementation of these policies and strategies and managing our Company. Our Board acts collectively by majority decisions in accordance with the Articles and the applicable laws, and no single Director is supposed to have any decision-making power unless otherwise authorised by our Board.

Operational independence

While our Board has full rights to make all decisions on the overall strategic development, management and operational aspects of our Group, all essential operational functions (such as financial and accounting management, invoicing and billing and human resources) have been and will be overseen by the senior management of our Group (whose biographies are disclosed in the section headed "Directors and Senior Management" in this prospectus), without unduly requiring the support of our Controlling Shareholders and their close associates.

Our Group holds all the trademarks, patents and domain names that are material to our business, and has sufficient capital, equipment and employees to operate our business independently from our Controlling Shareholders and their respective close associates. Our Group does not rely on our Controlling Shareholders or their close associates and has independent access to our customers.

Our Group has also established a set of internal control policies and guidelines to facilitate the effective and independent operation of our business. Further details are set out in the section headed "Business – Risk management and internal control" in this prospectus.

Save as disclosed in the section headed "Connected Transaction" in this prospectus, our Group has not entered into any transactions with any of our Controlling Shareholders or their associates that will constitute connected transactions for the Company after the Listing.

Financial independence

Our Company is empowered to make independent decision in respect of business financial matters. Our Group has our own internal control, accounting and financial management system, accounting and finance department, independent treasury functions for cash receipts and payment and the ability to operate independently of our Controlling Shareholders from a financial perspective. Our Directors confirm that, save as disclosed in the section headed "Financial Information – Indebtedness – Bank and other borrowings" in this prospectus, during the Track Record Period and up to the Latest Practicable Date, none of our Controlling Shareholders or their

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

respective close associates had provided any guarantee to our Group. Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Group independently and are of the view that they are capable of managing our business independently from our Controlling Shareholders and their respective close associates after Listing.

None of our Directors, our Controlling Shareholders nor any of their respective close associates is a director or a shareholder of any business apart from the business of our Group which competes or is likely to compete, either directly or indirectly, with the business of our Group or has other conflicts of interest with our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following corporate governance measures to manage potential conflict of interests between our Controlling Shareholders and our Group, and to safeguard the interests of our Shareholders:

- (i) The decision-making mechanism of the Board as set out in the Articles of Association includes provisions to avoid conflicts of interest by providing, among other things, that a Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving certain contract or arrangement or other proposal in which he or any of his close associates is materially interested. In this context, such interest include interest which the Directors have in their capacity as Controlling Shareholders of our Group;
- (ii) The independent non-executive Directors of our Company shall give their independent opinions to the Shareholders on the relevant connected transaction(s) pursuant to the Listing Rules;
- (iii) Our Directors (including the independent non-executive Directors) will seek independent and professional opinions from external advisors at our Company's cost as and when appropriate in accordance with the Code on Corporate Governance Practices and Corporate Governance Report as set out in Appendix 14 to the Listing Rules;
- (iv) Any transactions between our Company and its connected persons shall be in compliance with the relevant requirements of Chapter 14A of the Listing Rules, including the announcement, annual reporting and independent shareholders' approval requirements (if applicable) under the Listing Rules; and
- (v) Our Company has appointed Giraffe Capital Limited as our compliance adviser and will appoint a Hong Kong legal adviser upon completion of the Listing, which will provide advice and guidance to us in respect of compliance with the Listing Rules and applicable laws, rules, codes and guidelines, including but not limited to various requirements relating to Directors' duties and internal controls.

Our Directors consider that our Company has sufficient control mechanisms to manage any potential conflict of interests between our Controlling Shareholders and their respective close associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), each of the following persons have an interest or short position in the Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of any class of shares carrying rights to vote in all circumstances at the general meetings of any other member of our Group:

Name	Capacity/Nature of interest	Number of Shares held immediately before the Capitalisation Issue and the Global Offering <small>(note 5)</small>	Percentage of interest in our Company immediately before the Capitalisation Issue and the Global Offering	Number of Shares held immediately after the Capitalisation Issue and the Global Offering <small>(note 5)</small>	Percentage of interest in the total issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering
Sunlight Global	Beneficial owner <small>(Notes 1, 3)</small>	194,000,000 (L)	97.00%	727,500,000 (L)	72.75%
Lilian Global	Beneficial owner <small>(Notes 2, 3)</small>	194,000,000 (L)	97.00%	727,500,000 (L)	72.75%
Mr. Chen Hua	Interest in controlled corporation <small>(Notes 1, 3)</small>	194,000,000 (L)	97.00%	727,500,000 (L)	72.75%
	Interest of spouse <small>(Note 4)</small>				
Ms. Liu Jing	Interest in controlled corporation <small>(Notes 2, 3)</small>	194,000,000 (L)	97.00%	727,500,000 (L)	72.75%
	Interest of spouse <small>(Note 4)</small>				

SUBSTANTIAL SHAREHOLDERS

Name	Capacity/Nature of interest	Number of Shares held immediately before the Capitalisation Issue and the Global Offering <small>(note 5)</small>	Percentage of interest in our Company immediately before the Capitalisation Issue and the Global Offering	Number of Shares held immediately after the Capitalisation Issue and the Global Offering <small>(note 5)</small>	Percentage of interest in the total issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering
Ms. Zhu Jianqin	Interest in controlled corporation <small>(Notes 1, 3)</small>	194,000,000 (L)	97.00%	727,500,000 (L)	72.75%
Mr. Li Xiangyu	Interest in controlled corporation <small>(Notes 1, 3)</small>	194,000,000 (L)	97.00%	727,500,000 (L)	72.75%
Mr. He Zhangcai	Interest in controlled corporation <small>(Notes 1, 3)</small>	194,000,000 (L)	97.00%	727,500,000 (L)	72.75%
Mr. Zhao Xuesheng	Interest in controlled corporation <small>(Notes 1, 3)</small>	194,000,000 (L)	97.00%	727,500,000 (L)	72.75%
Mr. Cai Jianming	Interest in controlled corporation <small>(Notes 1, 3)</small>	194,000,000 (L)	97.00%	727,500,000 (L)	72.75%
Mr. Chen Yong	Interest in controlled corporation <small>(Notes 1, 3)</small>	194,000,000 (L)	97.00%	727,500,000 (L)	72.75%

SUBSTANTIAL SHAREHOLDERS

Notes:

1. Sunlight Global is owned as to 61.20% by Mr. Chen Hua, 13.24% by Ms. Zhu Jianqin, 13.24% by Mr. Li Xiangyu, 9.24% by Mr. He Zhangcai, 2.14% by Mr. Chen Yong, 0.54% by Mr. Cai Jianming and 0.40% by Mr. Zhao Xuesheng.
2. Lilian Global is wholly-owned by Ms. Liu Jing. Ms. Liu is therefore deemed to be interested in the Shares in which Lilian Global is interested under the SFO.
3. Pursuant to the Guidance Letter HKEX GL89-16 issued by the Stock Exchange immediately following completion of the Global Offering (without taking into account any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), Mr. Chen Hua, Ms. Liu Jing, Ms. Zhu Jianqin, Mr. Li Xiangyu, Mr. He Zhangcai, Mr. Zhao Xuesheng, Mr. Cai Jianming and Mr. Chen Yong are entitled to exercise or control the exercise of 72.75% of the voting power at general meetings of our Company through exercising or controlling the exercise of the entire voting power at general meetings of Sunlight Global and Lilian Global, and are therefore deemed to be interested in the Shares in which Sunlight Global and Lilian Global are interested under the SFO.
4. Mr. Chen Hua and Ms. Liu Jing are spouses to each other. Therefore, each of them is deemed to be interested in the Shares in which he or she is interested under the SFO.
5. The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Shares.

Save as disclosed in this section, our Directors are not aware of any person who will, immediately following the Capitalisation Issue and the Global Offering (without taking into account any Shares that may be allotted and issued upon the exercise of the over-allotment option and the options that may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares, which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of any class of shares carrying rights to vote in all circumstances at the general meetings of any other member of our Group.

DIRECTORS AND SENIOR MANAGEMENT

OVERVIEW

Our Board currently consists of seven Directors, being four executive Directors and three independent non-executive Directors. The table below shows certain information in respect of the members of our Board:

Name	Age	Position	Date of joining our Group	Date of appointment to current position	Responsibility	Relationship with other Directors and senior management
Ms. Liu Jing (劉靜女士)	48	Executive Director and chairman of our Board	March 2010	21 June 2019	Participating in formulating the corporate and business strategies of our Group and overseeing overall business administration	Spouse of Mr. Chen Hua
Mr. Chen Hua (陳華先生)	46	Executive Director	July 2006	21 June 2019	Overseeing our day-to-day management and business operation, formulating business strategies and making major operational decisions of our Group	Spouse of Ms. Liu Jing

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group	Date of appointment to current position	Responsibility	Relationship with other Directors and senior management
Ms. Zhu Jianqin (朱建琴女士)	51	Executive Director	January 2006	21 June 2019	Overseeing and monitoring our research and development functions, technical know-how management and technology innovation	Nil
Mr. Li Xiangyu (鄺向宇先生)	54	Executive Director	January 2006	21 June 2019	Overseeing and monitoring our research and development functions, technical know-how management and technology innovation	Nil
Mr. Tian Jingyan (田景岩先生)	59	Independent non-executive Director	February 2020 <i>(Note)</i>	10 February 2020	Supervising and providing independent judgment to our Board	Nil
Mr. Ho Ho Tung Armen (何浩東先生)	43	Independent non-executive Director	February 2020	10 February 2020	Supervising and providing independent judgment to our Board	Nil
Ms. Yu Zhen (喻貞女士)	32	Independent non-executive Director	February 2020	10 February 2020	Supervising and providing independent judgment to our Board	Nil

Note: Mr. Tian was an independent director of Zhejiang Sunlight from August 2016 to December 2018 not assuming any executive role. He re-joined our Group as an independent non-executive Director in February 2020.

DIRECTORS AND SENIOR MANAGEMENT

The table below shows certain information in respect of members of our senior management:

Name	Age	Position	Date of joining our Group	Date of appointment to current position	Responsibility	Relationship with other Directors and other senior management
Mr. He Zhangcai (何掌財先生)	46	Chief financial officer	December 2005	20 August 2016	Overseeing the financial operations of our Group	Nil
Mr. Cai Jianming (蔡建明先生)	53	Deputy general manager of Zhejiang Sunlight	January 2006	20 August 2016	Overseeing the production functions of our Group	Nil
Mr. Zhao Xuesheng (趙學盛先生)	48	Deputy general manager of Zhejiang Sunlight	January 2006	20 August 2016	Overseeing sales and marketing functions of our Group	Nil
Mr. Chen Weibo (陳衛波先生)	46	Joint company secretary of our Company	July 2016	8 April 2019	Overseeing secretarial matters of our Company	Nil

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Ms. Liu Jing (劉靜女士), aged 48, is the chairman of our Board and an executive Director. She is also one of our Controlling Shareholders. She joined Zhejiang Sunlight in March 2010 as a director. She is responsible for formulating the corporate and business strategies of our Group and overseeing overall business administration. Ms. Liu is the spouse of Mr. Chen Hua, an executive Director and one of our Controlling Shareholders.

Ms. Liu obtained a diploma in law from Zhejiang University (浙江大學) of the PRC in December 2004 in a self-study higher education programme and a master degree in business administration from Edinburgh Napier University of the United Kingdom in November 2007. Ms. Liu was conferred the qualification of Registered Real Estate Appraiser* (註冊房地產估價師) by the Ministry of Housing and Urban-Rural Development of the PRC* (中華人民共和國住房和城鄉建設部) since November 1997.

From May 1998 to March 2002, Ms. Liu worked at Zhejiang Expressway Co., Ltd.* (浙江滬杭甬高速公路股份有限公司), which was principally engaged in investing in, developing and operating expressways in the PRC, participating in administrative function. From March 2002 to December 2009, Ms. Liu worked at Zhejiang Hengxin Real Estate And Land Valuation Company Limited* (浙江恆信房地產土地評估有限公司), a company providing valuation services for land and buildings in the PRC, as an administrative vice-manager responsible for human resources matters and administrative functions. Since November 2009, Ms. Liu has been a supervisor of Zhejiang Hengxin Real Estate And Land Valuation Company Limited* (浙江恆信房地產土地評估有限公司). Since May 2016, Ms. Liu has been an executive director, general manager and legal representative of Huzhou Milan.

Ms. Liu was a director, supervisor or manager of the following companies prior to their dissolutions, details of which are set out below:

Name of company	Place of incorporation	Nature of business	Date of dissolution	Modes of dissolution	Reason for dissolution
Hangzhou Yuhang Xietong Electronics Company Limited* (杭州余杭協同電子有限公司) ^(Note 1)	PRC	Manufacturing, processing and sales of electronic testing equipment	3 August 2017	Dissolved by deregistration	Cessation of business
Hangzhou Guangcai Chemical Company Limited* (杭州光彩化工有限公司) ^(Note 2)	PRC	Wholesaling and retail of chemical products and raw materials and other goods	11 October 2017	Dissolved by deregistration	Cessation of business
Major Rich Group Limited ^(Note 3)	Hong Kong	Trading	22 February 2013	Dissolved by deregistration	Cessation of business

DIRECTORS AND SENIOR MANAGEMENT

Notes:

1. Ms. Liu was a legal representative, executive director and general manager of Hangzhou Yuhang Xietong Electronics Company Limited* (杭州余杭協同電子有限公司), a company established in the PRC whose business licence was revoked on 8 October 2004, from February 2001 till its deregistration on 3 August 2017. As confirmed by Ms. Liu, the above company had ceased operation and did not conduct annual inspection. As a result, its business licence was subsequently revoked.
2. Ms. Liu was a supervisor of Hangzhou Guangcai Chemical Company Limited* (杭州光彩化工有限公司), a company established in the PRC whose business licence was revoked on 8 October 2004, from May 2002 till its deregistration on 11 October 2017. As confirmed by Ms. Liu, the above company had ceased operation and did not conduct annual inspection. As a result, its business licence was subsequently revoked.

As confirmed by Ms. Liu, after the tax clearance was completed in January 2003, Hangzhou Guangcai no longer had operation but did not proceed to perform the remaining formalities for deregistration due to the oversight of the then relevant staff responsible for the task. It did not draw the attention of Ms. Liu since Ms. Liu, being neither the legal representative nor the director, did not actively participate in the management of Hangzhou Guangcai. It only came to Ms. Liu's notice that Hangzhou Guangcai had not been formally deregistered during the course of the preparation for the listing of Zhejiang Sunlight on the ChiNext market in 2017. Ms. Liu then arranged to complete the formalities of deregistration in accordance with the applicable PRC laws and regulations, and Hangzhou Guangcai was deregistered on 11 October 2017. As advised by the PRC Legal Advisers, there is no statutory time limit for a company to complete the formalities of deregistration after the revocation of its business licence. The Directors consider that the delay in completing the legal formalities for deregistration of Hangzhou Guangcai shall not have any legal implications on Ms. Liu. As confirmed by Ms. Liu, Hangzhou Guangcai had not conducted any business operations after the revocation of business licence.

3. Ms. Liu was a director of Major Rich Group Limited, a company incorporated in Hong Kong, from May 2008 till its deregistration on 22 February 2013. As confirmed by Ms. Liu, the above company had ceased business operation and hence it was deregistered pursuant to section 291AA of the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

DIRECTORS AND SENIOR MANAGEMENT

Ms. Liu confirmed that (i) to the best of her knowledge, the above companies were solvent immediately prior to their respective dissolutions and had no outstanding liabilities on or before their respective dissolutions; (ii) there is no wrongful act on her part leading to the dissolutions of the above companies; (iii) the companies have not been involved in any material non-compliant incidents, claims, litigations or legal proceedings; (iv) she is not aware of any actual or potential claim that has been or will be made against her as a result of the dissolutions; and (v) no misconduct or misfeasance had been involved on her part in the dissolutions of the above companies.

Mr. Chen Hua (陳華先生), aged 46, is an executive Director, the executive director and general manager of Zhejiang Sunlight, and a director of Darkblue Technology and HongKong Gorgeous. He is also one of our Controlling Shareholders. Mr. Chen is responsible for overseeing our day-to-day management and business operation, formulating business strategies and making major operational decisions of our Group. Mr. Chen is the spouse of Ms. Liu Jing, the chairman of our Board, an executive Director and one of our Controlling Shareholders.

Mr. Chen was awarded a bachelor degree in mechanical engineering from Zhejiang University (浙江大學) of the PRC in June 1995. He was awarded the qualification of senior economist* (高級經濟師) by the Zhejiang Province Economic Series Advanced Professional Technical Positions Employment Qualification Review Committee* (浙江省經濟系列高級專業技術職務任職資格評審委員會) in December 2018.

Mr. Chen has been engaged in the chemical engineering industry for more than 19 years. From January 2000 to May 2006, Mr. Chen was employed by Hangzhou Rainbow Colour Paste Co., Ltd.* (杭州彩虹色漿有限公司), a manufacturer of colourants, resins, finishes and additives for synthetic leather and textiles, as a general manager. Mr. Chen joined Zhejiang Sunlight in July 2006 and took up positions as a director and the general manager. Mr. Chen was also the general manager of Huzhou Milan, a then manufacturer of chemical products, from January 2005 to July 2006, responsible for its overall management and formulation of business strategies, and was its supervisor from November 2007 to July 2010, respectively.

Ms. Zhu Jianqin (朱建琴女士), aged 51, is an executive Director. She is also a chief engineer of Zhejiang Sunlight responsible for overseeing and monitoring our research and development functions, technical know-how management and technology innovation. She is also one of our Controlling Shareholders.

Ms. Zhu obtained a bachelor degree in chemical engineering from Zhejiang Institute of Technology* (浙江工學院) (now known as Zhejiang University of Technology* (浙江工業大學)) of the PRC in July 1991. She obtained a qualification for professorate senior engineer* (教授級高級工程師) from the Department of Human Resources and Social Security of Zhejiang Province* (浙江省人力資源和社會保障廳) of the PRC in December 2017. She was awarded as one of Deqing County Top Ten Technology Innovation Leaders for 2010* (“2010年度德清縣十佳技術創新帶頭人”) from the Deqing County General Union* (德清縣總工會).

DIRECTORS AND SENIOR MANAGEMENT

Ms. Zhu joined our Group in January 2006 and is currently one of our chief engineers. Ms. Zhu has over 18 years of experience in the chemical engineering and colourants business. Prior to joining our Group, Ms. Zhu worked for Hangzhou Rainbow Colour Paste Co., Ltd.* (杭州彩虹色漿有限公司), a manufacturer of colourants, resins, finishes and additives for synthetic leather and textiles, from March 2000 to October 2004. Ms. Zhu was an engineer of Huzhou Milan, a then manufacturer of chemical products, responsible for product development from November 2004 to December 2005, and has been its supervisor since September 2016.

Mr. Li Xiangyu (鄺向宇先生), aged 54, is an executive Director, and a chief engineer and the supervisor of Zhejiang Sunlight responsible for overseeing and monitoring our research and development functions, technical know-how management and technology innovation. He is also one of our Controlling Shareholders. Mr. Li graduated from East China Institute of Chemical Technology* (華東化工學院) (currently known as East China University of Science and Technology* (華東理工大學)) of the PRC with a bachelor degree in fine chemicals, specialising in intermediates and dyes, in July 1987. He obtained a qualification of senior engineer* (高級工程師) from the Department of Human Resources and Social Security of Zhejiang Province* (浙江省人力資源和社會保障廳) of the PRC in November 2011.

Mr. Li has over 27 years of experience of chemical engineering and overseeing the synthetic leather products business. Mr. Li joined our Group in January 2006 and is currently one of our chief engineers. Prior to joining our Group, he worked in Zhejiang Hangyi Synthetic Leather Company Limited* (浙江杭意合成革有限公司), a manufacturer of synthetic leather, from April 1992 to July 2001. Subsequently, he worked for Hangzhou Rainbow Colour Paste Co., Ltd.* (杭州彩虹色漿有限公司), a manufacturer of colourants, resins, finishes and additives for synthetic leather and textiles, from August 2001 to August 2004, with his duties of work also including research and development. Mr. Li was an engineer of Huzhou Milan, a then manufacturer of chemical products, responsible for product development, between November 2004 and December 2005, and was its executive director, manager and legal representative from July 2010 to April 2016.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Tian Jingyan (田景岩先生), aged 59, was appointed as an independent non-executive Director in February 2020. He had been an independent director of Zhejiang Sunlight from August 2016 to December 2018.

Mr. Tian has been a Deputy Secretary-General of Artificial Leather and Synthetic Leather Professional Committee of China Plastic Processing Industry Association* (中國塑料加工工業協會人造革合成革專業委員會) since May 2018. He has been the Secretary-General of the Artificial Leather and Synthetic Leather Standardisation Working Group of National Technical Committee on Plastic Products of Standardisation Administration of China* (全國塑料製品標準化技術委員會人造革合成革標準化工作組) since February 2018.

Mr. Tian obtained a certificate of completion of training for senior management of listed companies* (上市公司高級管理人員培訓結業證) from Shenzhen Stock Exchange (深圳證券交易所) in the PRC in October 2011. He has completed training as a checker of the standardised work process for China national light industry* (中國輕工業標準化工作覆核員) of China National Light Industry Council* (中國輕工業聯合會) in December 2016. Mr. Tian was also a visiting professor of the Resources and Environment Institute* (資源與環境學院) of Shaanxi University of Science and Technology* (陝西科技大學) of the PRC from April 2013 to April 2016.

Mr. Tian has been an independent director of Huaфон Microfibre (Shanghai) Co., Ltd.* (上海華峰超纖材料股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 300180)) from January 2010 to June 2015. Mr. Tian has served as an independent director of Shandong Tongda Island New Materials Co., Ltd.* (山東同大海島新材料股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 300321)) since June 2014, an independent director of Kunshan Xiefu Artificial Leather Co., Ltd.* (昆山協孚新材料股份有限公司) since May 2015, and an independent director of Guangzhou Pochely New Materials Technology Co., Ltd.* (廣州聚合新材料科技股份有限公司) (a company listed on the National Equities Exchange and Quotations System (stock code: 834684)) from June 2017 to September 2018.

Mr. Ho Ho Tung Armen (何浩東先生), aged 43, was appointed as our independent non-executive Director in February 2020.

Mr. Ho is a member of the Hong Kong Institute of Certified Public Accountants. He obtained a bachelor degree with honour in accountancy from City University of Hong Kong in November 1998 and a master's degree in financial economics, which is a distance learning programme, from University of London in December 2002. Mr. Ho further obtained a Master of Business Administration degree from The University of Chicago Booth School of Business in the United States of America in December 2016.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ho worked at PricewaterhouseCoopers Ltd. from September 1998 to October 2002 with his last position as a senior associate. He worked as an assistant manager of KPMG UK Limited from October 2003 to October 2004. He then worked as a corporate finance executive of Grant Thornton Services LLP from November 2004 to February 2006. From June 2006 to December 2008, he worked in Evolution Securities China Ltd. as a corporate finance manager. He worked as a vice president of Wisdom Asset Management Limited, an asset management company, from June 2009 to March 2011 and a vice president of Hermes Capital Limited, a financial advisory services company, from March 2011 to April 2012. He also worked as the group chief financial officer at Tuenbo Management Company Limited from October 2013 to August 2014. Since February 2015, Mr. Ho has been the chief financial officer and company secretary of Tianyun International Holdings Limited, a manufacturer and seller of processed fruit products in China whose shares are listed on the Main Board (stock code: 6836), primarily responsible for overseeing the company's corporate strategies, finance, capital market, investor relations, board governance, internal audit and compliance matters.

Mr. Ho has been an independent non-executive director of Stream Ideas Group Limited, a digital media company whose shares are listed on GEM of the Stock Exchange (stock code: 8401) since March 2018.

Ms. Yu Zhen (喻貞女士), aged 32, was appointed as an independent non-executive Director in February 2020. Ms. Yu was awarded a doctorate degree in labour economics from Zhongnan University of Economics and Law* (中南財經政法大學) of the PRC in December 2016. She has extensive knowledge in labours and economics, such as the correlation between labours and productivity and human resources management. She has been a lecturer in Zhejiang University of Finance and Economics* (浙江財經大學) since May 2017.

Directors' interest

Save as disclosed above in this section, 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) has no other relationship with any Directors, senior management, substantial shareholders or Controlling Shareholders of our Company as at the Latest Practicable Date; and (iii) did not hold any directorship in any public companies the securities of which are listed on any securities market in Hong Kong, the PRC or overseas in the three years immediately preceding the Latest Practicable Date.

To the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, save as disclosed in this section, there was no additional matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders, and there was no additional information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. He Zhangcai (何掌財先生), aged 46, is the chief financial officer of our Group. He is primarily responsible for overseeing the financial operations of our Group. He is also one of our Controlling Shareholders.

Mr. He was awarded a bachelor degree in economic and business administration from Chongqing University (重慶大學) of the PRC in January 2009 through participation in its partial online course. He was conferred the qualification of accountant* (會計師) by the MOF in May 1998.

Mr. He has over 17 years of experience in the chemical engineering industry. He joined Zhejiang Sunlight in December 2005, with his current position being a finance manager. Since June 2000 and prior to joining Zhejiang Sunlight, Mr. He worked in various manufacturers of colourants, resins, finishes and additives for synthetic leather and textiles and chemical products, taking up financial responsibilities, including Huzhou Milan where he also served as its executive director, manager and legal representative from November 2007 to July 2010.

During the three years immediately preceding the Latest Practicable Date, Mr. He had not been a director of any public company the securities of which are listed on any securities market in Hong Kong, the PRC or overseas.

Mr. Cai Jianming (蔡建明先生), aged 53, is a deputy general manager of Zhejiang Sunlight responsible for overseeing the production management of our Group. He is also one of our Controlling Shareholders. Mr. Cai obtained an advanced level certificate in the advanced level study of business administration for growing small to medium size business enterprises* (成長型中小企業高級工商管理研修班高級研修班證書) awarded by Zhejiang University (浙江大學) of the PRC in May 2014. He was awarded Deqing County Excellent Employee at Hard Times* (德清縣勇克時艱優秀職工) by the Deqing County General Trade Union* (德清縣總工會) in April 2010 and The Most Beautiful Meicheng Citizen* (梅城鎮最美梅城人) by Meicheng Town People's Government* (梅城鎮人民政府) in November 2017.

Mr. Cai joined our Group in January 2006 and was appointed to be a manufacturing manager of Zhejiang Sunlight in January 2007. Prior to joining our Group, Mr. Cai was employed by Hangzhou Rainbow Colour Paste Co., Ltd.* (杭州彩虹色漿有限公司), a manufacturer of colourants, resins, finishes and additives for synthetic leather and textiles, from August 2001 to October 2004. He was a manager of Huzhou Milan, a then manufacturer of chemical products, between November 2004 and December 2005 overseeing the production department.

DIRECTORS AND SENIOR MANAGEMENT

During the three years immediately preceding the Latest Practicable Date, Mr. Cai had not been a director of any public company the securities of which are listed on any securities market in Hong Kong, the PRC or overseas.

Mr. Zhao Xuesheng (趙學盛先生), aged 48, is a deputy general manager of Zhejiang Sunlight responsible for overseeing the sales and marketing functions of our Group. He is also one of our Controlling Shareholders. Mr. Zhao joined our Group in January 2006 taking up sales and marketing responsibilities and was promoted to the position of deputy general manager in August 2016. Mr. Zhao obtained a diploma in applied chemistry from Zhejiang University (浙江大學) of the PRC in June 1994. He was qualified as junior assistant economist* (初級助理經濟師) by the Hangzhou Personnel Bureau* (杭州人事局) in July 1997.

Prior to joining our Group, he was employed by Zhejiang Weier Da Chemical Co., Ltd.* (浙江威爾達化工有限公司), a manufacturer of pesticides, insecticides, acaricides, fungicides and herbicides, from January 1999 to June 2002, with his last position being a district sales manager. Afterwards, he was employed by Hangzhou Rainbow Colour Paste Co., Ltd.* (杭州彩虹色漿有限公司) a manufacturer of colourants, resins, finishes and additives for synthetic leather and textiles, from April 2002 to November 2003, with his last position being a district sales manager. From October 2004 to January 2008, Mr. Zhao worked for Huzhou Milan, a then manufacturer of chemical products, taking up sales and marketing responsibilities.

During the three years immediately preceding the Latest Practicable Date, Mr. Zhao had not been a director of any public company the securities of which are listed on any securities market in Hong Kong, the PRC or overseas.

Mr. Chen Weibo (陳衛波先生), aged 46, is one of the joint company secretaries of our Group. He joined our Group as a board secretary of Zhejiang Sunlight in July 2016 and was appointed as a joint company secretary of our Company in April 2019. Mr. Chen obtained his bachelor degree in accounting from Zhejiang Institute of Finance and Economics* (浙江財經學院) (now known as Zhejiang University of Finance and Economics* (浙江財經大學)) of the PRC in July 1995. Mr. Chen was conferred the qualification of senior accountant by the Zhejiang Province Human Resources and Social Security Department* (浙江省人力資源和社會保障廳) in April 2009. Mr. Chen became a non-practising member of the Zhejiang Institute of Certified Public Accountants* (浙江省註冊會計師協會) in December 2009. Mr. Chen was awarded the ACCA Advanced Diploma in Accounting and Business by the Association of Chartered Certified Accountants in June 2017. Mr. Chen has over 20 years of experience in accounting and financial management. He worked at the overseas division of Zhejiang Construction Investment Group Company Limited* (浙江省建設投資集團有限公司) from September 1995 to June 2006, with his last position being an accountant. He was employed by Zhejiang Zhongda Sanchuan Hydropower Development Co., Ltd.* (浙江中大三川水電發展有限公司) from July 2006 to August 2009, with his last position being chief financial officer. He re-joined the overseas division of Zhejiang Construction Investment Group Company Limited* (浙江省建設投資集團有限公司) in September 2013 and was employed as the deputy manager of its finance department in October 2013 and remained at office until June 2016.

DIRECTORS AND SENIOR MANAGEMENT

During the three years immediately preceding the Latest Practicable Date, Mr. Chen had not been a director of any public company the securities of which are listed on any securities market in Hong Kong, the PRC or overseas.

COMPANY SECRETARY

Mr. Chen Weibo (陳衛波先生) was appointed as one of the joint company secretaries of our Company in April 2019. Please refer to the paragraph headed “Senior management” in this section for details of Mr. Chen’s qualifications and experience.

Mr. Lui Chi Ho (呂志豪先生), aged 47, was appointed as one of the joint company secretaries of our Company in April 2019. Mr. Lui is a partner of INCE & CO, a law firm in Hong Kong. Mr. Lui has been admitted as a solicitor to the High Court of Hong Kong since 1999. He was also admitted as a solicitor to the Supreme Court of England and Wales in 2004. Mr. Lui is a member of The Chartered Institute of Arbitrators and is an accredited mediator of Hong Kong International Arbitration Centre. Mr. Lui is also a China Appointed Attesting Officer, a member of the Solicitors Disciplinary Tribunal Panel and the chairman of the Appeal Tribunal Panel (Buildings).

BOARD COMMITTEES

We have established the audit committee, remuneration committee and nomination committee on 10 February 2020. Each of the above three committees has written terms of reference. The functions of the above three committees are summarised as follows:

Audit Committee

We established the audit committee with written terms of reference in compliance with the Listing Rules. The audit committee consists of Mr. Ho Ho Tung Armen, Mr. Tian Jingyan and Ms. Yu Zhen and is chaired by Mr. Ho Ho Tung Armen, who has the appropriate professional qualifications required under the Listing Rules. The primary duties of the audit committee are to assist our Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process, to develop and review our policies and to perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

We established the remuneration committee with written terms of reference in compliance with the Listing Rules. The remuneration committee consists of Mr. Tian Jingyan, Mr. Chen Hua and Ms. Yu Zhen and is chaired by Mr. Tian Jingyan. The primary duties of the remuneration committee include making recommendations to our Board regarding our policy and structure for the remuneration of all of our Directors and senior management.

DIRECTORS AND SENIOR MANAGEMENT

Nomination Committee

We established the nomination committee with written terms of reference in compliance with the Listing Rules. The nomination committee consists of Ms. Liu Jing, Mr. Ho Ho Tung Armen and Mr. Tian Jingyan and is chaired by Ms. Liu Jing. The primary functions of the nomination committee include reviewing the structure, size and composition (including the skills, knowledge and experience) of our Board and making recommendations on any proposed changes to our Board to complement our Company's corporate strategy, identifying individuals suitably qualified to become Board members, making recommendations to our Board on the appointment of members of our Board and succession planning of our Directors, and assessing the independence of our independent non-executive Directors.

BOARD DIVERSITY POLICY

We have adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to our business growth.

Pursuant to our board diversity policy, selection of our Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, and any other factors that our Board may consider relevant and applicable from time to time. High emphasis is placed on ensuring a balanced composition of skills and experience at our Board level in order to provide a range of perspectives, insights and challenge that enable our Board to discharge its duties and responsibilities effectively, support good decision making in view of the core businesses and strategy of our Group, and support succession planning and development of our Board. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board.

Our nomination committee is responsible for monitoring the implementation of our board diversity policy. After the Listing, our nomination committee will review our Board's composition at least once annually taking into account the benefits of all relevant diversity aspects, and adhering to our board diversity policy when making recommendation on any Board appointments. Our nomination committee will also ensure that diversity of our Board is considered as part of the evaluation of our Board's effectiveness. A summary of our board diversity policy together with any measurable objectives and specific diversity targets set for implementing the policy, and the progress made towards achieving those objectives and targets will be disclosed in the corporate governance report contained in our Company's annual report.

DIRECTORS AND SENIOR MANAGEMENT

COMPENSATION OF DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The aggregate amounts of remuneration including fees, salaries, contributions to pension schemes, allowances and benefits in kind and discretionary bonuses which were paid to our Directors for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019 were approximately RMB838,000, RMB820,000, RMB699,000 and RMB691,000, respectively.

The aggregate amounts of remuneration including fees, salaries, contributions to pension schemes, allowances and benefits in kind and discretionary bonuses which were paid by our Group to our five highest paid individuals for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019 were approximately RMB1,354,000, RMB1,335,000, RMB1,146,000 and RMB1,168,000, respectively.

No remuneration was paid by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in respect of the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019. Further, none of our Directors waived any remuneration during the same periods.

Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, allowances and benefits in kind) of our Directors for the year ended 31 December 2019 and the year ending 31 December 2020 is approximately RMB0.9 million and RMB1.5 million respectively.

Please refer to the section headed “Business – Employees” in this prospectus for details relating to number of staff, staff benefits, training and recruitment policy of our Group.

DIRECTORS AND SENIOR MANAGEMENT

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme, the purpose of which is to motivate the eligible participants to optimise their future contributions to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group. For details of the Share Option Scheme, please refer to the paragraph headed “Share Option Scheme” in Appendix VI to this prospectus.

COMPLIANCE ADVISER

We have appointed Giraffe Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. The compliance adviser will advise us in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) if we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or if the business activities, developments or results of our Group deviate from any forecast, estimate or other information in this prospectus; and
- (iv) if the Stock Exchange makes an inquiry of our Group under the Listing Rules regarding unusual movements in the price or trading volume of the Shares.

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company immediately before and following the completion of the Capitalisation Issue and the Global Offering (assuming no Shares are to be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme):

US\$

Authorised share capital:

<u>2,000,000,000</u>	shares of US\$0.0005 each	<u>1,000,000</u>
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US\$

Issued and to be issued, fully paid or credited as fully paid:

200,000,000	Shares in issue as at the date of this prospectus	100,000
550,000,000	Shares to be issued pursuant to the Capitalisation Issue	275,000
<u>250,000,000</u>	Shares to be issued pursuant to the Global Offering	<u>125,000</u>
<u>1,000,000,000</u>	Shares	<u>500,000</u>

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the issue of Shares pursuant to the Capitalisation Issue and the Global Offering are made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Options or any options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by us pursuant to the general mandate granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Offer Shares will carry the same rights as all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will qualify for all dividends or other distributions declared, paid or made on the Shares after the date of this prospectus.

SHARE CAPITAL

CAPITALISATION ISSUE

Conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors are authorised to capitalise the amount of US\$275,000 from such account and to apply such sum in paying up in full at par a total of 550,000,000 Shares for allotment and issuance to its then shareholders.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to allot, issue and deal with Shares with an aggregate number not more than the sum of:

- (a) 20% of the total number of Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of Over-allotment Options or any options which may be granted under the Share Option Scheme); and
- (b) the total number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors referred to below.

Our Directors may, in addition to the Shares which they are authorised to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of any option granted or which may be granted under the Share Option Scheme.

This mandate will expire:

- at the conclusion of our Company's next annual general meeting; or
- at the expiry of the period within which our Company is required by any applicable laws or the Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

Further information on this general mandate is set out in the paragraph headed "Statutory and General Information – A. Further information about our Company and its subsidiaries – 3. Resolutions in writing of all our Shareholders passed on 10 February 2020" in Appendix VI to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with a total number of not more than 10% of the total number of Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (excluding Shares which may be allotted and issued pursuant to the exercise of Over-allotment Options or any options which may be granted under the Share Option Scheme).

This 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 which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “Statutory and General Information – A. Further information about our Company and its subsidiaries – 6. Repurchase of Shares by our Company” in Appendix VI to this prospectus.

This mandate will expire:

- at the conclusion of our Company’s next annual general meeting; or
- at the expiry of the period within which our Company is required by any applicable laws or the Articles to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is earliest.

Further information on this general mandate is set out in the section headed “Statutory and General Information – A. Further information about our Company and its subsidiaries – 3. Resolutions in writing of all our Shareholders passed on 10 February 2020” in Appendix VI to this prospectus.

SHARE OPTION SCHEME

Pursuant to the written resolutions of our Shareholders dated 10 February 2020, we conditionally adopted the Share Option Scheme. Summary of the principal terms of the Share Option Scheme are set out in the section headed “Statutory and General Information – D. Other information – 1. Share Option Scheme” in Appendix VI to this prospectus.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Companies Law and the terms of the Memorandum and the Articles of Association, our Company may from time to time by ordinary resolution of shareholders (i) increase our capital; (ii) consolidate into Shares of larger amount; (iii) divide our Shares into several classes; (iv) subdivide our Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may, subject to the provisions of the Companies Law, reduce our share capital or capital redemption reserve by our Shareholders passing a special resolution. For details, please refer to the paragraph headed “Summary of the Constitution of Our Company and Cayman Islands Company Law – 2. Articles of Association – (a) Shares – (iii) Alteration of capital” in Appendix V to this prospectus.

Pursuant to the Companies Law and the terms of the Memorandum and the Articles of Association, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For details, please refer to the paragraph headed “Summary of the Constitution of Our Company and Cayman Islands Company Law – 2. Articles of Association – (a) Shares – (ii) Variation of rights of existing shares or classes of shares” in Appendix V to this prospectus.

PUBLIC FLOAT REQUIREMENTS

Rules 8.08(1)(a) and (b) of the Listing Rules require there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer’s listed securities to be maintained. This normally means that: (i) at least 25% of the issuer’s total number of issued shares must at all times be held by the public; and (ii) where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Stock Exchange) at the time of listing must be at least 25% of the issuer’s total number of issued shares. However, the class of securities for which listing is sought must not be less than 15% of the issuer’s total number of issued shares and must have an expected market capitalisation at the time of listing of not less than HK\$50 million.

Our Company undertakes that it will meet the public float requirement under the Listing Rules at the time of Listing and after the completion of the Global Offering. We will make appropriate disclosure of our public float and confirm the sufficiency of our public float in successive annual reports after Listing.

FINANCIAL INFORMATION

You should read this section in conjunction with our consolidated financial statements, including the notes thereto, as set out in the Accountants' Report set out in Appendix I to this prospectus. Our Company's consolidated financial statements have been prepared in accordance with the IFRSs. You should read the entire Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contain certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by our Company in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Company believes are appropriate under the circumstances. However, whether actual outcomes and developments will meet our Company's expectations and projections will depend on a number of risks and uncertainties over which our Company does not have control. For further information, you should refer to the section "Risk factors" in this prospectus.

OVERVIEW

We are a faux leather chemicals manufacturer in the PRC principally engaged in the research and development, manufacturing and sales of coating agents and synthetic resins. Our revenue increased from approximately RMB151.2 million in 2016 to approximately RMB157.6 million in 2017, and further to approximately RMB167.3 million in 2018 representing a CAGR of approximately 5.2% over the same period.

During the Track Record Period, our products were principally sold to customers in the PRC and approximately 99.1%, 99.2%, 97.8% and 97.7% of the total revenue was attributable to our PRC customers, which were mainly located in Zhejiang, Guangdong, Fujian and Jiangsu Provinces. According to our sales model, our customers can be categorised into manufacturers, distributors and trading entities. During the Track Record Period, our products were mainly sold to manufacturers, representing approximately 82.2%, 77.7%, 79.6% and 81.4% of the total revenue, respectively.

During the Track Record Period, our revenue generated from the sales of coating agents was the majority of our revenue, which amounted to approximately 91.1%, 88.4%, 86.6% and 85.5% of our total revenue. According to the CIC Report, we ranked the fourth in the faux leather coating agents market in the PRC in terms of the revenue in 2018, with a market share of approximately 1.9%.

Our net profits for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019 amounted to approximately RMB25.4 million, RMB35.0 million, RMB30.8 million and RMB15.2 million, respectively, and our net profit margins of approximately 16.8%, 22.2%, 18.4% and 11.7%, respectively.

FINANCIAL INFORMATION

BASIS OF PRESENTATION

Pursuant to the Reorganisation as fully explained in “History, Development and Reorganisation – Reorganisation” of the Prospectus, the Company became the holding company of the companies now comprising the Group on 18 April 2019. The Companies now comprising the Group were under the common control of our two controlling shareholders, Mr. Chen Hua and Ms. Liu Jing, before and after the Reorganisation. Accordingly, the historical financial information has been prepared on the basis by applying the principles of merger accounting as if the Reorganisation has been completed at the beginning of the Track Record Period.

The profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows include the results and cash flows of the companies now comprising the Group have been prepared as if the current group structure upon completion of the Reorganisation had been in existence throughout the Track Record Period or since their respective date of incorporation, where there is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2016, 2017, 2018 and 30 September 2019 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure upon completion of the Reorganisation had been in existence as at those dates, taking into account the respective dates of incorporation.

SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our financial condition and results of operations have been and will continue to be affected by a number of factors, including those set out below:

Continuous economic growth of the PRC

We primarily engage in the research and development, manufacturing and sale of coating agents and synthetic resins for use in the production of faux leather. As such, our financial performance and operation results mainly rely on the demand and the macroeconomic conditions in the PRC markets. According to the CIC Report, China’s economy has experienced significant growth over the past five years, with its nominal GDP having increased from RMB64.4 trillion in 2014 to RMB90.0 trillion in 2018. It is estimated that there will be growing demand for faux leather chemicals between 2019 and 2023 while sales values of finishes and additives, and colourants are expected to grow at a CAGR at 5.6% and 5.7%, respectively between 2018 and 2023. The growth in the faux leather chemicals manufacturing industry in China is mainly driven by replacement of genuine leather by faux leather, increasing demand of faux leather by a wide range of downstream applications, shift in consumption pattern and changing fashion trends.

FINANCIAL INFORMATION

In addition, the PRC government has from time to time adjusted its monetary, financial, fiscal or industrial policies, among others, or implemented other macroeconomic measures. Any adjustment in or implementation of economic policies and measures would also directly or indirectly affect our business and financial condition and operating results. Both the macroeconomic trends and industrial policies in the PRC could affect our procurement, production, sale and other parts of our business, leading to fluctuations in our operating results.

Cost of raw materials

The cost of raw materials is the principal component of our cost of sales, and the cost of purchase of polymers, solvents, pigments and auxiliary materials represents a significant part of our cost of raw materials. The cost of the raw materials we use to produce our products is subject to market force. During the Track Record Period, the cost of raw materials accounted for approximately 82.2%, 85.2%, 86.3% and 84.4% of our cost of sales, respectively. Any significant increase in the prices of raw materials could affect our gross profit margin if we could not pass on the cost increase to our customers. We currently do not enter into any hedging arrangement to mitigate our exposure to the fluctuations in the cost of raw materials.

We may not be successful to pass on the cost increase to our customers. We control our cost of sales by implementing stringent controls on the cost of raw materials. We intend to expand the sources of supply of raw materials, which would allow us to have a better negotiation power on the purchase of raw materials.

Based on our best estimates, for illustrative purpose only, the following sensitivity analysis table sets out the hypothetical changes in the profit before tax during the Track Record Period in relation to the percentage changes to (i) selling price; and (ii) cost of raw materials, assuming all other factors remained unchanged, based on the historical fluctuations during the Track Record Period:

	Hypothetical change in profit before tax			Nine months
	Year ended 31 December			ended
	2016	2017	2018	30 September
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Percentage change in selling price				
15%/(15%)	22,674/(22,674)	23,646/(23,646)	25,096/(25,096)	19,517/(19,517)
10%/(10%)	15,116/(15,116)	15,764/(15,764)	16,731/(16,731)	13,011/(13,011)
5%/(5%)	7,558/(7,558)	7,882/(7,882)	8,365/(8,365)	6,506/(6,506)
Percentage change in cost of raw materials				
25%/(25%)	(19,724)/19,724	(22,769)/22,769	(25,163)/25,163	(17,862)/17,862
10%/(10%)	(7,890)/7,890	(9,108)/9,108	(10,065)/10,065	(7,145)/7,145
5%/(5%)	(3,945)/3,945	(4,554)/4,554	(5,033)/5,033	(3,572)/3,572

FINANCIAL INFORMATION

Product mix and specifications

We offered a wide variety of faux leather chemical products, including colour paste, colour chips, finishes, additives and synthetic resins to satisfy the requirements of our customers from time to time. Different products have different gross profit margins depending on factors such as raw material costs, production costs and product pricing. The ability to offer a diversified range of faux leather products with different specifications (e.g. colour) is one of the essential factors for faux leather manufacturers in the PRC to compete against each other and also to enhance the overall profit margins for their products. As a result, our overall gross profit margin, so as our competitiveness in different products will vary depending on product mix across segments, which in turn, depends on our ability to expand our product offerings and to diversify our product mix. We intend to continue to optimise our product portfolio in response to the changes in market conditions and consumer preferences to further enhance our profitability generally.

Our production capacity and utilisation rate

Our operating results also depend on our production capacity and the utilisation rate of our production facilities. The utilisation rate will have a impact on our gross profit margin. Operations at or near full capacity would have a positive effect on our profitability. If the utilisation rate of our production facilities increases, the production volume will increase and our average fixed costs per tonne of our faux leather chemical products will decrease. This will increase our gross profit margin.

The utilisation rate is affected by the time required for the production set-up and the time required for repairs and maintenance. Other factors affecting the utilisation rate include, but not limited to, the level of demand for our paint and coating products, the overall economic performance in the PRC and the selected segment of the faux leather chemicals manufacturing industry, such as the expansion of production facilities, disruption to the power supply and our ability to manage our production facilities.

Taxation

One of our subsidiaries, Zhejiang Sunlight is recognised as a High and New Technology Enterprise* (高新技術企業) which is verified by Zhejiang government and has benefited from a preferential EIT rate of 15%, rather than the 25% EIT rate generally applicable to the PRC tax resident enterprises under the EIT Law. For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, our income tax expenses were approximately RMB4.2 million, RMB3.5 million, RMB4.5 million and RMB3.4 million, respectively, as a result of such preferential tax treatment.

Our tax rates directly impact our profitability, and we expect that our results of operations will continue to be positively affected by preferential tax treatments. However, qualification of Zhejiang Sunlight is re-evaluated every three years. The qualification of High and New Technology Enterprise* (高新技術企業) of Zhejiang Sunlight will expire in November 2020.

FINANCIAL INFORMATION

Zhejiang Sunlight will continue to receive the qualification of the High and New Technology Enterprise* (高新技術企業) preferential tax treatment only if the relevant authorities determine that Zhejiang Sunlight continues to qualify, which depends on a number of factors, such as whether the products produced fall within the scope of supported high and new technology, whether the incurred research and development expenses as a percentage of revenue reaches certain threshold percentages, whether the research and development staff as a percentage of total number of staff reaches certain threshold percentages and whether Zhejiang Sunlight has its own independent, core intellectual property rights.

SIGNIFICANT ACCOUNTING POLICIES

The financial information of our Group has been prepared in accordance with accounting policies which conform with IFRSs. The significant accounting policies adopted by our Group are set out in detail in note 4 to the Accountants' Report set out in Appendix I to this prospectus.

Certain critical accounting policies, judgement and estimates that are significant to the preparation of our consolidated financial information and important for an understanding of our financial position and results of operation are described below:

Revenue recognition

Under IFRS 15, 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 customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group'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.

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Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

(i) Sales of faux leather chemicals

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts, rebates and returns.

Government grant

Government grants are not recognised until there is a reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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.

Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses:

- buildings held for own use which are situated on leasehold land classified as held under operating leases; and
- other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

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Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of processing, labour and indirect overheads, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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 since 1 January 2016. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) 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 fair value through profit or loss are recognised immediately in profit or loss.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of our significant accounting judgements and estimates, which are described in note 5 to the Accountants' Report set out in Appendix I to this prospectus, the preparation of the Group's historical financial information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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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 consistently applied International Accounting Standards (“IASs”), IFRSs, amendments and the related Interpretations (“IFRICs”) (herein collectively referred to as the (“IFRSs”), which are effective for financial periods beginning on 1 January 2019 (the “New and Revised IFRSs”) throughout the Track Record Period. In addition, the Group has early applied IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial instruments” throughout the Track Record Period. Except for IFRS 16 “Leases”, the Group has initially applied IFRS 16 as from 1 January 2019. For further details, please refer note 3 to the Accountants’ Report set out in Appendix I to this prospectus.

Application on IFRS 9

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for annual periods beginning on after 1 January 2018 and earlier application is permitted. The Group has reviewed its financial assets and liabilities and has elected to early apply IFRS 9 which has been applied consistently throughout the Track Record Period.

Application on IFRS 15

IFRS 15 replaces the previous revenue standards IAS 18“Revenue” and IAS 11“Construction Contracts” and related interpretations. The standard is effective for annual periods beginning on after 1 January 2018 and earlier application is permitted. The Group has elected to early apply IFRS 15 which has been applied consistently throughout the Track Record Period.

Application on IFRS 16

The Group has elected to use the modified retrospective approach and recognised if any cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17. As at 31 December 2018, the Group had no any non-cancellable operating lease commitments, therefore, the application of IFRS 16 would not have any impact on opening balance of equity at 1 January 2019, except for the following table summarises the impact of transition of IFRS 16 at 1 January 2019. Our Directors consider the adoption of IFRS 16 has no significant impact on (i) the key financial ratios, such as gearing ratio, current ratio and quick ratio; or (ii) the Group’s financial position and performance.

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		Carrying amount previously reported at 31 December 2018	Impact on adoption of IFRS 16 reclassification	Carrying amount as restated at 1 January 2019
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Right-of-use assets	(a)	–	17,572	17,572
Prepaid lease payments	(a)	17,572	(17,572)	–

Note (a): Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB391,000 and RMB17,181,000 respectively were reclassified to right-of-use assets.

Taking into account the impact disclosed above, our Directors consider that the adoption of IFRS 9, IFRS 15 and IFRS 16 has no significant impact on our financial position and performance as compared to that of IAS 39, IAS 18 and IAS 17.

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The following table 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 nine months ended 30 September 2019.

Consolidated statements of profit or loss and other comprehensive income

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Revenue	151,160	157,641	167,307	121,741	130,114
Cost of sales	(95,990)	(106,863)	(116,619)	(87,125)	(84,643)
Gross profit	55,170	50,778	50,688	34,616	45,471
Other revenue	3,451	1,913	4,936	2,648	1,783
Other gains/(losses)	2,461	163	1,764	1,537	(59)
Selling and distribution expenses	(8,445)	(7,567)	(7,005)	(5,343)	(5,225)
Administrative and general expenses	(22,363)	(17,334)	(14,546)	(11,247)	(11,614)
Finance costs	(630)	(484)	(530)	(398)	(484)
Gain on disposal of a subsidiary	–	11,017	–	–	–
Listing expenses	–	–	–	–	(11,285)
Profit before tax	29,644	38,486	35,307	21,813	18,587
Income tax expense	(4,238)	(3,536)	(4,517)	(2,611)	(3,383)
Profit for the year/period	25,406	34,950	30,790	19,202	15,204
Other comprehensive loss					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	–	–	–	–	(363)
Total comprehensive income for the year/period	25,406	34,950	30,790	19,202	14,841

FINANCIAL INFORMATION

PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

During the Track Record Period, our revenue was principally derived from the sales of coating agents and synthetic resins in the PRC.

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Breakdown of revenue by product type

The table below sets out the breakdown of our revenue and percentage contribution to our total revenue by product type for the Track Record Period:

	2016				For the year ended 31 December 2017				2018			
	Revenue RMB'000	% of total revenue	Sales volume (tonne)	Average selling prices (RMB'000/ tonne)	Revenue RMB'000	% of total revenue	Sales volume (tonne)	Average selling prices (RMB'000/ tonne)	Revenue RMB'000	% of total revenue	Sales volume (tonne)	Average selling prices (RMB'000/ tonne)
Coating agents												
Colourants												
– Colour paste	69,540	46.0	4,531	15.3	72,382	45.9	4,749	15.2	82,553	49.3	5,303	15.6
– Colour chips	–	–	–	–	–	–	–	–	3,459	2.1	164	21.1
Colourants sub-total	69,540	46.0	4,531	15.3	72,382	45.9	4,749	15.2	86,012	51.4	5,467	15.7
Finishes	65,396	43.3	3,467	18.9	63,954	40.6	3,187	20.1	55,906	33.4	2,909	19.2
Additives	2,777	1.8	102	27.2	3,069	1.9	114	26.9	2,908	1.8	91	32.0
Coating agents sub-total	137,713	91.1	8,100		139,405	88.4	8,050		144,826	86.6	8,467	
Synthetic resins	13,447	8.9	799	16.8	18,236	11.6	1,020	17.9	22,481	13.4	1,332	16.9
Total	151,160	100	8,899		157,641	100	9,070		167,307	100	9,799	

	2018				For the nine months ended 30 September 2019			
	Revenue RMB'000 (unaudited)	% of total revenue	Sales volume (tonne)	Average selling prices (RMB'000/ tonne)	Revenue RMB'000	% of total revenue	Sales volume (tonne)	Average selling prices (RMB'000/ tonne)
Coating agents								
Colourants								
– Colour paste	58,229	47.8	3,902	14.9	54,947	42.2	3,061	18.0
– Colour chips	1,850	1.5	103	18.0	9,179	7.1	506	18.1
Colourants sub-total	60,079	49.3	4,005	15.0	64,126	49.3	3,567	18.0
Finishes	42,739	35.1	2,246	19.0	45,170	34.7	2,241	20.2
Additives	2,159	1.8	68	31.8	1,993	1.5	65	30.7
Coating agents sub-total	104,977	86.2	6,319		111,289	85.5	5,873	
Synthetic resins	16,764	13.8	1,006	16.7	18,825	14.5	1,027	18.3
Total	121,741	100	7,325		130,114	100	6,900	

Revenue attributable to the sales of our faux leather chemical products amounted to approximately RMB151.2 million, RMB157.6 million and RMB167.3 million, respectively, for the years ended 31 December 2016, 2017 and 2018. Such increase in our total revenue is primarily attributable to the increase in the overall sales volume of our faux leather chemical products. Our revenue increased from approximately RMB121.7 million for the nine months ended 30 September 2018 to approximately RMB130.1 million for the nine months ended 30 September 2019, which is primarily attributable to the increase in the average selling prices of our faux leather chemical products. Our revenue was mainly derived from the sales of coating agents and synthetic resins. The sales of coating agents remained the largest portion of our revenue.

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Colourants

Revenue attributable to the sales of colourants mainly refer to the sales of colour paste. In March 2018, we commenced our commercial production and sales of colour chips and recorded revenue of approximately RMB3.5 million for the year ended 31 December 2018 and approximately RMB9.2 million for the nine months ended 30 September 2019. Our revenue from sales of colourants contributed the largest portion of our total revenue, which amounted to approximately RMB69.5 million, RMB72.4 million, RMB86.0 million and RMB64.1 million, respectively, for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, representing 46.0%, 45.9%, 51.4% and 49.3%, respectively, of our total revenue over the same period. The increase in revenue of colourants for the years ended 31 December 2016, 2017 and 2018 was mainly due to (i) the increase in sales volume of our colour paste; and (ii) the commencement of the sales of our colour chips in March 2018. For further details of our revenue of colourants, please refer to the paragraph headed “Period to period comparison of results of operations” in this section.

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The average selling prices of colourants remained relatively stable at approximately RMB15,300 per tonne, RMB15,200 per tonne and RMB15,700 per tonne, respectively, for the years ended 31 December 2016, 2017 and 2018.

The average selling prices of colourants increased from approximately RMB15,000 per tonne for the nine months ended 30 September 2018 to approximately RMB18,000 per tonne for the nine months ended 30 September 2019, mainly due to (i) our commencement of the sales of colour paste for the microfibre leather in December 2018; and (ii) the decrease in our sales of colour paste of black and white colours.

Finishes

Our finishes represent chemical substances used to change the physical and chemical characteristics of surface of materials to achieve the desired effects. During the Track Record Period, revenue attributable to the sales of finishes remained stable at approximately RMB65.4 million and RMB64.0 million, respectively, for the year ended 31 December 2016 and 2017. Our sales of finishes decreased to approximately RMB55.9 million in 2018 was mainly due to the decrease in sales of high-performance finishes, which had relatively higher average selling prices compared to ordinary finishes. For further details, please refer to the paragraph headed “Period to period comparison of results of operations” in this section.

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The following table summarises the two classes of finishes we sold to our customers in the respective year/period as indicated:

	For the year ended 31 December								
	2016			2017			2018		
	Revenue RMB'000	Sales volume (tonne)	Average selling prices (RMB'000/ tonne)	Revenue RMB'000	Sales volume (tonne)	Average selling prices (RMB'000/ tonne)	Revenue RMB'000	Sales volume (tonne)	Average selling prices (RMB'000/ tonne)
Ordinary finishes	8,029	711	11.3	7,040	574	12.3	7,813	648	12.1
High-performance finishes	57,367	2,756	20.8	56,914	2,613	21.8	48,093	2,261	21.3
Total	65,396	3,467	18.9	63,954	3,187	20.1	55,906	2,909	19.2

	For the nine months ended 30 September						
	2018			2019			
	Revenue RMB'000 (unaudited)	Sales volume (tonne)	Average selling prices (RMB'000/ tonne)	Revenue RMB'000	Sales volume (tonne)	Average selling prices (RMB'000/ tonne)	
Ordinary finishes	5,686	488	11.7	5,577	440	12.7	
High-performance finishes	37,053	1,758	21.1	39,593	1,801	22.0	
Total	42,739	2,246	19.0	45,170	2,241	20.2	

Our finishes can be classified into two classes with reference to the functionalities, which are (i) ordinary finishes, which provide basic functions such as brightening and matting; and (ii) high-performance finishes, which provide more differentiated functionalities such as better imitation of genuine leather and higher durability.

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The average selling prices of finishes were approximately RMB18,900 per tonne, RMB20,100 per tonne, RMB19,200 per tonne and RMB20,200 per tonne, respectively, during the Track Record Period. Our Directors believe that such fluctuation of our average selling price of finishes was mainly driven by (i) the average purchase price of the raw materials and (ii) the change in our customers' preference on finishes, which was in turn driven by the requirements on differentiated functionalities and properties of their faux leather products by their downstream customers. In 2017, the average purchase price of polymers increased by 24.2% as comparing to 2016, which resulted in the increase in average selling prices of finishes. In 2018, since the average purchase price of polymers decreased from RMB19.0 per kg in 2017 to RMB18.6 per kg in 2018, which resulted in the decrease in our average selling price of finishes during the year.

Additives

During the Track Record Period, the percentages of revenue contribution from additives were relatively stable. The average selling prices of additives were relatively stable in 2016 and 2017 at approximately RMB27,200 per tonne and RMB26,900 per tonne. The average selling price increased to approximately RMB32,000 per tonne in 2018 and approximately RMB30,700 per tonne for the nine months ended 30 September 2019, which was mainly due to increase in sales of a specialised product, which aimed to provide the silky hand-feeling and had a higher selling price.

Synthetic resins

Our synthetic resins are polymers composing the major components of the dry layer of faux leather which we produced for the use in our production of finishes and for sale to customers. During the Track Record Period, revenue attributable to the sales of synthetic resins increased from approximately RMB13.4 million in 2016 to approximately RMB18.2 million in 2017, further to approximately RMB22.5 million in 2018.

During the Track Record Period, the movement of average selling prices of synthetic resins was in line with the movement of the average purchase prices of polymers, which are the key raw materials for the production of synthetic resins, during the same period. The average selling price increased from approximately RMB16,700 per tonne for the nine months ended 30 September 2018 to approximately RMB18,300 per tonne for the nine months ended 30 September 2019 was mainly due to our sales of newly developed synthetic resins products, which aim to provide better stability or other functionalities and had relatively higher selling prices.

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Breakdown of revenue by customer type

The table below sets out the breakdown of our revenue and percentage contribution to our total revenue by customer type for the Track Record Period:

	For the year ended 31 December						For the nine months ended 30 September			
	2016		2017		2018		2018		2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000 (unaudited)	% of total revenue	RMB'000	% of total revenue
Manufacturers	124,270	82.2	122,428	77.7	133,190	79.6	95,522	78.5	105,930	81.4
Trading entities	18,177	12.0	24,802	15.7	27,056	16.2	20,453	16.8	19,274	14.8
Distributors <i>(Note)</i>	8,713	5.8	10,411	6.6	7,061	4.2	5,766	4.7	4,910	3.8
Total	151,160	100	157,641	100	167,307	100	121,741	100	130,114	100

Note: This refers to the sales to the PRC distributor which has entered into a distributorship agreement with the Group.

During the Track Record Period, we mainly sold our products to manufacturers of synthetic leather, which may be used as raw materials to produce footwear and apparel, handbags and luggage and home furnishings. During the Track Record Period, our products were mainly sold to manufacturers and such sales amounted to approximately RMB124.3 million, RMB122.4 million, RMB133.2 million and RMB106.0 million, respectively, representing approximately 82.2%, 77.7%, 79.6% and 81.4% of the total amount of our revenue.

We also sold our products through four distributors, who are concentrated in Eastern China and are all Independent Third Parties, amounted to approximately RMB8.7 million, RMB10.4 million, RMB7.1 million and RMB4.9 million, respectively, representing approximately 5.8%, 6.6%, 4.2% and 3.8% of the total amount of our revenue during the Track Record Period. For details of the terms of the distributorship, please refer to the section headed “Business – Distributors” in this prospectus.

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Breakdown of revenue by geographical location

Our products were principally sold to customers in the PRC and approximately 99.1%, 99.2%, 97.8% and 97.7% of the total revenue was attributable from the customers in the PRC during the Track Record Period. The table below sets out the breakdown of our revenue and percentage contribution to our total revenue by geographical location for the Track Record Period:

	For the year ended 31 December						For the nine months ended 30 September			
	2016		2017		2018		2018		2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000 (unaudited)	% of total revenue	RMB'000	% of total revenue
PRC										
– Zhejiang Province	63,947	42.3	67,469	42.8	68,293	40.8	52,313	43.0	44,702	34.4
– Guangdong Province	28,879	19.1	30,868	19.6	33,260	19.9	22,766	18.7	21,988	16.9
– Fujian Province	19,468	12.9	26,321	16.7	32,054	19.1	22,083	18.1	28,249	21.7
– Jiangsu Province	15,257	10.1	11,542	7.3	10,810	6.5	8,055	6.6	11,831	9.1
– Other provinces and cities <i>(Note 1)</i>	22,250	14.7	20,138	12.8	19,212	11.5	14,168	11.6	20,356	15.6
Sub-total	149,801	99.1	156,338	99.2	163,629	97.8	119,385	98.0	127,126	97.7
Overseas <i>(Note 2)</i>	1,359	0.9	1,303	0.8	3,678	2.2	2,356	2.0	2,988	2.3
Total	151,160	100	157,641	100	167,307	100	121,741	100	130,114	100

Note:

- 1 Other provinces and cities mainly represent Henan Province, Anhui Province, Shanghai etc.
- 2 This represents Brazil, Mexico, Turkey and Vietnam.

Zhejiang Province, where our Group is located in, was our largest market by geographical location in the Track Record Period. During the Track Record Period, the percentages of revenue contribution from Zhejiang Province were approximately 42.3%, 42.8%, 40.8% and 34.4% respectively.

Guangdong Province was our second largest market in PRC and contributed revenue amounted to approximately 19.1%, 19.6%, 19.9% and 16.9%, respectively, of our total revenue during the Track Record Period.

Our overseas sales amounted to approximately RMB1.4 million, RMB1.3 million, RMB3.7 million and RMB3.0 million, respectively, representing approximately 0.9%, 0.8%, 2.2% and 2.3%, respectively, of our total revenue over the same period. We attended some exhibitions and trade fairs held in the PRC to explore new business opportunities and expand our customer base.

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Cost of sales

The following sets out an analysis of our costs of sales by product type during the Track Record Period:

	For the year ended 31 December			For the nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Coating agents					
Colourants					
– Colour paste	41,982	49,561	57,685	42,243	35,176
– Colour chips	–	–	2,914	1,662	7,704
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Colourants sub-total	41,982	49,561	60,599	43,905	42,880
Finishes	42,985	41,666	36,884	28,602	27,056
Additives	1,806	1,946	1,796	1,369	1,313
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Sub-total	86,773	93,173	99,279	73,876	71,249
Synthetic resins	9,217	13,690	17,340	13,249	13,394
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>95,990</u>	<u>106,863</u>	<u>116,619</u>	<u>87,125</u>	<u>84,643</u>

The trend of cost of sales of the principal product categories of our faux leather chemical products was in line with the trend of the revenue during the Track Record Period.

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The following sets out an analysis of our cost of sales by nature during the Track Record Period:

	For the year ended 31 December						For the nine months ended 30 September			
	2016		2017		2018		2018		2019	
	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000 (unaudited)	% of total cost of sales	RMB'000	% of total cost of sales
Raw materials:										
– Polymers	21,773	22.7	25,312	23.7	28,140	24.1	21,237	24.4	17,749	21.0
– Solvents	20,406	21.3	26,423	24.7	29,018	24.9	22,164	25.4	15,940	18.8
– Pigments	20,054	20.9	23,482	22.0	28,904	24.8	20,609	23.7	24,823	29.3
– Auxiliary materials	16,662	17.3	15,859	14.8	14,590	12.5	11,082	12.7	12,934	15.3
Sub-total	78,895	82.2	91,076	85.2	100,652	86.3	75,092	86.2	71,446	84.4
Direct labour	5,289	5.5	4,937	4.6	4,155	3.6	3,300	3.8	3,376	4.0
Depreciation and amortisation expenses	3,333	3.5	4,440	4.2	4,903	4.2	3,585	4.1	3,802	4.5
Packaging materials	3,595	3.7	3,186	3.0	3,302	2.8	2,623	3.0	2,442	2.9
Others	4,878	5.1	3,224	3.0	3,607	3.1	2,525	2.9	3,577	4.2
Total	95,990	100	106,863	100	116,619	100	87,125	100	84,643	100

Our costs of sales increased from approximately RMB96.0 million for the year ended 31 December 2016 to approximately RMB106.9 million for the year ended 31 December 2017, to approximately RMB116.6 million for the year ended 31 December 2018. The increase in the amount of cost of raw materials for the year ended 31 December 2016, 2017 and 2018 was in line with the increase in our revenue during the same period.

Our costs of sales decreased from approximately RMB87.1 million for the nine months ended 30 September 2018 to approximately RMB84.6 million for the nine months ended 30 September 2019, which was in line with the decrease in our sales volume during the period.

Raw materials represented the major component of our cost of sales, which accounted for approximately 82.2%, 85.2%, 86.3% and 84.4%, respectively, of our total cost of sales for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019. The raw materials include polymers, solvents, pigments and auxiliary materials.

FINANCIAL INFORMATION

The following sets out the breakdown of our purchase of raw materials during the Track Record Period:

	2016				For the year ended 31 December 2017				2018			
	RMB'000	% of total purchase	tonne	Average purchase price (RMB'000/tonne)	RMB'000	% of total purchase	tonne	Average purchase price (RMB'000/tonne)	RMB'000	% of total purchase	tonne	Average purchase price (RMB'000/tonne)
– Polymers	24,042	29.4	1,568	15.3	26,432	27.8	1,394	19.0	30,161	28.3	1,621	18.6
– Solvents	20,618	25.2	4,651	4.4	26,622	28.0	4,783	5.6	28,733	27.0	5,100	5.6
– Pigments	21,124	25.8	1,680	12.6	26,951	28.4	1,710	15.8	33,680	31.7	1,995	16.9
– Auxiliary materials	16,038	19.6	625	25.7	14,970	15.8	658	22.8	13,868	13.0	568	24.4
Total	81,822	100	8,524		94,975	100	8,545		106,442	100	9,284	

	2018				For the nine months ended 30 September 2019				2019			
	RMB'000 (unaudited)	% of total purchase	tonne	Average purchase price (RMB'000/tonne)	RMB'000	% of total purchase	tonne	Average purchase price (RMB'000/tonne)	RMB'000	% of total purchase	tonne	Average purchase price (RMB'000/tonne)
– Polymers	23,520	28.5	1,332	17.7	17,809	21.7	1,172	15.2				
– Solvents	22,556	27.4	3,939	5.7	16,344	20.0	3,374	4.8				
– Pigments	25,613	31.1	1,567	16.3	32,554	39.7	1,522	21.4				
– Auxiliary materials	10,714	13.0	351	30.5	15,225	18.6	560	27.2				
Total	82,403	100	7,189		81,932	100	6,628					

Our major composition of raw materials was relatively stable during the Track Record Period.

Polymers represent a chemical substance consisting of large molecules, which are used in most of our products, accounted for approximately RMB24.0 million, RMB26.4 million, RMB30.2 million and RMB17.8 million, respectively, during the Track Record Period. The movement of our average purchase prices of polymers, which was in line with the average purchase price of MDI, increased from approximately RMB15,300 per tonne in 2016 to approximately RMB19,000 per tonne in 2017, remained stable at RMB18,600 per tonne in 2018 and decreased to approximately RMB15,200 per tonne in the nine months ended 30 September 2019. MDI is one of the major components for manufacturing of polymers. According to the CIC Report, the average price of MDI was approximately RMB18,000 per tonne, RMB28,000 per tonne and RMB29,000 per tonne in 2016 to 2018 due to a reduction in the production capacity of some key suppliers in the market. The average price of MDI is estimated to drop to approximately RMB25,000 per tonne at 2019 as production capacity is expected to recover.

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Solvents was our main components of raw materials and accounted for approximately RMB20.6 million, RMB26.6 million, RMB28.7 million and RMB16.3 million, respectively, for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019. The average purchase prices of solvents increased from approximately RMB4,400 per tonne in 2016 to RMB5,600 per tonne in 2017 and 2018. The average purchase prices of solvents decreased from approximately RMB5,700 per tonne for the nine months ended 30 September 2018 to RMB4,800 per tonne for the nine months ended 30 September 2019. DMF is one of the major solvents. Our average purchase price was affected by the average purchase price of DMF. According to the CIC Report, the average price of DMF was approximately RMB4,300 per tonne, RMB5,800 per tonne, RMB5,900 per tonne in 2016 to 2018 due to the intensified environmental protection regulations and the supply of DMF decreased in the market. Demand of DMF is estimated to gradually decrease in the market and the price of DMF is expected to decrease to approximately RMB5,700 per tonne in 2019.

Pigments represent the raw materials to provide colour, where are used in the production of colourants, accounted for approximately RMB21.1 million, RMB27.0 million, RMB33.7 million and RMB32.6 million, respectively, for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019. The increase in amount of pigments was in line with the increase in sales volume of colourants for the years ended 31 December 2016, 2017 and 2018. Our average purchase price of pigments increased from approximately RMB16,300 per tonne for the nine months ended 30 September 2018 to approximately RMB21,400 per tonne for the nine months ended 30 September 2019, which was mainly due to (i) more pigments for the production of non-black-and-white colourants were consumed, which had relatively higher average purchase prices than the pigments for the production of black and white colourants; and (ii) the higher average purchase prices of our purchase of pigments specifically used in our production of colour paste for the production of microfibre leather, which we commenced commercial production in December 2018.

Our direct labour costs mainly represented the salaries of our workers in production, which decreased by approximately 7.5% from approximately RMB5.3 million for the year ended 31 December 2016 to approximately RMB4.9 million for the year ended 31 December 2017, further decreased to RMB4.2 million for the year ended 31 December 2018. Such decrease in our direct labour costs was mainly due to (i) the adoption of automation in various stages and procedures of our production process; and (ii) more workers being employed after the relocation of our production facility to our Jiande Production Plant in 2015 in order to facilitate the installation of the production process and train up the new local workers. Our direct labour costs remained relatively stable at approximately RMB3.3 million for the nine months ended 30 September 2018 and approximately RMB3.4 million for the nine months ended 30 September 2019.

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Our depreciation and amortisation expenses increased from approximately RMB3.3 million for the year ended 31 December 2016 to approximately RMB4.4 million for the year ended 31 December 2017, and further to approximately RMB4.9 million for the year ended 31 December 2018, which was mainly in line with the additional plant and machinery for replacement were used for the years ended 31 December 2016, 2017 and 2018. Our depreciation and amortisation expenses remained relatively stable at approximately RMB3.6 million and RMB3.8 million, respectively, for the nine months ended 30 September 2018 and 2019.

Others mainly represented utilities and production overheads.

Gross profit and gross profit margin

The table below sets out our gross profit and gross profit margin for each of our principal products during the Track Record Period:

	For the year ended 31 December								
	2016			2017			2018		
	Gross profit RMB'000	% of gross profit %	Gross profit margin %	Gross profit RMB'000	% of gross profit %	Gross profit margin %	Gross profit RMB'000	% of gross profit %	Gross profit margin %
Coating agents									
Colourants									
– Colour paste	27,558	49.9	39.6	22,821	44.9	31.5	24,868	49.1	30.1
– Colour chips	–	–	–	–	–	–	545	1.1	15.8
Colourants sub-total	27,558	49.9	39.6	22,821	44.9	31.5	25,413	50.2	29.5
Finishes	22,411	40.6	34.3	22,288	43.9	34.9	19,021	37.5	34.0
Additives	971	1.8	35.0	1,123	2.2	36.6	1,112	2.2	38.2
Coating agents sub-total	50,940	92.3	37.0	46,232	91.0	33.2	45,546	89.9	31.4
Synthetic resins	4,230	7.7	31.5	4,546	9.0	24.9	5,142	10.1	22.9
Total	55,170	100	36.5	50,778	100	32.2	50,688	100	30.3

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	For the nine months ended 30 September					
	2018			2019		
	Gross profit RMB'000 (unaudited)	% of gross profit %	Gross profit margin %	Gross profit RMB'000	% of gross profit %	Gross profit margin %
Coating agents						
Colourants						
– Colour paste	15,986	46.2	27.5	19,771	43.5	36.0
– Colour chips	188	0.5	10.2	1,475	3.2	16.1
Colourants sub-total	16,174	46.7	26.9	21,246	46.7	33.1
Finishes	14,137	40.8	33.1	18,114	39.9	40.1
Additives	790	2.3	36.6	680	1.5	34.1
Coating agents sub-total	31,101	89.8	29.6	40,040	88.1	36.0
Synthetic resins	3,515	10.2	21.0	5,431	11.9	28.8
Total	34,616	100	28.4	45,471	100	34.9

Our overall gross profit amounted to approximately RMB55.2 million, RMB50.8 million, RMB50.7 million and RMB45.5 million for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, respectively. Our gross profit and gross profit margin are mainly affected by various factors, including (i) the average selling price of the products; and (ii) the costs of sales, of which the costs of raw materials was the major component. Our ability to maintain or improve our gross profit margins is dependent on (i) our ability to transfer our costs of sales to our customers by means of adjusting our selling prices; and (ii) our ability to control our production costs, in particular, raw materials costs and direct labour costs. In addition to our control measures on the costs of raw materials as set out in the paragraph headed “Business – Raw materials” in this prospectus, we have also taken measures to reduce our direct labour costs, such as the adoption of automation in various stages and procedures of our production process during the Track Record Period. With the expected recovery of the faux leather chemicals manufacturing industry from 2019 onwards according to the CIC Report, our Directors believe these measures would provide a positive impact as to maintaining and improving our profitability going forward. The decrease in overall gross profit and gross profit margin from the year of 2016 and 2017 was mainly due to higher rate of increase in cost of raw materials than the increase in our revenue, resulting from the increase in average purchase price of the raw materials for the period. According to the CIC Report, the average price of MDI, being one of the major components for manufacturing of polymers, which is our key raw materials increased substantially from approximately RMB18,000 per tonne in 2016 to RMB28,000 per tonne in 2017.

The increase in overall gross profit and gross profit margin for the nine months ended 30 September 2019 compared with the corresponding period in 2018 was mainly due to (i) the increase in our overall revenue; (ii) the increase in the average selling prices of our faux leather chemicals products; and (iii) the decrease in our cost of raw materials, primarily resulting from the decrease in average purchase prices of polymers and solvents for the period.

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Gross profit and gross profit margin of our colourants

The gross profit of our colourants amounted to approximately RMB27.6 million, RMB22.8 million, RMB25.4 million and RMB21.2 million, respectively, for the year ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019. The gross profit margin of colour paste decreased from approximately 39.6% in 2016 to approximately 31.5% in 2017, and further to approximately 30.1% in 2018. The decrease in gross profit and gross profit margin of our colourants from 2016 to 2017 was mainly due to increase in our average purchase price of raw materials for production of colourants, which are polymers, solvents and pigments for the same periods. The gross profit margin of colour paste increased from 27.5% for the nine months ended 30 September 2018 to approximately 36.0% for the nine months ended 30 September 2019 which was mainly due to (i) higher average selling prices of colourants during the period; and (ii) decrease in our average purchase prices of polymers and solvents during the period.

The following sets out the gross profit and gross profit margin of colourants classified by (i) black and white; and (ii) other colours for the Track Record Period:

	For the year ended 31 December								
	2016			2017			2018		
			Gross profit margin			Gross profit margin			Gross profit margin
	Sales RMB'000	Gross profit RMB'000	(Approximate %)	Sales RMB'000	Gross profit RMB'000	(Approximate %)	Sales RMB'000	Gross profit RMB'000	(Approximate %)
Black and white	38,609	10,947	28.4	45,799	10,235	22.3	52,465	10,604	20.2
Other colours	30,931	16,611	53.7	26,583	12,586	47.3	33,547	14,809	44.1
Total	69,540	27,558	39.6	72,382	22,821	31.5	86,012	25,413	29.5

	For the nine months ended 30 September					
	2018			2019		
			Gross profit margin			Gross profit margin
	Sales RMB'000 (unaudited)	Gross profit RMB'000 (unaudited)	(Approximate %)	Sales RMB'000	Gross profit RMB'000	(Approximate %)
Black and white	38,725	7,428	19.2	33,340	8,894	26.7
Other colours	21,354	8,746	41.0	30,786	12,352	40.1
Total	60,079	16,174	26.9	64,126	21,246	33.1

In general, the gross profit margin of our colourants in other colours was relatively higher compared to colour paste in black and white.

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Gross profit and gross profit margin of our finishes

The gross profit of our finishes, decreased from approximately RMB22.4 million in 2016 to approximately RMB22.3 million in 2017, and further to approximately RMB19.0 million in 2018 and RMB18.1 million for the nine months ended 30 September 2019. The decrease in gross profit from 2017 to 2018 was mainly due to the decrease in sales of high-performance finishes, which had relatively higher average selling prices compared to ordinary finishes with less functionalities and properties during the Track Record Period. The gross profit margin of finishes amounted to approximately 34.3%, 34.9%, 34.0% and 40.1%, respectively, during the Track Record Period. The increase in gross profit margin for the nine months ended 30 September 2019 as compared with the corresponding period in 2018 was mainly due to the decrease in our average purchase price of polymers and solvents during the period.

Gross profit and gross profit margin of our additives

The gross profit of our additives remained relatively stable at approximately RMB1.0 million, RMB1.1 million, RMB1.1 million and RMB0.7 million, respectively, during the Track Record Period. The gross profit margin of our additives were approximately 35.0%, 36.6%, 38.2% and 34.1%, respectively, for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019. The increase in gross profit margin from 2017 to 2018 was primarily due to increase in sales of a specialised product, which aimed to provide the silky hand-feeling and had a higher selling price in 2018. The decrease in gross profit margin for the nine months ended 30 September 2019 as compared with the corresponding period in 2018 was mainly due to the decrease in average selling prices of additives.

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Gross profit and gross profit margin of our synthetic resins

The gross profit of our synthetic resins increased from approximately RMB4.2 million in 2016 to approximately RMB4.5 million in 2017, and further to approximately RMB5.1 million in 2018 and RMB5.4 million for the nine months ended 30 September 2019. Such increase was in line with the increase in revenue of synthetic resins during the same periods. The gross profit margin decreased from approximately 31.5% in 2016 to approximately 24.9% in 2017, and further to approximately 22.9% in 2018. Such decrease was primarily due to the increase in our average purchase price of polymers, which is one of our key raw materials in the production, from approximately RMB15.3 per kg in 2016 to RMB19.0 per kg in 2017 and the decrease in the overall average selling price of our synthetic resins in 2018 mainly due to (i) the decrease in overall average selling price of our synthetic resins products sold to Customer G, which was one of our five largest customers, as it shifted to purchase certain synthetic resins products which had lower gross profit margins; and (ii) the sales of a new product used in the production of faux leather in white, which had a lower selling price and gross profit margin. The increase in gross profit margin from 21.0% for the nine months ended 30 September 2018 to 28.8% for the nine months ended 30 September 2019 was mainly due to the decrease in our average purchase price of polymers and solvents during the period.

Other revenue

The table below sets out a breakdown of our other revenue during the Track Record Period:

	For the year ended 31 December			For the nine months ended	
	2016	2017	2018	30 September	
	RMB'000	RMB'000	RMB'000	2018	2019
				RMB'000	RMB'000
				(unaudited)	
Bank interest income	193	108	67	42	35
Government grants	2,170	1,691	4,117	2,455	1,191
Interest income on amount due from a director and a shareholder	522	–	–	–	–
Sundry income	566	114	752	151	557
Total	3,451	1,913	4,936	2,648	1,783

During the Track Record Period, the amount of other revenue was approximately RMB3.5 million, RMB1.9 million, RMB4.9 million and RMB1.8 million, respectively. The fluctuations in the amount of other revenue were mainly due to the fluctuations in the government grants received.

Our bank interest income decreased from approximately RMB0.2 million, RMB0.1 million, RMB67,000 and RMB35,000, respectively, for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019.

Government grants represented various form of subsidies granted to the Group by the local government authorities in the PRC for compensation of expenses incurred by the Group. These grants were generally made for the purposes of: (i) supporting listing applications; (ii) providing incentives for research and development activities; (iii) providing business support; and (iv) supporting the acquisition of plant and machinery. All government grants obtained by us during the Track Record Period were one-off in nature.

There are no unfulfilled conditions or contingencies relating to these grants.

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Interest income on amount due from a director and a shareholder in 2016, at an interest rate at 6% per annum taking into consideration the then benchmark lending rate of the People's Bank of China, represented interest paid by Mr. Chen Hua and Hangzhou Qiyue in relation to the outstanding balance due to the Zhejiang Sunlight during the year. Such interest amounts were settled in 2016.

Sundry income mainly represented (i) income derived from sales of raw materials, which some customers and suppliers purchased our raw materials in stock in occasional basis; and (ii) rental income from the leasing of the building, which was owned by Deqing Hongsheng, to an Independent Third Party, before the disposal in 2017.

Other gains or losses

The table below sets out a breakdown of our other gains or losses during the Track Record Period:

	For the year ended 31 December			For the nine months ended	
	2016	2017	2018	30 September	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Reversal of/(provision for) impairment loss on:					
– trade and bills receivables	2,022	64	(206)	(338)	(70)
– other receivables	820	6	66	(29)	(2)
Bad debts (written off)/recover on trade and bills receivables	(215)	22	(6)	(6)	–
(Loss)/Gain on disposal of properties, plant and equipment	(166)	71	1,910	1,910	13
Total	2,461	163	1,764	1,537	(59)

During the Track Record Period, the amount of other gains/(losses) amounted to approximately RMB2.5 million, RMB0.2 million, RMB1.8 million and RMB(59,000), respectively.

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The reversal of/(provision for) impairment loss on trade and bills receivables and other receivables referred to our provision policy for impairment of trade and bills receivables and other receivables of the Group, which was mainly based on the evaluation of the collectability and ageing analysis of the respective outstanding receivables as well as forecasts of future economic conditions. The amount of the reversal of impairment of trade and bill receivables of approximately RMB2.0 million for the year ended 31 December 2016 was resulted from the difference between the loss allowance provision on the trade receivables as at 31 December 2015 and 2016, which were measured and recognised under IFRS 9. The balance of trade receivables, which was past due over 180 days, decreased from approximately RMB2.6 million as at 31 December 2015 to approximately RMB0.5 million as at 31 December 2016.

Bad debts written off of approximately RMB0.2 million for the year ended 31 December 2016 was related to (i) an outstanding balance with a customer, an Independent Third Party, of approximately RMB0.2 million, which we mainly sold colourants and finishes to such customer. Such customer ceased operation in October 2016 which affected their ability to settle the sum due to us. In order to facilitate the collection of the overdue balance of approximately RMB2.0 million, we and such customer signed a settlement agreement that we accepted an amount of approximately RMB1.8 million as the final settlement of such matter, which was settled in 2017, and a bad debt written off of approximately RMB0.2 million was made; and (ii) an outstanding balance with a customer, an Independent Third Party, of approximately RMB18,000 which we mainly sold colourants and finishes to such customer.

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Bad debts recovered on trade and bills receivables of approximately RMB22,000 for the year ended 31 December 2017 was related to an outstanding balance of a customer, an Independent Third Party, was being in the process of liquidation in 2016 but the customer settled such amounts to our Group in 2017.

Bad debts written off of approximately RMB6,000 for the year ended 31 December 2018 was related to an outstanding balance with a customer, an Independent Third Party, which we mainly sold colour paste to such customer. Such customer ceased the production of faux leather in 2018 which affected their ability to settle the sum due to us. In order to facilitate the settlement, our Group accepted approximately RMB6,000 as final settlement of such matter, which was settled in 2018, and a bad debt written off of approximately RMB6,000 was made.

The gain/(loss) on disposal of properties, plant and equipment mainly represented the gain/(loss) incurred through disposing our old production machinery and equipment. The increase of the gain on disposal of property, plant and equipment for the year ended 31 December 2018 was mainly due to the disposal of property to Hangzhou Qiyue, a shareholder of Zhejiang Sunlight in 2018. For further details, please refer to the section headed “Business – Properties” in this prospectus.

Selling and distribution expenses

The table below sets out a breakdown of our selling and distribution expenses during the Track Record Period:

	For the year ended 31 December						For the nine months ended 30 September			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Transportation costs	4,951	58.6	4,688	62.0	4,755	67.9	3,562	66.7	3,340	63.9
Staff costs	1,935	22.9	1,487	19.7	1,442	20.6	1,093	20.5	1,225	23.5
Travel and entertainment fee	990	11.7	1,004	13.3	568	8.1	469	8.8	372	7.1
Exhibition costs	310	3.7	139	1.7	184	2.6	184	3.4	202	3.9
Others <i>(Note)</i>	259	3.1	249	3.3	56	0.8	35	0.6	86	1.6
Total	8,445	100	7,567	100	7,005	100	5,343	100	5,225	100

Note: Others mainly represented depreciation of the office and other miscellaneous costs.

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Transportation costs mainly represented our payments to third-party logistics providers for product delivery to our customers. For the years ended 31 December 2016, 2017 and 2018 our transportation costs remained relatively stable at approximately RMB5.0 million, RMB4.7 million and RMB4.8 million, respectively, while the proportion of transportation costs to total selling and distribution expenses increased from approximately 58.6% to approximately 62.0% and further to approximately 67.9% for the same years, which was mainly due to the decrease in total selling and distribution expenses, resulting from the decrease in staff costs and travel and entertainment fee.

Staff costs mainly represented salaries and employee benefits for employees engaging in sales and marketing activities. Our staff costs decreased from approximately RMB1.9 million for the year ended 31 December 2016 to approximately RMB1.5 million for the year ended 31 December 2017, which was mainly due to the decrease in average number of employees engaging in sales and marketing activities from 13.4 in 2016 to 12.2 in 2017.

Travel and entertainment fee mainly represented expenses incurred by our employees engaging in sales and marketing activities.

Exhibition costs mainly represented the costs incurred in the leather exhibition held in Shanghai.

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Administrative and general expenses

The table below sets out a breakdown of our administrative expenses during the Track Record Period:

	For the year ended 31 December						For the nine months ended 30 September			
	2016		2017		2018		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Research and development costs	7,793	34.8	6,994	40.3	7,249	49.8	5,506	49.0	6,108	52.6
Staff costs	4,150	18.6	2,846	16.4	2,688	18.5	2,195	19.5	2,161	18.6
Depreciation and amortisation expenses	3,568	16.0	2,752	15.9	1,511	10.4	1,176	10.5	992	8.5
Legal and professional fee	2,726	12.2	815	4.7	82	0.6	82	0.7	393	3.4
Travel and entertainment fee	974	4.4	722	4.2	726	5.0	588	5.2	430	3.7
Telephone and communication costs	524	2.3	527	3.0	412	2.8	392	3.5	228	2.0
Other tax expenses	871	3.9	717	4.1	809	5.6	462	4.1	478	4.1
Utilities expenses	312	1.4	268	1.5	256	1.7	200	1.8	63	0.5
Others <i>(Note)</i>	1,445	6.4	1,693	9.9	813	5.6	646	5.7	761	6.6
Total	22,363	100	17,334	100	14,546	100	11,247	100	11,614	100

Note: Others mainly represented bank charges, insurance expense, repair and maintenance expense and other miscellaneous costs for administrative purpose.

Research and development costs

The expenditure comprised (i) the costs of our staff involving in our research and development, (ii) the direct usage of raw materials for research and development and testing purposes, (iii) the depreciation of the research and development machinery and equipment and (iv) expenses incurred in research projects which we collaborated with Sichuan University and Zhejiang University. Our research and development costs were approximately RMB7.8 million, RMB7.0 million, RMB7.2 million and RMB6.1 million, respectively, for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019. For details of our research and development, please refer to the section headed “Business – Research and Development” in this prospectus.

Staff costs

Staff costs mainly represented salaries and employee benefits for our employees engaging in administrative activities. The relative higher staff costs for 2016 was mainly due to more staff being employed by us after the relocation of our production facility from Deqing Production Plant to Jiande Production Plant in June 2015 to facilitate the transition work.

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Depreciation and amortisation expenses

Depreciation and amortisation expenses for property, plant and equipment being used in our administrative activities. The decrease in depreciation and amortisation expenses for 2018 was mainly due to the disposal of property to Hangzhou Qiyue in 2018.

Legal and professional fee

Legal and professional fee mainly represented the fees charged by the legal advisers, auditors, valuers and other professional service providers. The higher legal and professional fee incurred in 2016 was mainly due to the reorganisation fee and consultation fee with some professional service providers regarding the preparation for the listing on ChiNext in 2016.

Other taxes

Other tax expenses primarily consist of urban construction tax, education surcharge and other business taxes.

Finance costs

Our finance costs mainly represented interest expense on bank borrowings, which remained stable at approximately RMB0.6 million, RMB0.5 million, RMB0.5 million and RMB0.5 million for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, respectively.

Gain on disposal of a subsidiary

In December 2016, with a view to disposing of the Deqing Production Plant, Zhejiang Sunlight entered into a sale and purchase agreement to transfer the entire equity interests in Deqing Hongsheng to two Independent Third Parties at an aggregate cash consideration of RMB19.8 million, which was determined on an arm's length basis with reference to the value of the property interests i.e. Deqing Production Plant, as agreed by the parties. The completion of the disposal of Deqing Hongsheng took place in February 2017. For details of the disposal of Deqing Hongsheng, please refer to the section headed "History, Development and Reorganisation – Corporate history – Deqing Hongsheng" in this prospectus.

Income tax expense

Income tax expense represented our total current and deferred tax expenses. The current taxes are calculated based on taxable profits at the applicable tax rates for the relevant years or periods.

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our tax obligations and did not have any unresolved tax disputes.

No provision for Hong Kong profits tax was made during the Track Record Period as our Group had no assessable profit subject to Hong Kong profits tax during the Track Record Period.

Under the Law of the PRC Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Zhejiang Sunlight is recognised as a High and New Technology Enterprise* (高新技術企業) and therefore entitled to a preferential tax rate of 15% during the Track Record Period.

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The following table sets out a breakdown of our current and deferred tax expenses for the Track Record Period:

	For the year ended 31 December			For the nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Current tax					
– PRC Enterprise Income tax	3,939	3,615	4,462	2,617	3,371
Deferred tax	299	(79)	55	(6)	12
Total	4,238	3,536	4,517	2,611	3,383

During the Track Record Period, our effective tax rates were as follows:

	For the year ended 31 December			For the nine months ended 30 September	
	2016	2017	2018	2018	2019
				(unaudited)	
Effective tax rate ^(Note)	14.3%	9.2%	12.8%	12.0%	18.2%

Note: The effective tax rate is calculated by dividing the income tax expense by the profit before tax for the respective year/period multiplied by 100%.

Our effective tax rates were approximately 14.3%, 9.2% and 12.8% for the years ended 31 December 2016, 2017 and 2018, respectively. The difference between the effective tax rates during Track Record Period with the preferential tax rate of 15% as a High and New Technology Enterprise* (高 新 技 術 企 業) is mainly due to the tax effect of the non-taxable income and additional qualified tax deduction relating to research and development costs.

Our effective tax rate of approximately 9.2% for the year ended 31 December 2017 was lower than the preferential tax rate of 15% as a High and New Technology Enterprise* (高 新 技 術 企 業) was mainly resulting from the gain on disposal of a subsidiary, Deqing Hongsheng, which was non-taxable in nature.

Our effective tax rate of approximately 18.2% for the nine months ended 30 September 2019 was higher than the preferential tax rate of 15% mainly due to the non-tax deductible Listing expenses incurred in 2019.

NON-IFRS MEASURESS

To supplement our consolidated financial statements which are presented in accordance with IFRS, we also presented the adjusted EBITDA, adjusted net profits, and adjusted net profit margin as non-IFRS measures, which is not required by, or presented in accordance with, IFRS. We believe that these non-IFRS measures facilitate comparison of operating performance from period to period by eliminating potential impacts of items that we do not consider to be indicative of our operating performance, including one-off disposals and the Listing expenses.

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The table below sets out the adjusted net profit, adjusted EBITDA and adjusted net profit margin in each respective period during the Track Record Period:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Profits for the year/period	25,406	34,950	30,790	19,202	15,204
Add/(Less):					
– Gain on disposal of a subsidiary ^(Note 1)	–	(11,017)	–	–	–
– Gain on disposal of property ^(Note 2)	–	–	(1,913)	(1,913)	–
– Listing expenses	–	–	–	–	11,285
Adjusted net profit for the year/period (before adjustment of tax effect)	25,406	23,933	28,877	17,289	26,489
Add:					
Interest expense	630	484	530	398	484
Income tax expense	4,238	3,536	4,517	2,611	3,383
Depreciation and amortisation	8,377	8,392	7,019	5,218	5,117
Adjusted EBITDA for the year/period	<u>38,651</u>	<u>36,345</u>	<u>40,943</u>	<u>25,516</u>	<u>35,473</u>
Adjusted net profit for the year/period (after adjustment of tax effect)	25,406	23,933	29,164	17,576	26,489
Adjusted net profit margin for the year/period ^(Note 3)	16.8%	15.2%	17.4%	14.4%	20.4%

Notes:

1. This represented the non-recurring gain on disposal of a subsidiary, Deqing Hongsheng, to two Independent Parties in February 2017. For further details, please refer to the section headed “Financial Information – Principal components of consolidated statements of profit or loss and other comprehensive income – Gain on disposal of a subsidiary” in this prospectus.
2. This represented the non-recurring gain on disposal of property to Hangzhou Qiyue, one of the then shareholders of Zhejiang Sunlight, in 2018. For further details, please refer to the section headed “Business – Properties” in this prospectus.

FINANCIAL INFORMATION

3. Adjusted net profit margin is calculated by dividing adjusted net profit for the year/period (after adjustment of tax effect) by revenue for the same year/period.

We believe that these non-IFRS measures provide useful information to investors and others in understanding and evaluating our results of operations in the same manner as our management and in comparing financial results across accounting periods. The use of these non-IFRS measures has limitations as an analytical tool, as such, they should not be considered in isolation from, or as substitute for analysis of, our consolidated statements of profit or loss or financial condition as reported under IFRS. In addition, the non-IFRS financial measures may be defined differently from similar terms used by other companies and therefore may not be comparable to similar measures presented by other companies.

FINANCIAL INFORMATION

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2016 compared to year ended 31 December 2017

Revenue

Our overall revenue increased by approximately 4.2% from approximately RMB151.2 million in 2016 to approximately RMB157.6 million in 2017. The increase was primarily due to the combined effects of:

- (i) the increase in the sales of our coating agents from approximately RMB137.7 million for the year ended 31 December 2016 to approximately RMB139.4 million for the year ended 31 December 2017 which was mainly due to the combined effects of (i) the increase in the sales of our colour paste as a result of the increase in sales volume; (ii) the decrease in sales of finishes as a result of the decrease in sales volume of finishes during the year; and
- (ii) the increase in the sales of synthetic resins from approximately RMB13.4 million for the year ended 31 December 2016 to approximately RMB18.2 million for the year ended 31 December 2017 as a result of the increase in sales volume.

Sales volume

The sales volume of colour paste increased from approximately 4,531 tonnes for the year ended 31 December 2016 to approximately 4,749 tonnes for the year ended 31 December 2017, which was primarily due to the commencement of our sales to Customer F (being one of our five largest customers during the Track Record Period). Our sales volume to Customer F was approximately 484 tonnes for the year ended 31 December 2017.

The sales volume of finishes decreased from approximately 3,467 tonnes for the year ended 31 December 2016 to approximately 3,187 tonnes for the year ended 31 December 2017, which was primarily due to (i) the decrease in our sales to Customer C, Customer E and Customer B (being our five largest customers during the Track Record Period), and (ii) the cessation of our sales with a major customer of our finishes, which, to the best knowledge of Directors, ceased operation in October 2016.

The sales volume of synthetic resins increased from approximately 799 tonnes for the year ended 31 December 2016 to approximately 1,020 tonnes for the year ended 31 December 2017, which was primarily due to (i) the increase in our sales to Customer A, which was one of our five largest customers during the Track Record Period, and (ii) the increase in our sales to a customer, which was a faux leather manufacturer. The aggregate sales volume to these customers increased from approximately 188 tonnes for the year ended 31 December 2016 to approximately 264 tonnes for the year ended 31 December 2017.

FINANCIAL INFORMATION

Average selling price

The average selling prices of colour paste and additives remained relatively stable for the years ended 31 December 2016 and 2017.

The increase in average selling prices of finishes and synthetic resins for the year ended 31 December 2017 was mainly due to our adjustment of the selling prices to reflect the increase in the average purchase prices of polymers, which are the key raw materials for the production of finishes and synthetic resins.

Cost of sales

Our cost of sales increased by approximately 11.4% from approximately RMB96.0 million for the year ended 31 December 2016 to approximately RMB106.9 million for the year ended 31 December 2017. The increase was primarily due to the increase in the cost of raw materials from approximately RMB78.9 million for the year ended 31 December 2016 to approximately RMB91.1 million for the year ended 31 December 2017 which was in line with the increase in our overall sales volume.

Gross profit and gross profit margin

Our overall gross profit decreased by approximately RMB4.4 million or 8.0%, from approximately RMB55.2 million for the year ended 31 December 2016 to approximately RMB50.8 million for the year ended 31 December 2017 mainly due to the combined effects of:

- (i) the decrease in the gross profit of our coating agents from approximately RMB50.9 million for the year ended 31 December 2016 to approximately RMB46.2 million for the year ended 31 December 2017, which was mainly due to the decrease in the gross profit of our colourants as a result of the increase in our average purchase prices of raw materials, namely, polymers, solvents and pigments, for the production of colourants; and
- (ii) the increase in the gross profit of our synthetic resins from approximately RMB4.2 million for the year ended 31 December 2016 to approximately RMB4.5 million for the year ended 31 December 2017, which was in line with the increase in the sales of our synthetic resins.

FINANCIAL INFORMATION

Our overall gross profit margin decreased from approximately 36.5% for the year ended 31 December 2016 to approximately 32.2% for the year ended 31 December 2017. The decrease in overall gross profit margin was mainly due to the combined effects of:

- (i) the decrease in gross profit margin of our coating agents from approximately 37.0% for the year ended 31 December 2016 to approximately 33.2% for the year ended 31 December 2017, which was mainly due to the decrease in the gross profit margin of our colourants as a result of the increase in our average purchase prices of raw materials, namely, polymers, solvents and pigments, for the production of colourants; and
- (ii) the decrease in gross profit margin of synthetic resins, from approximately 31.5% for the year ended 31 December 2016 to approximately 24.9% for the year ended 31 December 2017, which was mainly due to the increase in our average purchase prices of raw materials, namely, polymers and solvents, for the production of synthetic resins.

Other revenue

Our other revenue decreased by approximately 45.7% from approximately RMB3.5 million for the year ended 31 December 2016 to approximately RMB1.9 million for the year ended 31 December 2017, primarily due to (i) decrease in interest income on amount due from a director and a shareholder, of approximately RMB0.5 million, (ii) decrease in government grants of approximately RMB0.5 million; and (iii) decrease in rental income of approximately RMB0.4 million as a result of the disposal of Deqing Hongsheng for the year ended 31 December 2017.

Other gains

Our other gains decreased by approximately 92.0% from approximately RMB2.5 million for the year ended 31 December 2016 to approximately RMB0.2 million for the year ended 31 December 2017, primarily due to the decrease in reversal of impairment loss on trade and bills receivables during the year.

Selling and distribution expenses

Our selling and distribution expenses decreased from approximately RMB8.4 million for the year ended 31 December 2016 to approximately RMB7.6 million for the year ended 31 December 2017, primarily due to the decrease in staff costs, resulting from the decrease in average number of employees in sales department from 13.4 in 2016 to 12.2 in 2017.

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Administrative and general expenses

Our administrative and general expenses decreased by approximately 22.8% from approximately RMB22.4 million for the year ended 31 December 2016 to approximately RMB17.3 million for the year ended 31 December 2017, primarily due to (i) decrease in research and development cost mainly due to decrease in staff costs of research and development department incurred in 2017; (ii) decrease in staff costs engaging in administrative activities by approximately RMB1.3 million, which was mainly due to the decrease in average number of employees engaging in administrative activities from 43.9 in 2016 to 28.7 in 2017; (iii) decrease in depreciation and amortisation expenses; and (iv) decrease in legal and professional fee in 2017 due to the reorganisation fee and consultation fee with some professional service providers incurred in 2016 regarding the preparation for the listing on ChiNext in the PRC.

Finance costs

Our finance costs remained relatively stable at approximately RMB0.6 million and approximately RMB0.5 million for the year ended 31 December 2016 and 2017, respectively.

Income tax expense

Our income tax expense decreased by approximately 16.7% from approximately RMB4.2 million for the year ended 31 December 2016 to approximately RMB3.5 million for the year ended 31 December 2017, primarily due to the gain on disposal of a subsidiary, which was non-taxable income, during the period.

Profit for the year

As a result of the above factors, our net profit increased by approximately 37.8% from approximately RMB25.4 million for the year ended 31 December 2016 to approximately RMB35.0 million for the year ended 31 December 2017. The profit margin increased from approximately 16.8% for the year ended 31 December 2016 to approximately 22.2% for the year ended 31 December 2017, which was mainly due to (i) the decrease in administrative and general expenses of approximately 22.8%; and (ii) the increase in gain on disposal of a subsidiary for the year ended 31 December 2017.

FINANCIAL INFORMATION

Year ended 31 December 2017 compared to year ended 31 December 2018

Revenue

Our overall revenue increased by approximately 6.2% from approximately RMB157.6 million for the year ended 31 December 2017 to approximately RMB167.3 million for the year ended 31 December 2018. The increase was primarily due to the combined effects of:

- (i) the increase in the sales of our coating agents from approximately RMB139.4 million for the year ended 31 December 2017 to approximately RMB144.8 million for the year ended 31 December 2018, which was mainly due to the combined effects of (i) the increase in sales of colour paste as a result of the increase in sales volume; (ii) the commencement of the sales of our colour chips; and (iii) the decrease in sale of finishes as a result of the decrease in sales volume of our high-performance finishes; and
- (ii) the increase in the sales of synthetic resins from approximately RMB18.2 million for the year ended 31 December 2017 to approximately RMB22.5 million for the year ended 31 December 2018 as a result of the increase in sales volume.

Sales volume

The sales volume of colour paste increased from approximately 4,749 tonnes for the year ended 31 December 2017 to approximately 5,303 tonnes for the year ended 31 December 2018, which was primarily due to the increase in our sales to Customer F, which was one of our five largest customers during the Track Record Period. The sales volume to such customer increased from approximately 484 tonnes for the year ended 31 December 2017 to approximately 1,136 tonnes for the year ended 31 December 2018.

The sales volume of finishes decreased from approximately 3,187 tonnes for the year ended 31 December 2017 to approximately 2,909 tonnes for the year ended 31 December 2018, which was primarily due to (i) the decrease in our sales to Customer A and Customer D, which were our five largest customers during the Track Record Period, and (ii) the decrease of our sales to two other major customers of our finishes, which were faux leather manufacturers mainly in apparel industry. To the best knowledge of our Directors, the decrease in our sales to the above customers was mainly due to the decrease in sales of high-performance finishes to them, which was mainly due to less requirements on differentiated functionalities and properties of their faux leather products by their downstream customers, which were mainly in the handbags, luggage, apparel and footwear sectors.

The sales volume of synthetic resins increased from approximately 1,020 tonnes for the year ended 31 December 2017 to approximately 1,332 tonnes for the year ended 31 December 2018, which was primarily due to (i) the increase in our sales to Customer A and Customer E, which were our five largest customers during the Track Record Period, and (ii) the increase in our sales to two other major customers of our synthetic resin, which were faux leather manufacturers. The aggregate sales volume to the above customers increased from approximately 473 tonnes for the year ended 31 December 2017 to approximately 724 tonnes for the year ended 31 December 2018.

FINANCIAL INFORMATION

Average selling price

The average selling prices of colour paste remained relatively stable for the years ended 31 December 2017 and 2018.

The decrease in our average selling prices of finishes and synthetic resins for the year ended 31 December 2018 was mainly due to the decrease in our average purchase prices of polymers, which are the key raw materials for the production of finishes and synthetic resins.

The average selling prices of additives increased from RMB26,900 per tonne for the year ended 31 December 2017 to RMB32,000 per tonne for the year ended 31 December 2018, which was mainly due to increase in sales of a specialised product, which aimed to provide the silky hand-feeling and had a higher selling price.

Cost of sales

Our cost of sales increased by approximately 9.1% from approximately RMB106.9 million for the year ended 31 December 2017 to approximately RMB116.6 million for the year ended 31 December 2018. The increase was primarily due to the combined effects of:

- (i) the increase in the cost of raw materials by 10.5% from approximately RMB91.1 million for the year ended 31 December 2017 to approximately RMB100.7 million for the year ended 31 December 2018, which was in line with the increase in the overall sales volume; and
- (ii) the decrease in direct labour costs from approximately RMB4.9 million for the year ended 31 December 2017 to approximately RMB4.2 million for the year ended 31 December 2018 which was primarily due to (i) the adoption of automation in various stages and procedures of our production process; and (ii) more workers being employed after the relocation of our production facility to our Jiande Production Plant in 2015 in order to facilitate the installation of the production process and train up the new local workers.

Gross profit and gross profit margin

Our overall gross profit remained relatively stable at approximately RMB50.8 million and approximately RMB50.7 million for the year ended 31 December 2017 and 2018, respectively, which was mainly due to the combined effects of: (i) the increase in gross profit of our colourants as a result of the increase in sales volume and average selling prices; and (ii) the decrease in gross profit of our finishes as a result of the decrease in sales volume of our high-performance finishes.

FINANCIAL INFORMATION

Our overall gross profit margin decreased from approximately 32.2% for the year ended 31 December 2017 to approximately 30.3% for the year ended 31 December 2018. The decrease in overall gross profit margin was mainly due to the combined effects of:

- (i) the decrease in gross profit margin of our coating agents from 33.2% for the year ended 31 December 2017 to approximately 31.4% for the year ended 31 December 2018, which was mainly due to the decrease in gross profit margin of our colour paste as a result of the increase in our average purchase price of pigments; and
- (ii) the decrease in gross profit margin of synthetic resins from approximately 24.9% for the year ended 31 December 2017 to approximately 22.9% for the year ended 31 December 2018, which was mainly due to (i) the decrease in the overall average selling price of our synthetic resins products sold to Customer G, which was one of our five largest customers, as it shifted to purchase certain synthetic resins products which had lower gross profit margins; and (ii) the sales of a new product used in the production of faux leather in white, which had a lower selling price and gross profit margin.

Other revenue

Our other revenue increased by approximately 157.9% from approximately RMB1.9 million for the year ended 31 December 2017 to approximately RMB4.9 million for the year ended 31 December 2018, primarily due to the increase in government grants by approximately RMB2.4 million for the year ended 31 December 2018. For the year ended 31 December 2018, we were awarded the cash subsidies granted by the local government in relation to support our capital market activities and government grants in respect of, inter alia, providing incentives for research and development activities and providing business support from the government.

Other gains

Our other gains increased by approximately 800.0% from approximately RMB0.2 million for the year ended 31 December 2017 to approximately RMB1.8 million for the year ended 31 December 2018, primarily due to the gain in sales of buildings to Hangzhou Qiyue, a shareholder of Zhejiang Sunlight, in 2018.

Selling and distribution expenses

Our selling and distribution expenses decreased by approximately 7.9% from approximately RMB7.6 million for the year ended 31 December 2017 to approximately RMB7.0 million for the year ended 31 December 2018, primarily due to the decrease in travel and entertainment fee resulting from the effective cost control by the Group during the year.

Administrative and general expenses

Our administrative and general expenses decreased by approximately 16.2% from approximately RMB17.3 million for the year ended 31 December 2017 to approximately RMB14.5 million for the year ended 31 December 2018, primarily due to the decrease in depreciation and amortisation expenses during the year.

FINANCIAL INFORMATION

Finance costs

Our finance costs remained stable at approximately RMB0.5 million and approximately RMB0.5 million for the year ended 31 December 2017 and 2018, respectively.

Income tax expense

Our income tax expense increased by approximately 28.6% from approximately RMB3.5 million for the year ended 31 December 2017 to approximately RMB4.5 million for the year ended 31 December 2018, primarily due to the increase in our adjusted profit before tax from approximately RMB27.5 million, which the gain on disposal of a subsidiary was excluded, in 2017 to approximately RMB35.3 million in 2018.

Profit for the year

As a result of the above factors, our net profit decreased by approximately 12.0% from approximately RMB35.0 million for the year ended 31 December 2017 to approximately RMB30.8 million for the year ended 31 December 2018. The profit margin decreased from approximately 22.2% for the year ended 31 December 2017 to approximately 18.4% for the year ended 31 December 2018, which was mainly due to decrease in gross profit margin for the year ended 31 December 2018.

The nine months ended 30 September 2018 compared to the nine months ended 30 September 2019

Revenue

Our overall revenue increased by approximately 6.9% from approximately RMB121.7 million for the nine months ended 30 September 2018 to approximately RMB130.1 million for the nine months ended 30 September 2019. The increase was primarily due to the combined effects of:

- (i) the increase in the sales of our coating agents from approximately RMB105.0 million for the nine months ended 30 September 2018 to approximately RMB111.3 million for the nine months ended 30 September 2019, which was mainly due to the combined effects of (i) the increase in sales of colour chips which we commenced commercial production in March 2018; and (ii) the increase in sales of finishes due to the increase in average selling price; and
- (ii) the increase in the sales of synthetic resins from approximately RMB16.8 million for the nine months ended 30 September 2018 to approximately RMB18.8 million for the nine months ended 30 September 2019 as a result of the increase in sales volume and average selling price.

FINANCIAL INFORMATION

Sales volume

The sales volume of colour paste decreased from approximately 3,902 tonnes for the nine months ended 30 September 2018 to approximately 3,061 tonnes for the nine months ended 30 September 2019, which was primarily due to the decrease in our sales to Customer F, which mainly purchased colour paste of black and white colours from us, as we decided to free up the production capacity for production of colour paste for the production of microfibre leather and colour paste of non-black-and-white colours, both of which had relatively higher gross profit margins, for the period.

Average selling price

The average selling prices of colour paste increased from approximately RMB14,900 per tonne for the nine months ended 30 September 2018 to approximately RMB18,000 per tonne for the nine months ended 30 September 2019, which was mainly due to (i) the commencement of the sales of colour paste for the microfibre leather in December 2018, which had generally higher selling prices than other colour paste products; and (ii) the decrease in our sales of colour pastes of black and white colours, which had relatively lower average selling prices.

The increase in our average selling prices of finishes for the nine months ended 30 September 2019 was mainly due to the increase in our average selling prices to Customer A.

The increase in our average selling prices of synthetic resins for the nine months ended 30 September 2019 was mainly due to our sales of newly developed synthetic resins products, which aimed to provide better stability or other functionalities and had relatively higher selling prices.

The average selling prices of additives remained relatively stable for the nine months ended 30 September 2018 and 2019.

Cost of sales

Our costs of sales decreased by approximately 2.9% from approximately RMB87.1 million for the nine months ended 30 September 2018 to approximately RMB84.6 million for the nine months ended 30 September 2019 despite the increase in our overall revenue, which was primarily due to the decrease in the cost of raw materials from approximately RMB75.1 million for the nine months ended 30 September 2018 to approximately RMB71.4 million for the nine months ended 30 September 2019, which was mainly due to the decrease in the average purchase prices of polymers and solvents during the period.

FINANCIAL INFORMATION

Gross profit and gross profit margin

Our overall gross profit increased by approximately RMB10.9 million or 31.5%, from approximately RMB34.6 million for the nine months ended 30 September 2018 to approximately RMB45.5 million for the nine months ended 30 September 2019, mainly due to the combined effects of:

- (i) the increase in gross profit of our coating agents from approximately RMB31.1 million for the nine months ended 30 September 2018 to approximately RMB40.0 million to the nine months ended 30 September 2019, which was mainly due to the increase in sales of our colourants as a result of (i) the increase in sales of colour paste for the production of microfibre leather; and (ii) the increase in sales of colour chips; and
- (ii) the increase in gross profit of our synthetic resins from approximately RMB3.5 million for the nine months ended 30 September 2018 to approximately RMB5.4 million for the nine months ended 30 September 2019, which was in line with the increase in the sales of our synthetic resins.

Our overall gross profit margin increased from approximately 28.4% for the nine months ended 30 September 2018 to approximately 34.9% for the nine months ended 30 September 2019. The increase in overall gross profit margin was mainly due to the combined effects of:

- (i) the increase in gross profit margin of our coating agents from approximately 29.6% for the nine months ended 30 September 2018 to approximately 36.0% for the nine months ended 30 September 2019, which was mainly due to the increase in the gross profit margin of our colourants and finishes as a result of the decrease in our average prices of raw materials, namely, polymers and solvents; and
- (ii) the increase in gross profit margin of synthetic resins, from approximately 21.0% for the nine months ended 30 September 2018 to approximately 28.8% for the nine months ended 30 September 2019, which was mainly due to the decrease in our average purchase prices of raw materials, namely, polymers and solvents, for the production of synthetic resins.

Other revenue

Our other revenue decreased by RMB0.8 million from approximately RMB2.6 million for the nine months ended 30 September 2018 to approximately RMB1.8 million for the nine months ended 30 September 2019, primarily due to the decrease in government grants which were generally granted for the purpose of providing business support.

Other gains/(losses)

Our Group recorded an other loss of approximately RMB59,000 for the nine months ended 30 September 2019 as compared with an other gain of approximately RMB1.5 million for the corresponding period in 2018, primarily because of the absence of the non-recurring gain on disposal of property to Hangzhou Qiyue recognised in 2018.

FINANCIAL INFORMATION

Selling and distribution expenses

Our selling and distribution expenses remained stable at approximately RMB5.3 million and RMB5.2 million, respectively, for the nine months ended 30 September 2018 and 2019.

Administrative and general expenses

Our administrative and general expenses remained stable at approximately RMB11.2 million and RMB11.6 million, respectively, for the nine months ended 30 September 2018 and 2019.

Finance costs

Our finance costs remained stable at approximately RMB0.4 million and RMB0.5 million, respectively, for the nine months ended 30 September 2018 and 2019.

Income tax expense

Our income tax expense increased by approximately 30.8% from approximately RMB2.6 million for the nine months ended 30 September 2018 to approximately RMB3.4 million for the nine months ended 30 September 2019, which was in line with the increase in our adjusted profit before tax from approximately RMB21.8 million for the nine months ended 30 September 2018 to approximately RMB29.9 million for the nine months ended 30 September 2019, during which we recorded the Listing expenses which was one-off in nature and was excluded.

Profit for the year

As a result of the above factors and the increase of Listing expenses in the period, our net profit decreased by approximately 20.8% from approximately RMB19.2 million for the nine months ended 30 September 2018 to approximately RMB15.2 million for the nine months ended 30 September 2019. The net profit margin decreased from approximately 15.8% for the nine months ended 30 September 2018 to approximately 11.7% for the nine months ended 30 September 2019, which was mainly due to the Listing expenses of approximately RMB11.3 million.

LIQUIDITY AND CAPITAL RESOURCES

Our source of funds for our operations mainly comes from cash generated from our operation and bank borrowings. Our primary uses of cash are mainly to finance our operations, working capital needs and capital expenditure needs. Upon Listing, our source of funds will be satisfied using a combination of internal generated funds, bank loans and net proceeds from the Global Offering.

FINANCIAL INFORMATION

Net current assets

The following table sets out the breakdown of our current assets and liabilities as at 31 December 2016, 2017, 2018 and 2019 and 30 September 2019:

	As at 31 December			As at	As at
	2016	2017	2018	30 September	31 December
	RMB'000	RMB'000	RMB'000	2019	2019
				RMB'000	RMB'000
					(unaudited)
Current assets					
Inventories	14,140	14,625	12,962	18,338	17,651
Trade and bills receivables	50,989	59,857	67,532	85,937	84,601
Prepayments, deposits and other receivables	2,524	615	2,884	4,632	7,350
Pledged bank deposits	2,415	2,908	1,560	2,852	2,544
Bank balances and cash	9,261	6,215	10,162	3,395	14,226
	<u>79,329</u>	<u>84,220</u>	<u>95,100</u>	<u>115,154</u>	<u>126,372</u>
Assets of disposal group classified as held for sale	8,841	–	–	–	–
	<u>88,170</u>	<u>84,220</u>	<u>95,100</u>	<u>115,154</u>	<u>126,372</u>
Current liabilities					
Trade and bill payables	26,953	26,388	23,732	30,039	30,391
Other payables and accruals	17,755	9,528	7,046	4,694	4,465
Deferred income	–	137	137	137	137
Tax payables	3,622	1,811	3,843	984	2,445
Amount due to a director	4,451	–	–	–	–
Amount due to shareholders	–	–	–	1,405	1,378
Bank and other borrowings	10,000	10,000	10,000	11,000	21,727
Dividend payables	28,430	1,710	2,907	–	–
	<u>91,211</u>	<u>49,574</u>	<u>47,665</u>	<u>48,259</u>	<u>60,543</u>
Liabilities of disposal group classified as held for sale	121	–	–	–	–
	<u>91,332</u>	<u>49,574</u>	<u>47,665</u>	<u>48,259</u>	<u>60,543</u>
Net current (liabilities)/assets	<u>(3,162)</u>	<u>34,646</u>	<u>47,435</u>	<u>66,895</u>	<u>65,829</u>

Our current assets mainly included inventories, trade and bills receivables, prepayments, deposits and other receivables, pledged bank deposits, bank balances and cash and assets of disposal group classified as held for sale. Our current liabilities mainly included trade and bills payables, other payables and accruals, bank and other borrowings, dividend payables and liabilities of disposal group classified as held for sale.

We recorded net current liabilities of approximately RMB3.2 million as at 31 December 2016, which was mainly due to the declaration of dividend of RMB50.0 million in March 2016 and there was a remaining balance of the dividend payables of approximately RMB28.4 million as at 31 December 2016.

FINANCIAL INFORMATION

We recorded net current liabilities of approximately RMB3.2 million as at 31 December 2016 and net current assets of approximately RMB34.6 million as at 31 December 2017. The increase in the net current assets was mainly due to (i) the increase in trade and bills receivables from approximately RMB51.0 million in 2016 to RMB59.9 million in 2017; (ii) the decrease in other payables and accruals; (iii) the decrease in amount due to a director from approximately RMB4.5 million as at 31 December 2016 to nil as at 31 December 2017; (iv) the decrease in dividend payables from approximately RMB28.4 million as at 31 December 2016 to approximately RMB1.7 million as at 31 December 2017; and (v) the decrease in assets of disposal group classified as held for sale.

Our net current assets further increased from approximately RMB34.6 million as at 31 December 2017 to approximately RMB47.4 million as at 31 December 2018. The increase in the net current assets was mainly due to (i) the increase in trade and bills receivables from approximately RMB59.9 million as at 31 December 2017 to approximately RMB67.5 million as at 31 December 2018; (ii) the increase in prepayments, deposits and other receivables from approximately RMB0.6 million as at 31 December 2017 to approximately RMB2.9 million as at 31 December 2018; and (iii) the increase in bank balances and cash from approximately RMB6.2 million as at 31 December 2017 to approximately RMB10.2 million as at 31 December 2018.

Our net current assets increased to approximately RMB66.9 million as at 30 September 2019. The increase in the net current assets was mainly due to the increase in trade and bills receivables from approximately RMB67.5 million as at 31 December 2018 to RMB85.9 million as at 30 September 2019. As at 31 December 2019, our net current assets remained relatively stable at approximately RMB65.8 million.

For further discussions on the fluctuations of the components of our current assets and current liabilities mentioned above, please refer to the paragraph headed “Discussion on selected balance sheet items” below.

FINANCIAL INFORMATION

Cash flows

The table below sets out the selected cash flow data from the consolidated statements of cash flows for the period as indicated. This information should be read together with the consolidated financial information contained in the Accountants' Report in Appendix I to this prospectus.

	For the year ended 31 December			For the nine months ended	
	2016	2017	2018	30 September	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Operating cash flow before movements					
in working capital	36,136	36,756	40,443	25,446	24,368
Movements in working capital	21,449	(20,108)	(13,120)	(8,949)	(22,636)
Income tax paid	(3,149)	(5,426)	(2,430)	(2,430)	(6,228)
Net cash generated from/(used in)					
operating activities	54,436	11,222	24,893	14,067	(4,496)
Net cash (used in)/generated from					
investing activities	(13,815)	12,936	(1,213)	(3,004)	(5,337)
Net cash (used in)/generated from					
financing activities	(36,505)	(27,204)	(19,733)	(12,202)	3,346
Increase/(decrease) in cash					
and cash equivalents	4,116	(3,046)	3,947	(1,139)	(6,487)
Cash and cash equivalents at the					
beginning of the year/period	5,145	9,261	6,215	6,215	10,162
Effect of exchange rate changes on					
the balance of cash held in foreign					
currencies	—	—	—	—	(280)
Cash and cash equivalents at the end of					
the year/period	9,261	6,215	10,162	5,076	3,395

FINANCIAL INFORMATION

Net cash generated from/(used in) operating activities

Our cash inflows from operating activities are principally from the receipt of payments for the sales of our products, whereas our cash outflows from operating activities are principally for purchases of raw materials, payment of staff costs and payments of manufacturing overheads.

For the year ended 31 December 2016, our net cash generated from operating activities was approximately RMB54.4 million, mainly due to (i) our profit before tax of approximately RMB29.6 million which was primarily adjusted for depreciation of property, plant and equipment of approximately RMB8.0 million, reversal of impairment loss on trade receivables of approximately RMB2.0 million, reversal of impairment loss on other receivables of approximately RMB0.8 million, amortisation of prepaid lease payments of approximately RMB0.4 million, loss on disposals of property, plant and equipment of approximately RMB0.2 million, bad debt written off on trade and bills receivables of approximately RMB0.2 million and finance costs of approximately RMB0.6 million, (ii) decrease in prepayments, deposits and other receivables of approximately RMB0.6 million, (iii) increase in trade and bills payables of approximately RMB4.8 million, which was primarily due to the increase in our bills payables to suppliers near the end of 2016; (iv) increase in other payables and accruals of approximately RMB3.8 million; (v) increase in amount due to a Director, Mr. Chen Hua, of approximately RMB13.8 million; which partially offset by (vi) increase in inventories of approximately RMB1.6 million, which was mainly attributable to the increase in raw materials; and (vii) the tax paid of approximately RMB3.1 million.

For the year ended 31 December 2017, our net cash generated from operating activities was approximately RMB11.2 million, mainly due to (i) our profit before tax of approximately RMB38.5 million which was primarily adjusted for depreciation of property, plant and equipment of approximately RMB8.0 million, amortisation of prepaid lease payments of approximately RMB0.4 million, written off on inventories of approximately RMB0.7 million, finance costs of approximately RMB0.5 million, gain on disposal of a subsidiary, Deqing Hongsheng, of approximately RMB11.0 million; (ii) decrease in prepayments, deposits and other receivables of approximately RMB1.9 million, which was mainly due to the decreases in our prepayment for raw materials near the end of 2017; (iii) increase in deferred income of approximately RMB1.2 million; which partially offset by (iv) increase in inventories of approximately RMB1.2 million; (v) increase in trade and bills receivables of approximately RMB8.8 million, which was in line with the increase in the sales of our products; (vi) decrease in other payables and accruals of approximately RMB8.3 million, which was mainly attributable to our settlement of the retention money to the contractor of our Jiande Production Plant for the outstanding and/or rectification works; (vii) decrease in amount due to a director of approximately RMB4.5 million; and (viii) the tax paid of approximately RMB5.4 million.

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For the year ended 31 December 2018, our net cash generated from operating activities was approximately RMB24.9 million, mainly due to (i) our profit before tax of approximately RMB35.3 million which was primarily adjusted for depreciation of property, plant and equipment of approximately RMB6.6 million, amortisation of prepaid lease payments of approximately RMB0.4 million, gain on disposals of property, plant and equipment of approximately RMB1.9 million, reversal of inventories of approximately RMB0.6 million and finance costs of approximately RMB0.5 million; (ii) decrease in inventories of approximately RMB2.2 million; which partially offset by (iii) increase in trade and bills receivables of approximately RMB7.9 million, which was primarily due to more customers settled their balance by bank acceptance bills in the end of 2018; (iv) increase in prepayments, deposits and other receivables of approximately RMB2.2 million, which was mainly due to our prepayments for purchasing certain production machinery and equipment; (v) decrease in trade and bills payables of approximately RMB2.7 million; (vi) decrease in other payables and accruals of approximately RMB2.5 million, which was mainly due to our settlement of the payables to the administrator of the previous landlord in respect of remaining balances and related expenses for the acquisition of the premises. For further details, please refer to the section headed “Business – Properties” in this prospectus; and (vii) the tax paid of approximately RMB2.4 million.

For the nine months ended 30 September 2019, our net cash used in operating activities was approximately RMB4.5 million, mainly due to (i) our profit before tax of approximately RMB18.6 million which was primarily adjusted for depreciation of property, plant and equipment of approximately RMB4.8 million, depreciation of right-of-use assets of approximately RMB0.3 million and finance costs of approximately RMB0.5 million; (ii) increase in trade and bills payables of approximately RMB6.3 million, which was primarily due to the generally higher payables balance with our suppliers in the course of a year as compared to year end; which partially offset by (iii) increase in inventories of approximately RMB5.5 million, which was mainly attributable to the increase in raw materials, which was mainly due to the increase in the stock level of certain raw materials of new pigments and to cope with the expected higher sales for the year end; (iv) increase in trade and bills receivables of approximately RMB18.5 million which was mainly due to the sales in the second and third quarters of 2019; (v) increase in prepayments, deposits and other receivables of approximately RMB2.1 million, which was primarily due to the prepaid Listing expenses; (vi) decrease in other payables and accruals of approximately RMB2.8 million, which was mainly due to the decrease in other tax payables; and (vii) the tax paid of approximately RMB6.2 million.

FINANCIAL INFORMATION

Net cash (used in)/generated from investing activities

Our cash generated from investing activities are primarily from proceed from disposal of a subsidiary, proceed from disposals of property, plant and equipment, decrease in pledged bank deposits and interest received. Our cash used in investing activities is primarily for the purchase of property, plant and equipment and purchase of prepaid land leases.

For the year ended 31 December 2016, our net cash used in investing activities was approximately RMB13.8 million, mainly due to (i) purchase of property, plant and equipment of approximately RMB11.7 million; (ii) increase in pledged bank deposits of approximately RMB2.4 million; which partially offset by (iii) the proceed from disposals of property, plant and equipment of approximately RMB0.1 million and (iv) interest received of approximately RMB0.2 million.

For the year ended 31 December 2017, our net cash generated from investing activities was approximately RMB12.9 million, mainly due to (i) the proceed from disposal of a subsidiary, Deqing Hongsheng, of approximately RMB19.8 million; (ii) proceeds from disposals of property, plant and equipment of approximately RMB2.0 million; (iii) interest received of approximately RMB0.1 million; which partially offset by (iv) the purchases of property, plant and equipment of approximately RMB8.4 million; and (v) increase in pledged bank deposits of approximately RMB0.5 million.

For the year ended 31 December 2018, our net cash used in investing activities was approximately RMB1.2 million, mainly due to (i) purchases of property, plant and equipment of approximately RMB2.6 million; which partially offset by (ii) decrease in pledged bank deposits of approximately RMB1.3 million.

For the nine months ended 30 September 2019, our net cash used in investing activities was approximately RMB5.3 million, mainly due to (i) purchase of property, plant and equipment of approximately RMB4.1 million and (ii) increase in pledged bank deposits of approximately RMB1.3 million.

Net cash used in financing activities

For the year ended 31 December 2016, our net cash used in financing activities was approximately RMB36.5 million, mainly attributable to dividend paid of approximately RMB35.3 million.

For the year ended 31 December 2017, our net cash used in financing activities was approximately RMB27.2 million, mainly attributable to dividend paid of approximately RMB26.7 million.

For the year ended 31 December 2018, our net cash used in financing activities was approximately RMB19.7 million, mainly attributable to dividend paid of approximately RMB19.2 million.

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For the nine months ended 30 September 2019, our net cash generated from financing activities was approximately RMB3.3 million, mainly attributable to the increase in amounts due to shareholders.

Working capital

We have taken and will continue to take various measures to improve our cash flow position by (i) planning and monitoring our liquidity position on a regular basis by regularly assessing necessity and urgency of our major operational expenses; (ii) closely monitoring the collection status of our trade receivables, actively following up with our customers for payment by our sales department led by our deputy general manager; (iii) diversifying our customers and suppliers to avoid over-reliance on any particular customers or suppliers; (iv) negotiating for longer credit periods from our suppliers leveraging on our established relationships; and (v) maintaining stable relationships with our principal banks to arrange banking facilities for use when necessary.

Our Directors are of the opinion that, taking into consideration the internal resources and banking facilities presently available to our Group, cash generated from our operation, and the estimated net proceeds to be received by us from the Global Offering, our Group has sufficient working capital for our present requirements, that is, for at least the next 12 months commencing on the date of this prospectus.

FINANCIAL INFORMATION

INDEBTEDNESS

The table below sets out the indebtedness of our Group as at the dates indicated:

	As at 31 December			As at 30 September	As at 31 December
	2016	2017	2018	2019	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)
Non-current liabilities					
Bank and other borrowings	–	–	–	10,942	–
Current liabilities					
Amount due to a director	4,451	–	–	–	–
Amounts due to shareholders	–	–	–	1,405	1,378
Bank and other borrowings	10,000	10,000	10,000	11,000	21,727
	14,451	10,000	10,000	12,405	23,105
	<u>14,451</u>	<u>10,000</u>	<u>10,000</u>	<u>23,347</u>	<u>23,105</u>

Our Directors confirmed that we had neither experienced any difficulties in obtaining or repaying, nor breached any major covenant or restriction of our bank loans or other bank facilities during the Track Record Period. As at the Latest Practicable Date, there is no material covenant related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing.

Amount due to a director

Our amount due to a Director, Mr. Chen Hua, was approximately RMB4.5 million, nil, nil, nil and nil as at 31 December 2016, 2017, 2018, 30 September 2019 and 31 December 2019, respectively. The amount due to a Director was in non-trade nature, unsecured, interest bearing at 6% per annum and repayable on demand.

FINANCIAL INFORMATION

Amounts due to shareholders

Our amounts due to shareholders represented amount due to Sunlight Global, Lilian Global and Jumping Jive incurred in the process of Reorganisation, which were non-trade nature, unsecured, interest-free and repayable on demand. The outstanding balance will be waived or settled upon the Listing.

Bank and other borrowings

Our Group had bank and other borrowings of approximately RMB10.0 million, RMB10.0 million, RMB10.0 million and RMB21.9 million as at 31 December 2016, 2017, 2018 and 30 September 2019, respectively. The effective interest rate on the Group's bank borrowings was 4.79%, 4.79%, 5.13% and 2.00%-4.79% per annum as at 31 December 2016, 2017, 2018 and 30 September 2019, respectively.

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The Group's bank loan of approximately RMB10.0 million was secured by certain of the Group's property, plant and equipment. It was guaranteed by Mr. Chen Hua, the Director of the Group, which was released in 2018. As at 31 December 2016, 2017, 2018 and 30 September 2019, the building of approximately RMB32.9 million, RMB39.8 million, RMB37.7 million and RMB36.1 million were pledged to the bank for the Group's bank borrowings. As at 31 December 2016, 2017, 2018 and 30 September 2019, the prepaid lease payments/right-of-use assets of approximately RMB15.8 million, RMB15.5 million, RMB15.1 million and RMB14.9 million were pledged to the bank for the Group's bank borrowings.

As at 31 December 2019, our Group had an unsecured borrowing of RMB10.8 million (equivalent to approximately HK\$12.0 million) from a Hong Kong licensed money lender, an Independent Third Party (the "Lender"). The interest rate of the borrowing was 2.0% per annum.

The Lender was introduced to Mr. Chen, our executive Director and Controlling Shareholder, through a common acquaintance. In April 2019, having considered factors such as (i) the prospect of our Group and our business; (ii) the financial position and performance of our Group; (iii) the credibility of Mr. Chen and our management; (iv) potential business opportunities may arise in the future, considering that the Group is as one of the Key Industrial Enterprises in the Jiande County and Mr. Chen's extensive local business network given he has been engaged in chemical engineering industry in Hangzhou since 2000; and (v) the amount of borrowing of HK\$12.0 million was not significant to the overall business of the Lender, the Lender provided an unsecured facility of up to HK\$12.0 million for 18 months at an interest rate of 2.0% per annum to us.

In April and July 2019, an amount of HK\$6.0 million and HK\$6.0 million were drawn by us pursuant to the loan agreement entered into between our Group and the Lender. Our Group intended to utilise the loan proceeds for general working capital purposes, in particular, to cover our expenses incurred and to be incurred outside the PRC in relation to the Listing.

To the best knowledge of our Directors and having made all reasonable enquiries, save as disclosed above, the Lender (including its directors, shareholders and any of their respective associates) has no past or present relationship which includes any agreement, arrangement or undertaking (family, financial or otherwise), verbal or in writing, with our Group, our Directors, shareholders, senior management or any of their respective associates.

For the Track Record Period and up to the Latest Practicable Date, the aggregate amount of borrowings obtained from the Lender was HK\$12.0 million, and the associated interest expenses incurred was approximately HK\$81,200 for the nine months ended 30 September 2019.

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As at the Latest Practicable Date for the purpose of this indebtedness statement, our Group had aggregate unutilised banking facilities of approximately RMB11.8 million.

Our Directors confirm that we have not experienced any withdrawal of facilities, default in payment of bank borrowing or breach of financial covenants during the Track Record Period and up to the Latest Practicable Date.

Lease liabilities

The Group has initially applied IFRS 16 as from 1 January 2019 and the Group has elected to use the modified retrospective approach. The Group did not have lease liabilities as at 30 September 2019 and 31 December 2019 as the consideration of lease was one-off payment which was fully prepaid during the acquisition of the rights of PRC long term lease with no other further payments incurred and the Group has no non-cancellable operating lease commitments.

ASSETS AND LIABILITIES

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

Consolidated statements of financial position

	As at 31 December		As at 30 September	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	96,961	95,510	63,420	62,689
Prepaid lease payments/right-of-use assets	17,963	17,572	17,181	17,279
Deferred tax assets	66	145	90	78
	<u>114,990</u>	<u>113,227</u>	<u>80,691</u>	<u>80,046</u>
Current assets				
Inventories	14,140	14,625	12,962	18,338
Trade and bills receivables	50,989	59,857	67,532	85,937
Prepayments, deposits and other receivables	2,524	615	2,884	4,632
Pledged bank deposits	2,415	2,908	1,560	2,852
Bank balances and cash	9,261	6,215	10,162	3,395
	<u>79,329</u>	<u>84,220</u>	<u>95,100</u>	<u>115,154</u>
Assets of disposal group classified held for sale	<u>8,841</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>88,170</u>	<u>84,220</u>	<u>95,100</u>	<u>115,154</u>

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	As at 31 December		As at 30 September	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Current liabilities				
Trade and bill payables	26,953	26,388	23,732	30,039
Other payables and accruals	17,755	9,528	7,046	4,694
Deferred income	–	137	137	137
Tax payables	3,622	1,811	3,843	984
Amount due to a director	4,451	–	–	–
Amount due to shareholders	–	–	–	1,405
Bank and other borrowings	10,000	10,000	10,000	11,000
Dividend payables	28,430	1,710	2,907	–
	<u>91,211</u>	<u>49,574</u>	<u>47,665</u>	<u>48,259</u>
Liabilities of disposal group classified as held for sale	<u>121</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>91,332</u>	<u>49,574</u>	<u>47,665</u>	<u>48,259</u>
Net current (liabilities)/assets	<u>(3,162)</u>	<u>34,646</u>	<u>47,435</u>	<u>66,895</u>
Total assets less current liabilities	<u>111,828</u>	<u>147,873</u>	<u>128,126</u>	<u>146,941</u>
Non-current liabilities				
Deferred income	–	1,095	958	855
Bank and other borrowings	–	–	–	10,942
	<u>–</u>	<u>1,095</u>	<u>958</u>	<u>11,797</u>
Net assets	<u><u>111,828</u></u>	<u><u>146,778</u></u>	<u><u>127,168</u></u>	<u><u>135,144</u></u>
Capital and reserves				
Share capital	36,000	36,000	36,000	670
Reserves	<u>75,828</u>	<u>110,778</u>	<u>91,168</u>	<u>134,474</u>
Total equity	<u><u>111,828</u></u>	<u><u>146,778</u></u>	<u><u>127,168</u></u>	<u><u>135,144</u></u>

FINANCIAL INFORMATION

DISCUSSION ON SELECTED BALANCE SHEET ITEMS

Property, plant and equipment

During the Track Record Period, our property, plant and equipment mainly represented buildings, furniture, fixtures and office equipment, plant and machinery, motor vehicles as well as construction in progress. As at 31 December 2016, 2017, 2018 and 30 September 2019, our net book value of property, plant and equipment amounted to approximately RMB97.0 million, RMB95.5 million, RMB63.4 million and RMB62.7 million, respectively. The decrease in our property, plant and equipment from approximately RMB95.5 million as at 31 December 2017 to approximately RMB63.4 million as at 31 December 2018 and further decrease to approximately RMB62.7 million as at 30 September 2019 was mainly due to the sales of a premises to Hangzhou Qiyue, in March 2018. For further details, please refer to the section headed “Business – Properties – Disposal of property which was subsequently leased to us” in the prospectus.

Prepaid lease payments/right-of-use assets

Our prepaid lease payments are land use rights located in the PRC, which are under medium lease. As at 31 December 2016, 2017, 2018 and 30 September 2019, our net book value of prepaid lease payments amounted to approximately RMB18.4 million, RMB18.0 million, RMB17.6 million and RMB17.3 million, respectively, with the amounts of prepaid lease payments of approximately RMB15.8 million, RMB15.5 million, RMB15.1 million and RMB14.9 million being pledged for our bank borrowings, respectively.

Upon application of IFRS 16 on 1 January 2019, the prepaid lease payment were classified as right-of-use assets.

Inventories

Our inventories primarily consist of raw materials, including polymers, solvents, pigments and auxiliary materials, packaging materials, work in progress and finished goods.

The following table sets out the summary of our inventories balances as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	30 September
	RMB'000	RMB'000	RMB'000	2019
				RMB'000
Raw materials	9,547	9,185	7,842	12,778
Packaging materials	179	182	238	190
	<u>9,726</u>	<u>9,367</u>	<u>8,080</u>	<u>12,968</u>
Work in progress	474	802	624	574
Finished goods	3,940	4,456	4,258	4,796
	<u>3,940</u>	<u>4,456</u>	<u>4,258</u>	<u>4,796</u>
Total	14,140	14,625	12,962	18,338

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The balance of our inventories decreased from approximately RMB14.6 million as at 31 December 2017 to approximately RMB13.0 million as at 31 December 2018, mainly due to the decrease in the stock level of certain raw materials as our Directors anticipated a downward trend in the prices of raw materials in 2019 according to market research and analysis. Our balance of inventories increased to approximately RMB18.3 million as at 30 September 2019, which was mainly due to (i) the increase in the stock level of certain raw materials of the new pigments, which are specifically used in our production of colour paste for the manufacturing of microfibre leather during the period; and (ii) to cope with the expected higher sales for the year end.

The following table sets out the average inventory turnover days for the Track Record Period:

	<div style="text-align: right;"> Nine months ended Year ended 31 December 2016 2017 2018 30 September 2019 </div>			
Average inventory turnover days				
<i>(Note)</i>	51	49	43	50

Note: Average inventory turnover days are calculated based on the average balance of inventories divided by costs of sales for the relevant year/period and multiplied by the number of days in the relevant year/period. Average balance is calculated as the average of the beginning balance and ending balance of a given year/period.

Our average inventory turnover days remained relatively stable at approximately 51 days and 49 days for the years ended 31 December 2016 and 2017. Our average inventory turnover days decreased from approximately 49 days for the year ended 31 December 2017, to approximately 43 days for the year ended 31 December 2018, primarily due to the decrease in the stock level of certain raw materials at the end of 2018 as our Directors anticipated a downward trend in the prices of raw materials in 2019. Our average inventory turnover days increased from approximately 43 days for the year ended 31 December 2018 to approximately 50 days for the nine months ended 30 September 2019, primarily due to the increase in the stock level of certain raw materials at the period end of 30 September 2019.

As at the Latest Practicable Date, approximately RMB14.6 million, representing 79.4% of our inventories as at 30 September 2019, were subsequently used.

FINANCIAL INFORMATION

Trade, bills and other receivables

The following table sets out a breakdown of our trade, bills and other receivables as at the dates indicated:

	As at 31 December		As at 30 September	
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	45,098	52,710	46,624	72,316
Less: allowance for impairment	<u>(203)</u>	<u>(139)</u>	<u>(345)</u>	<u>(415)</u>
	44,895	52,571	46,279	71,901
Bills receivables	<u>6,094</u>	<u>7,286</u>	<u>21,253</u>	<u>14,036</u>
	50,989	59,857	67,532	85,937
Prepayment, deposits and other receivables	<u>2,524</u>	<u>615</u>	<u>2,884</u>	<u>4,632</u>
Total	<u><u>53,513</u></u>	<u><u>60,472</u></u>	<u><u>70,416</u></u>	<u><u>90,569</u></u>

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Trade receivables

Our trade receivables primarily consisted of trade receivables arising from sales of products to our customers. Our trade receivables increased from approximately RMB45.1 million as at 31 December 2016 to approximately RMB52.7 million as at 31 December 2017 which was in line with the increase in the sales of our products. Our trade receivables decreased from approximately RMB52.7 million as at 31 December 2017 to approximately RMB46.6 million as at 31 December 2018 which was mainly due to more customers settled our trade receivables with bank acceptance bills. Our trade receivables increased to approximately RMB72.3 million as at 30 September 2019, which was mainly due to the sales in the second and third quarters of 2019. Balance of our trade receivables as at 30 September 2019 was relatively higher than balances of trade receivables as at 31 December 2016, 2017 and 2018 since we normally expedite our collection of payments from our customers towards the end of a year and before the following lunar new year.

The following table sets out an ageing analysis of our gross amount of trade receivables presented based on the invoice dates:

	As at 31 December		As at 30 September	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	13,967	14,137	20,829	22,257
31 to 90 days	21,827	24,405	16,710	33,277
91 to 180 days	7,208	13,415	7,264	15,226
181 to 365 days	1,630	701	1,449	1,178
Over 1 year	466	52	372	378
	<u>45,098</u>	<u>52,710</u>	<u>46,624</u>	<u>72,316</u>

The following table sets out an ageing analysis of our trade receivables which are past due but not impaired as at the dates indicated:

	As at 31 December		As at 30 September	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	9,560	11,094	6,420	17,286
31 to 90 days	6,493	12,154	7,328	14,550
91 to 180 days	2,566	3,424	1,593	4,540
181 to 365 days	55	212	971	761
Over 1 year	466	52	50	368
	<u>19,140</u>	<u>26,936</u>	<u>16,362</u>	<u>37,505</u>
Total	<u>19,140</u>	<u>26,936</u>	<u>16,362</u>	<u>37,505</u>

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Trade receivables that were past due but not impaired relate to a number of independent customers that have a good historical payment record with our Group. In determining the allowance for trade receivables, our management takes into account the credit history including default or delay in payments, settlement records, subsequent settlements and ageing analysis of the trade receivables.

The following table sets out the average trade and bills receivables turnover days for the periods indicated:

	For the year ended 31 December			For the nine months ended 30 September
	2016	2017	2018	2019
Average trade receivables turnover days ^(Note 1)	101	113	108	125
Average trade and bills receivables turnover days ^(Note 2)	121	128	139	160

Note 1: Average trade receivables turnover days are calculated based on the average of the beginning and ending balance of trade receivables for the year/period divided by the revenue for the relevant year/period and multiplied by the number of days in the relevant year/period.

Note 2: Average trade and bills receivables turnover days are calculated based on the average of the beginning and ending balance of trade and bills receivables for the year/period divided by the revenue for the relevant year/period and multiplied by the number of days in the relevant year/period.

We generally grant a credit period between 30 to 120 days to our customers. Our trade receivables turnover days were approximately 101 days, 113 days and 108 days for the years ended 31 December 2016, 2017 and 2018 respectively, which were in line with our general credit period granted. Our trade receivables turnover days increased to approximately 125 days for the nine months ended 30 September 2019, which was mainly due to the increase in our trade receivables as at 30 September 2019 driven by the generally higher sales in the second and third quarters of a year.

Our trade and bills receivables turnover days were approximately 121 days, 128 days, 139 days and 160 days for the years ended 31 December 2016, 2017 and 2018 and for the nine months ended 30 September 2019, respectively. Bills received by the Group are with a maturity period of less than 6 months. The increase in the turnover days from approximately 128 days for the year ended 31 December 2017 to 139 days for the year ended 31 December 2018, and further increase to 160 days for the nine months ended 30 September 2019, was mainly due to the additional turnover days contributed by our bills receivables during the corresponding period as a result of the increasing amount of receivables settled by bank acceptance bills for the year ended 31 December 2018.

As at the Latest Practicable Date, approximately RMB69.1 million, representing 95.6% of our trade receivables as at 30 September 2019, were subsequently settled.

FINANCIAL INFORMATION

Bills receivables

In general, in addition to bank transfer, our customers can also settle our invoices with bank acceptance bills. These bills, once received by us, may be held to their maturity dates to receive their full value, or sold to banks prior to their maturity dates for cash at a discount to face value, or endorsed by us to settle our payables to third parties. As advised by our PRC Legal Advisers, such transfer by endorsement is legal and valid under applicable PRC laws and regulations. According to the CIC Report, it is ordinary and usual course of business to settle payments by bank acceptance bills or by transferring one's rights and entitlements to the underlying amounts of a bank acceptance bill to a third party for settlement in manufacturing industry in the PRC.

Compared to credit sales, settlement by bank acceptance bills guarantees the collection of trade receivables since such payment is backed by a commercial bank. Our Directors believe that the transfer of bank acceptance bills by way of endorsement to settle our payables is beneficial to our business operation for the following reasons:

- (i) it facilitates efficient settlement of our payables without resorting to our working capital and cash flow, thus enhancing flexibility in our use of working capital to settle other operating costs;
- (ii) it saves our interest costs that might have otherwise been incurred for procuring additional working capital for settlement by way of loan financing;
- (iii) it is generally accepted by our suppliers as a settlement method because the endorsement of bank acceptance bills is accepted by the relevant commercial banks; and
- (iv) it enables us to better utilise our financial resources for our business operations instead of holding the bank acceptance bills until maturity dates to receive full face value, or to incur discount expense if we sell such bank acceptance bills to bank for cash prior to the maturity dates.

We have in place control measures on the use and transfer of bank acceptance bills such as internal approval by our senior management is required for settlement of our payables to suppliers by endorsement of bank acceptance bills.

FINANCIAL INFORMATION

Our bills receivables amounted to approximately RMB6.1 million, RMB7.3 million, RMB21.3 million and RMB14.0 million as at 31 December 2016, 2017 and 2018 and 30 September 2019 respectively. As at 31 December 2016, 2017, 2018 and 30 September 2019, all bills received by the Group are with a maturity period of less than 6 months. The increase in our bills receivables balance from approximately RMB7.3 million as of 31 December 2017 to approximately RMB21.3 million as at 31 December 2018 was primarily because more customers settled their balance by bank acceptance bills in the year end of 2018. According to CIC Report and to the best knowledge of our Directors, such increase was mainly driven by the enhancement of the Electronic Commercial Draft System in late 2017 which facilitated the use of electronic bank acceptance bills as a safe and convenient alternative to paper-based bank acceptance bills and cash. As at 30 September 2019, our bills receivables balance decreased to approximately RMB14.0 million, which was primarily due to certain bills were sold to banks prior to their maturity dates for cash at a discount to face value during the period.

For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, 76, 79, 81 and 74 of our customers had used bank acceptance bills to settle our trade receivables and our revenue contributed by such customers were approximately RMB127.4 million, RMB124.7 million, RMB151.9 million and RMB106.5 million, respectively, out of which approximately RMB77.6 million, RMB75.7 million, RMB93.2 million and RMB59.5 million was settled by bank acceptance bills.

As at the Latest Practicable Date, approximately RMB12.9 million, representing 91.6% of our bills receivables as at 30 September 2019, were subsequently settled.

FINANCIAL INFORMATION

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables mainly represented our prepayments for purchasing equipment, raw materials, exhibition costs and software service fee. Our prepayments, deposits and other receivables decreased from approximately RMB2.5 million as at 31 December 2016 to approximately RMB0.6 million as at 31 December 2017 mainly due to the decrease in our prepayment for raw materials near the end of 2017. Our prepayments, deposits and other receivables increased to approximately RMB2.9 million as at 31 December 2018 mainly due to our prepayments for purchasing certain production machinery and equipment. Our prepayments, deposits and other receivables increased to approximately RMB4.6 million as at 30 September 2019 mainly due to the occurrence of the prepaid Listing expenses during the period.

Assets held for sales

In December 2016, Zhejiang Sunlight entered into a sale and purchase agreement with Independent Third Parties, to dispose of the entire equity interests in Deqing Hongsheng. The total cash consideration for the sale of the entire issued share capital of Deqing Hongsheng amounted to RMB19.8 million. The completion of the disposal of Deqing Hongsheng took place in February 2017. We recorded an amount of assets held for sales of approximately RMB8.8 million as at 31 December 2016, which represented the carrying amount of the total assets of Deqing Hongsheng.

Trade and bills payables

The following table sets out the components of our trade and bills payables as at the dates indicated:

	As at 31 December		As at 30 September	
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	18,903	16,695	18,532	20,532
Bills payables	8,050	9,693	5,200	9,507
	<u>26,953</u>	<u>26,388</u>	<u>23,732</u>	<u>30,039</u>

Trade payables

Our trade payables primarily consisted of the amount due to our suppliers for our purchase of raw materials. Our trade payables decreased from approximately RMB18.9 million as at 31 December 2016 to approximately RMB16.7 million as at 31 December 2017, which was mainly due to more settlement to our suppliers around the end of 2017. Our trade payables increased from approximately RMB16.7 million as at 31 December 2017 to approximately RMB18.5 million as at 31 December 2018 and to approximately RMB20.5 million as at 30 September 2019, which was in line with the increase in our purchase of raw materials for our production during the period.

FINANCIAL INFORMATION

We are generally granted an average credit period up to 90 days from the invoice date. The following table sets out an ageing analysis of trade payables presented based on the invoice dates at the end of each reporting period:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	9,552	9,075	11,314	12,677
31 to 90 days	8,266	7,176	5,853	6,448
91 to 180 days	743	330	503	1,044
181 to 365 days	284	36	322	253
Over 1 year	58	78	540	110
	<u>18,903</u>	<u>16,695</u>	<u>18,532</u>	<u>20,532</u>

The following table sets out the average trade payables turnover days for the periods indicated:

	For the year ended 31 December			For the nine months ended 30 September
	2016	2017	2018	2019
Average trade payables turnover days ^(Note)	78	61	55	63

Note: Average trade payables turnover days is calculated based on the average trade payables as at the respective year/period, divided by the cost of sales for the relevant year/period and multiplied by the number of days in the relevant year/period.

Our trade payables turnover days were at approximately 78 days, 61 days, 55 days and 63 days, respectively, for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, which were generally in line with the credit terms of up to 90 days granted by our suppliers. Such decrease from 2016 to 2018 was mainly due to our faster settlement to our suppliers for the years ended 31 December 2017 and 2018. The increase in turnover days to approximately 63 days for the nine months ended 30 September 2019 was mainly due to the increase in purchase of raw materials at the period end of 30 September 2019.

As at the Latest Practicable Date, approximately RMB19.8 million, representing 96.3% of our trade payables as at 30 September 2019, were subsequently settled.

FINANCIAL INFORMATION

Bills payables

As of 31 December 2016, 2017, 2018 and 30 September 2019, our bills payables were approximately RMB8.1 million, RMB9.7 million, RMB5.2 million and RMB9.5 million, respectively. The decrease in the balance of bills payables in 2018 was generally due to the increase in our use of the bank acceptance bills received from customers to settle our balances with suppliers by way of endorsement. Thus, the amount of bank acceptance bills were drawn by the Group for settlement decreased to approximately RMB5.2 million as at 31 December 2018. The increase in the balance of bills payables as at 30 September 2019 was mainly due to generally higher payable balance with our suppliers in the course of a year as compared to year end. For further details of the use of bank acceptance bills, please refer to the paragraph headed “Discussion on selected balance sheet items – Trade, bills and other receivables – Bills receivables” in this section.

For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, 99, 112, 119 and 120 of our suppliers accepted our settlement by the transfer of the bank acceptance bills we received from our customers by way of endorsement and the amounts of our purchases from such suppliers were approximately RMB79.4 million, RMB87.0 million, RMB98.7 million and RMB71.7 million, respectively, representing approximately 93.0%, 88.6%, 89.9% and 85.0% of our total purchase for the corresponding periods. For the years ended 31 December 2016, 2017, and 2018, and nine months ended 30 September 2019, the bank acceptance bills we received from our customers that were subsequently endorsed to our suppliers for the settlement of our trade payables amounted to approximately RMB77.3 million, RMB75.4 million, RMB92.2 million and RMB63.0 million, respectively.

As at the Latest Practicable Date, all of our bills payables as at 30 September 2019, were subsequently settled.

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Other payables and accruals

Our other payables and accruals mainly represented accrued staff cost, accrued expenses, payables for acquisition of property, plant and equipment and other tax payables. Our other payables and accruals amounted to approximately RMB17.8 million, RMB9.5 million, RMB7.0 million and RMB4.7 million as at 31 December 2016, 2017, 2018 and 30 September 2019, respectively. The decreases were mainly due to our settlement of the payables to (i) the retention money to the contractor of our Jiande Production Plant for the outstanding and/or rectification works; and (ii) the administrator of the previous landlord, which was subject to bankruptcy proceedings, in respect of remaining balances and related expenses for the acquisition of the premises. For further details, please refer to the section headed “Business – Properties” in this prospectus.

Deferred income

The deferred income represented the income related to the government grants, which was not recognised until there was a reasonable assurance that the Group had complied with all the prerequisite conditions and had been entitled to the grants. Our deferred income increased from nil as at 31 December 2016 to approximately RMB1.2 million as at 31 December 2017 and decreased to approximately RMB1.1 million as at 31 December 2018 and to approximately RMB1.0 million as at 30 September 2019, which represented the actual amount for a conditional government grant we received from Jiande Finance Bureau* (建德市財政局) in relation to the subsidy to the acquisition of certain machinery in 2017 of an aggregate amount of approximately RMB1.3 million. The grant was recognised gradually according to the useful lives of the machines of around 10 years.

Tax payable

Our tax payables were approximately RMB3.6 million, RMB1.8 million, RMB3.8 million and RMB1.0 million as at 31 December 2016, 2017, 2018 and 30 September 2019, respectively.

Dividend payables

Our subsidiary, Zhejiang Sunlight, declared dividends of RMB50.0 million, nil, RMB50.4 million and RMB7.2 million to its then shareholders for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, respectively. Our dividend payables were approximately RMB28.4 million, RMB1.7 million, RMB2.9 million and nil, respectively, as at 31 December 2016, 2017 and 2018 and 30 September 2019. The dividend payable of RMB2.9 million as at 31 December 2018 was settled in May 2019.

CAPITAL EXPENDITURE

Capital expenditure

During the Track Record Period, our capital expenditures have principally consisted of expenditures on property, plant and equipment. We incurred cash flows on capital expenditures for the purchase of property, plant and equipment in the amounts of approximately RMB11.7 million, RMB8.4 million, RMB2.6 million and RMB4.1 million for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019.

FINANCIAL INFORMATION

Please also refer to the section headed “Business – Machinery, equipment and vehicles” for further information regarding our machinery and equipment.

COMMITMENTS

Capital commitments

As at 31 December 2016, 2017, 2018 and 30 September 2019, our capital commitments were as follows:

	As at 31 December		As at 30 September	
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted but not provided for				
– Purchase of property, plant and equipment	2,631	449	100	–

CONTINGENT LIABILITIES

As at 31 December 2016, 2017, 2018 and 30 September 2019, we did not record any significant hire purchase commitment, contingent liabilities, guarantee or any litigation against us. We confirm that as at the Latest Practicable Date that, there have been no material changes to our contingent liabilities.

SUBSEQUENT EVENTS

For significant events that took place subsequent to 30 September 2019, please refer to “Recent Developments and no material adverse change” in this section and note 37 to the Accountants’ Report set out in Appendix I in this prospectus.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENT

As at the Latest Practicable Date, our Group had not entered into any material off-balance sheet commitments and arrangement.

PROPERTY INTEREST AND PROPERTY VALUATION

Our property valuer, AVISTA Valuation Advisory Limited, has valued our property as at 31 January 2020 at RMB60,800,000. Details of the valuation are summarised in Appendix IV to this prospectus.

FINANCIAL INFORMATION

The following table sets out a reconciliation of the fair value of our property interest as at 31 January 2020 to their net book value as at 30 September 2019, details of which is set out in note 18 of the Accountants' Report in Appendix I to this prospectus for further details:

	<i>RMB'000</i>
Net book value of the property as at 30 September 2019	53,390
Less: Movements for the four months ended 31 January 2020	
– Addition (<i>unaudited</i>)	267
– Depreciation and amortisation (<i>unaudited</i>)	(858)
Net book value of the property as at 31 January 2020 (unaudited)	52,799
Net valuation surplus	8,001
Valuation as at 31 January 2020	60,800

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in note 33 to the Accountants' Report in Appendix I in this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and were fair and reasonable and in the interest of the Shareholders as a whole. Save for the transaction between the Group and Hangzhou Qiyue mentioned in the section headed "Connected transaction" in this prospectus, none of the related party transactions set forth in note 33 to the Accountants' Report set out in Appendix I to this prospectus will continue after the Listing.

KEY FINANCIAL RATIOS

The table below sets out our selected key financial ratios during the Track Record Period:

	As at/for the year ended		As at/for the nine months ended	
	31 December		30 September	
	2016	2017	2018	2019
Gross profit margin (<i>Note 1</i>)	36.5%	32.2%	30.3%	34.9%
Net profit margin (<i>Note 2</i>)	16.8%	22.2%	18.4%	11.7%
Gearing ratio (<i>Note 3</i>)	14.0%	6.8%	7.9%	17.3%
Current ratio (<i>Note 4</i>)	0.9	1.7	2.0	2.4
Quick ratio (<i>Note 5</i>)	0.7	1.4	1.7	2.0
Return on equity (<i>Note 6</i>)	24.6%	23.8%	24.2%	15.0%
Return on assets (<i>Note 7</i>)	13.1%	17.7%	17.5%	10.4%
Net debt to equity ratio (<i>Note 8</i>)	5.0%	2.6%	Net cash	14.8%

FINANCIAL INFORMATION

Notes:

1. Calculated by dividing the gross profit for the year/period by the total revenue for the same year/period and multiplied by 100%.
2. Calculated by dividing the net profit for the year/period by the total revenue for the same year/period and multiplied by 100%.
3. Calculated by dividing the total debt by the total equity as at the end of the year/period and multiplied by 100%. Total debt is defined to include bank and other borrowings and other payables due to related parties which are in non-trade nature.
4. Calculated by dividing total current assets (excluding the assets of disposal group classified as held for sale) by total current liabilities (excluding the liabilities of disposal group classified as held for sale) as at the end of the year/period.
5. Calculated by dividing total current assets (excluding the assets of disposal group classified as held for sale) less inventories by total current liabilities (excluding the liabilities of disposal group classified as held for sale) as at the end of the year/period and multiplied by 100%.
6. Calculated as the net profit attributable to owners of our Company for the year/period divided by the total equity (excluding the assets/liabilities of disposal group classified as held for sale) attributable to owners of our Company as at the end of the year/period and multiplied by 100%. Return on equity for the nine months ended 30 September 2019 is calculated on an annualised basis.
7. Calculated as the net profit attributable to owners of our Company for the year/period divided by the total assets (excluding the assets of disposal group classified as held for sale) as at the end of the year/period and multiplied by 100%. Return on assets for the nine months ended 30 September 2019 is calculated on an annualised basis.
8. Calculated as net debts (i.e. total debt net of cash and cash equivalents) divided by total equity (excluding the assets/liabilities of disposal group classified as held for sale) and multiplied by 100%.

Gross profit margin

Our gross profit margin was approximately 36.5%, 32.2%, 30.3% and 34.9% for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, respectively. For details of our gross profit margin, please refer to the paragraph headed “Period to period comparison of results of operations” in this section.

Net profit margin

Our net profit margin was approximately 16.8%, 22.2%, 18.4% and 11.7% for the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019 respectively. The decrease in net profit margin to approximately 11.7% for the nine months ended 30 September 2019 was mainly due to the occurrence of the Listing expenses, which were one-off in nature, in 2019. For details of our net profit margin, please refer to the paragraph headed “Period to period comparison of results of operations” in this section.

FINANCIAL INFORMATION

Gearing ratio

Our gearing ratio decreased from approximately 14.0% as at 31 December 2016 to approximately 6.8% as at 31 December 2017, primarily due to the settlement of the amount due to a Director in 2017.

Our gearing ratio increased from approximately 6.8% as at 31 December 2017 to approximately 7.9% as at 31 December 2018, primarily due to the decrease in our total equity.

Our gearing ratio increased from approximately 7.9% as at 31 December 2018 to approximately 17.3% as at 30 September 2019, primarily due to the increase in bank and other borrowings as at 30 September 2019.

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Current ratio

Our current ratio increased from approximately 0.9 time as at 31 December 2016 to approximately 1.7 times as at 31 December 2017. The increase in current ratio was mainly due to (i) the decrease in our other payable in relation to the settlement of the payable amount for the acquisition of the premises in Hangzhou; and (ii) decrease in dividend payables.

Our current ratio increased from approximately 1.7 times as at 31 December 2017 to approximately 2.0 times as at 31 December 2018 mainly due to the overall increase in trade and bills receivables during the year end.

Our current ratio increased from approximately 2.0 times as at 31 December 2018 to approximately 2.4 times as at 30 September 2019 mainly due to the increase in trade receivables during the period.

Quick ratio

Our quick current ratio was approximately 0.7 time, 1.4 times, 1.7 times and 2.0 times as at 31 December 2016, 2017, 2018 and 30 September 2019, respectively. The movement of the quick ratio was consistent with the trend of current ratio during the Track Record Period.

Return on equity

Our return on equity decreased from approximately 24.6% for the year ended 31 December 2016 to approximately 23.8% for the year ended 31 December 2017, which was primarily due to increase in equity as a result of the increase in the net profit offset by the settlement of dividend payables in 2017. Our return on equity decreased from approximately 24.2% for the year ended 31 December 2018 to approximately 15.0% for the nine months ended 30 September 2019 on an annualised basis, mainly due to the Listing expense incurred during the period.

Return on assets

Our return on total assets increased from approximately 13.1% for the year ended 31 December 2016 to approximately 17.7% for the year ended 31 December 2017, primarily due to the increase in net profits during the year. Our return on total assets remained relatively stable at approximately 17.5% for the year ended 31 December 2018. Our return on total assets decreased to approximately 10.4% for the nine months ended 30 September 2019, on an annualised basis, mainly due to the Listing expense incurred during the period.

Net debt to equity ratio

Our net debt to equity ratio was 5.0% and 2.6%, respectively, as at 31 December 2016 and 2017. The decrease was due to the settlement of the amount due to a Director, Mr. Chen Hua, in 2017. We recorded net cash position as at 31 December 2018.

FINANCIAL INFORMATION

Our net debt to equity ratio increased to approximately 14.8%, which was mainly due to the increase in bank and other borrowings as at 30 September 2019.

FINANCIAL RISK MANAGEMENT

During our conduct of business, we are exposed to various types of market risks including interest rate risk, credit risk and liquidity risk.

Details of the risks to which we are exposed to are set out in Note 6 to the Accountants' Report set out in Appendix I in this prospectus.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

As at the Latest Practicable Date, our Company has no distributable reserves available for distribution to our Shareholders.

DIVIDENDS

For the years ended 31 December 2016, 2017 and 2018, and the nine months ended 30 September 2019, dividends of RMB50.0 million, nil, RMB50.4 million and RMB7.2 million, respectively, were declared by Zhejiang Sunlight and distributed to the then shareholders and were settled in full. The declaration and payment of future dividends will be subject to the decision of our Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospect, capital requirements, and economic outlook. Declaration and payment of dividends is also subject to any applicable laws and the Articles of Association. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future. Currently, our Group does not have a fixed dividend policy and does not have a pre-determined dividend distribution ratio.

After completion of the Global Offering, while we currently have no plans to pay dividends to the Shareholders in the foreseeable future, we may distribute dividends by way of cash or by other means that our Directors consider appropriate. A decision to distribute any interim dividend or recommend any final dividend would require the approval of our Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or pay any dividend in the future and the amount of any dividends depends on a number of factors, including but not limited to our results of operations, financial condition, working capital, capital requirements and other factors our Board may deem relevant. We will re-evaluate our dividend policy annually. Our Board has the discretion to decide whether to declare or distribute dividends in any year. There is no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year.

LISTING EXPENSES

For the years ended 31 December 2016, 2017 and 2018, we did not record any Listing expenses. The total estimated listing expenses in connection with the Global Offering are approximately RMB39.4 million (equivalent to approximately HK\$46.1 million or approximately 33.5% to the gross proceeds) (based on the mid-point of the Offer Price of HK\$0.55 per Offer Share and assuming no Over-allotment Option will be exercised), of which approximately RMB11.3 million (equivalent to approximately HK\$13.2 million) was charged to profit or loss for the nine months ended 30 September 2019, and an additional amount of approximately RMB9.9 million (equivalent to approximately HK\$11.6 million) is expected to be charged to our consolidated statements of profit or loss and other comprehensive income for the year ending 31 December 2020 and the remaining amount of approximately RMB18.2 million (equivalent to approximately HK\$21.3 million) is expected to be accounted for as a deduction from equity upon the Listing.

Our Directors consider that our financial results will be affected by the expenses in relation to the Global Offering as we expect to recognise approximately RMB11.3 million (equivalent to approximately HK\$13.2 million) and approximately RMB9.9 million (equivalent to approximately HK\$11.6 million) in the consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2019 and the year ending 31 December 2020, respectively. Accordingly, the financial performance for the year ended 31 December 2019 and the year ending 31 December 2020 are expected to be adversely affected by the estimated expenses in relation to the Listing.

FINANCIAL INFORMATION

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2019

Our Directors estimate, on the bases set out in Appendix III to this prospectus, that our estimated consolidated profit and unaudited pro forma estimated basic earnings per Share for the year ended 31 December 2019 are as follows:

Estimated consolidated profit for the year

ended 31 December 2019 *(Note 1)* not less than RMB23.5 million

Unaudited pro forma estimated basic earnings per Share

for the year ended 31 December 2019 *(Notes 2 and 3)* not less than RMB2.35 cents

Notes:

- (1) The profit estimate, for which our Directors are solely responsible for, has been prepared by our Directors based on our audited consolidated results for the nine months ended 30 September 2019 and unaudited consolidated results based on our management accounts for the three months ended 31 December 2019. The profit estimate has been prepared on a basis consistent in all material respects with the accounting policies that we adopt as set out in the Accountants' Report in Appendix I to this prospectus.
- (2) The unaudited pro forma estimated basic earnings per Share for the year ended 31 December 2019 has been prepared in accordance with paragraph 4.29 (1) of the Listing Rules on the basis set out in the note below for the purpose of illustrating the effect of the Global Offering, as if it had taken place on 1 January 2019. The unaudited pro forma estimated basic earnings per Share has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the financial results of our Group following the Global Offering.
- (3) The calculation of the unaudited pro forma estimated basic earnings per Share for the year ended 31 December 2019 is based on the estimated consolidated profit for the year ended 31 December 2019, and assuming a weighted average of 1,000,000,000 Shares in issue during the year ended 31 December 2019 and the Global Offering had been completed on 1 January 2019, without taking into account of any Shares which (i) may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued upon exercise of the Over-allotment Option; or (ii) any Shares may be allotted and issued or repurchased by our Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix VI to this prospectus.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For details of our unaudited pro forma adjusted combined net tangible assets, please refer to the section headed “Unaudited Pro forma Financial Information” in Appendix II to this prospectus.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

We continued to focus on the sales of our faux leather chemical products after the Track Record Period and up to the Latest Practicable Date. For the year ended 31 December 2019, we experienced continuous growth of the sales of our colour chips, which we commenced the commercial production since March 2018. Our sales amount and volume of colour chips for the year ended 31 December 2019 were higher compared to those for the year ended 31 December 2018. We achieved stable gross profit margin after the Track Record Period and up to 31 December 2019.

An outbreak of respiratory disease caused by COVID-19 first emerged in Wuhan City, Hubei Province, the PRC in late 2019 and continues to expand within the PRC and globally. The new strain of coronavirus is considered highly contagious and may pose a serious public health threat. On 23 January 2020, the PRC government announced the lockdown of Wuhan City in an attempt to quarantine the city, followed by draconian measures imposed by the PRC in various regions of the nation including travel restrictions in major cities. Various countries and territories have also imposed travel restrictions, such as denial of entry, against travellers from the PRC and/or those who have been to the PRC for the past 14 days. The WHO is closely monitoring and evaluating the situation. On 30 January 2020, the WHO declared the outbreak of COVID-19 a Public Health Emergency of International Concern.

Following the spread of COVID-19 to Zhejiang Province, on 4 February 2020, the relevant authorities in Hangzhou City have also imposed epidemic prevention measures such as compulsory temperature checks, closure of public venues and restrictions for factories to resume work during the extended Lunar New Year holiday.

FINANCIAL INFORMATION

The outbreak of COVID-19, which may result in a high number of fatalities and disruption of production activities, is likely to have an adverse impact on the livelihood of the people in and the economy of the PRC, particularly Wuhan City and Hubei Province. The consumption markets of the PRC such as footwear, handbags and luggage and sports equipment, which are downstream of faux leather manufacturing industry, may be adversely affected, which will in turn affect the faux leather chemicals manufacturing industry in the PRC. However, our Directors believe that, based on information up to the date of this prospectus, the outbreak of COVID-19 would not result in a material disruption to our production and business operation due to the fact that (i) our major PRC customers are not from Wuhan City or other cities in Hubei Province; (ii) our major suppliers are not located in the Hubei Province, and given that our major raw materials are primarily polymers and auxiliary materials which are produced and readily available from suppliers in various regions of the PRC, we are generally able to source alternative supplies if any of our current suppliers are affected by disruption caused by the spread of the disease; (iii) our employees do not reside in Hubei Province and majority of our employees are local residents, who are able to come to work at our Jiande Production Plant; (iv) according to the notices announced by the local government, the Lunar New Year holiday was extended to 10 February 2020, and our production and sales activities have been resumed since 10 February 2020; (v) none of our customers who had placed orders with us before the outbreak of COVID-19 have cancelled their orders and we have been able to perform our contracts with our customers; (vi) generally the first quarter of a year is our low season due to the Lunar New Year holiday; and (vii) up to the date of this prospectus, none of our production facilities are located in the Hubei Province or cities or regions affected by lockdowns which would cause material operational disruption. To prevent any widespread of COVID-19 in our production facilities and office, we have established an epidemic prevention and control working group to undertake various precautionary measures such as (i) enhancing the hygienic level of our Jiande Production Plant and our office by cleaning and sanitising areas including office, production plants, laboratories, cafeteria and washrooms regularly; (ii) performing compulsory daily temperature checks of all our employees before and after work; (iii) minimising in-person meetings to the extent possible; and (iv) requesting our employees to wear masks at all time during work and report to us promptly whenever they feel unwell.

FINANCIAL INFORMATION

While the faux leather chemicals manufacturing industry in the PRC may experience certain extent of impact as a result of the outbreak of COVID-19, given the long-term trend for replacement of genuine leather by faux leather and increasing demand of faux leather by a wide range of downstream applications, CIC are of the view that, once the outbreak is effectively controlled, the impact on the faux leather chemicals manufacturing industry will be temporary.

Save as disclosed in the paragraph headed “Listing Expenses” in this section, our Directors confirmed that since 30 September 2019 and up to the date of this prospectus, (i) there was no material adverse change in the market conditions or the industry and environment in which our Group operates that materially and adversely affect our financial and operating position; (ii) there was no material adverse change in the trading and financial position or prospect of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountants’ Report set out in Appendix I in this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

As at the Latest Practicable Date, our Directors confirm that there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Further information on our business development is set out in the section headed “Business – Our business strategies” in this prospectus.

USE OF PROCEEDS

We estimate that the aggregate net proceeds from the Global Offering, after deducting related underwriting fees and estimated expenses in connection with the Global Offering, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$0.55 per Share (being the mid-point of the indicative Offer Price range of HK\$0.5 to HK\$0.6), will be approximately HK\$91.4 million (equivalent to approximately RMB78.1 million). Our Directors presently intend to apply such net proceeds as follows:

- approximately RMB46.9 million (equivalent to approximately HK\$54.8 million), representing approximately 60.0% of the net proceeds from the Global Offering, will be used for the construction of our New Production Plant near our existing Jiande Production Plant and purchase of new machinery and equipment, of which:
 - (i) approximately RMB29.9 million (equivalent to approximately HK\$34.9 million), representing approximately 38.3% of the net proceeds from the Global Offering, will be used for the establishment of our New Production Plant, out of which, approximately RMB11.0 million will be the land acquisition costs and approximately RMB18.9 million will be used for the construction of our production facility and warehouse. The New Production Plant will be of approximately 30,000 sq. m. near our existing Jiande Production Plant, which is expected to commence productions progressively starting from September 2021. The utilisation rates of our production of colour paste ranged from 84.6% to 96.3% for the Track Record Period, which were relatively high. The New Production Plant is designed to have 12 production lines with a total annual designed capacity of approximately 10,000 tonnes. We believe that this increased production capacity will allow us to meet the growing demand for our products, i.e. colour paste in the long term and further expand our market share; and
 - (ii) approximately RMB17.0 million (equivalent to approximately HK\$19.9 million), representing approximately 21.8% of the net proceeds from the Global Offering, will be used for acquiring and installing new machinery and equipment for colour paste production in our New Production Plant, out of which, approximately RMB11.1 million will be used to purchase new machinery and equipment, and approximately RMB5.9 million will be used mainly for the installation costs and trial run costs. We anticipate that our annual designed production capacity of colour paste will increase from approximately 5,400 tonnes as at 31 December 2018 to approximately 15,400 tonnes by July 2022 after the establishment of our New Production Plant is completed.

FUTURE PLANS AND USE OF PROCEEDS

For further details of the types of machinery and equipment to be purchased, please refer to the section headed “Business – Production facilities – New production facility” in this prospectus.

In short, we intend to apply the net proceeds from the Global Offering for the establishment of our New Production Plant as follows:

Purpose	RMB'000
Land acquisition costs	11,000
Construction of our production facility and warehouse	18,900
Purchase of machinery and equipment	11,100
Other related expenses <i>(Note)</i>	5,900

Note: This mainly represents the installation costs and trial run costs.

- approximately RMB12.8 million (equivalent to approximately HK\$15.0 million), representing approximately 16.4% of the net proceeds from the Global Offering, will be used for strengthening the automation system including but not limited to (a) the installation of fully automated production lines in two workstations, which includes the installation of intelligence robotic arms, product-lifting device, and other machinery; (b) setting up of a central operation control room to facilitate collection of production data and monitoring of the product manufacturing process; and (c) setting up of a system for improvement of product manufacturing data analysis and tracking of the whole product manufacturing process.

We intend to apply the net proceeds from the Global Offering for strengthening the automation system of our existing Jiande Production Plant as follows:

Purpose	RMB'000
Purchase of machinery and equipment and related software	10,900
Other related expenses <i>(Note)</i>	1,900

Note: This mainly represents the installation cost of new automation system.

FUTURE PLANS AND USE OF PROCEEDS

- approximately RMB17.0 million (equivalent to approximately HK\$19.9 million), representing approximately 21.8% of the net proceeds from the Global Offering, will be used for strengthening our research and development capabilities by (a) relocating our existing research institute to our existing Jiande Production Plant to enhance efficiency of our product development; (b) hiring more experienced experts and engineers; and (c) acquiring more advanced research and development equipment and testing equipment.

The construction of new research institute in our Jiande Production Plant is expected to take place in July 2020 and to be completed by September 2022. We intend to use the net proceeds from the Global Offering for strengthening our research and development capabilities. The allocation of the net proceeds to be used for this purpose is set out as follows:

Purpose	<i>RMB'000</i>
Construction of the new research institute	8,100
Purchase of machinery and equipment <i>(Note 1)</i>	8,400
Recruiting additional research and development personnel	500

Notes:

1. Following the completion of the construction, we intend to acquire additional research and development machinery and equipment, analytical testing equipment, and other general equipment.
 2. The shortfall of our planned expenditures for strengthening our research and development capabilities, which amounts to approximately RMB4.4 million, will be funded by our internal resources and/or bank borrowings. There is no designation as to the source of funding for each planned expenditure item.
- approximately RMB1.4 million (equivalent to approximately HK\$1.7 million), representing approximately 1.8% of the net proceeds from the Global Offering, will be used for our general working capital.

FUTURE PLANS AND USE OF PROCEEDS

IMPLEMENTATION PLANS

The details of our implementation plan are set out below:

							From internal resources and/or bank or other financing (a-b), except for general working capital)
	Total intended expenditure (a)	Intended expenditure for the year ending 31 December			Amount of net proceeds allocated (b)	Approximate% to total net proceeds	
	RMB' million	RMB' million	RMB' million	RMB' million	RMB' million		RMB' million
Establishment of New Production Plant							
– Land acquisition cost	11.0	11.0	–	–	11.0	14.1	–
– Construction of our production facility and warehouse	25.3	11.5	8.5	5.3	18.9	24.2	6.4
– Purchase of production machinery and equipment	15.5	–	11.0	4.5	11.1	14.2	4.4
– Other related expenses	5.9	0.7	3.2	2.0	5.9	7.5	–
Enhancing automation system of our existing Jiande Production Plant	16.4	6.1	8.5	1.8	12.8	16.4	3.6
Strengthening our research and development capabilities	21.4	5.4	12.3	3.7	17.0	21.8	4.4
General working capital <i>(Note)</i>	–	–	–	–	1.4	1.8	–
Total	95.5	34.7	43.5	17.3	78.1	100	18.8

Note: The general working capital does not constitute part of the total amount required for our implementation plan.

If the Offer Price is determined at HK\$0.6, being the highest point of the indicative range of the Offer Price, the net proceeds from the Global Offering would be increased by HK\$11.2 million. In such event, the percentage of our allocation of the total net proceeds for the above purposes will be adjusted on a pro rata basis.

If the Offer Price is determined at HK\$0.5, being the lowest point of the indicative range of the Offer Price, the net proceeds from the Global Offering would be decreased by HK\$11.2 million. In such event, the percentage of our allocation of the total net proceeds for the above purposes will be adjusted on a pro rata basis.

FUTURE PLANS AND USE OF PROCEEDS

If the Over-allotment Option is exercised in full, and assuming that the Offer Price is HK\$0.55, being the mid-point of the indicative range of the Offer Price, the net proceeds from the Global Offering would be increased by HK\$18.6 million. In such event, the percentage of our allocation of the total net proceeds for the above purposes will be adjusted on a pro rata basis.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes or if we are unable to effect any of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorised financial institutions in Hong Kong and/or China for so long as it is considered by our Directors to be in our best interests.

We will issue an announcement if there is any material change in the use of proceeds in accordance with the Listing Rules.

REASONS FOR THE LISTING

The following are our main purposes for seeking the Listing:

(i) Potential market growth and implementation of our business strategies

The net proceeds from the Listing provide our Group with financial resources to implement our business plans which in turn drive the growth of our business. For further details, please refer to the section headed “Business – Our business strategies” in this prospectus and the paragraph headed “Implementation plans” in this section.

According to the CIC Report, there will be an increasing demand for faux leather products for downstream applications in apparel, footwear, automobile interior decoration, home furnishings and sports equipment industries due to an increase in disposable income, general improvement in living standards and economic conditions in the PRC, which will in turn lead to a continuing increase in demand for faux leather chemicals products. It is expected that the sales values of faux leather coating agents market and faux leather resins market will reach approximately RMB9.8 billion and RMB18.6 billion in 2023, representing a CAGR of approximately 5.6% and 5.0% between 2018 and 2023, respectively. In particular, for the year ended 31 December 2016, 2017 and 2018, and for the nine months ended 30 September 2019, our revenue from the sales of colour paste accounted for approximately 46.0%, 45.9%, 49.3% and 42.2% of our total revenue, and the utilisation rates of our production lines for colour paste were approximately 84.6%, 90.6%, 96.3% and 86.5%, respectively. Given the high utilisation of our production lines for colour paste, our Directors recognise the imminent need for further capital to expand our production capacity of colour paste in order to capture the expected growing demand for our colour paste products, along with the growth of the faux leather manufacturing and faux leather chemicals manufacturing industries from 2019 onwards. We believe that, given our active role in the faux leather chemicals manufacturing industry and our leading position in faux leather coating agents market, coupled with our plan to expand our production capacity, widen our product offerings and enhanced our research and development capabilities, we are well positioned to capture the business opportunities arising from the growth of the faux leather and faux leather chemicals markets and expand our market share.

FUTURE PLANS AND USE OF PROCEEDS

(ii) Obtain additional funding for our operations and capital requirements

In order to ensure the smooth running of our daily operations, we adopt a prudent cash management approach to satisfy our average operating cash outflow requirements. If we face net operating cash outflow and do not have sufficient working capital, we may have to fund our operating costs by obtaining bank borrowings, resulting in additional finance costs and interest rate risk exposure. Such bank borrowings may also not be sufficient for us to meet our payment obligations including our trade payables and implement our expansion plans in a timely manner. We believe our liquidity management approach had served us well in supporting our business, given our net current assets position as at 31 December 2017 and 2018 and 30 April 2019. Nevertheless, external funding (including equity and debt financing) is essential in achieving sustainable growth of our business and the implementation of our business strategies and future plans. In particular, the establishment of the New Production Plant requires a relatively large amount of capital expenditure in the near future from 2020 to 2022.

In view of the above and to address any uncertainties which may adversely affect our business and operating cash flows, our Directors consider it reasonable and necessary for us to raise funds from the Listing to finance our expansion plan.

(iii) The listing status provides an equity fund-raising platform for our Group

The Listing will provide a fund-raising platform for our Company, thereby enabling us to raise the capital required to finance our future growth and expansion without reliance on our Controlling Shareholders to do so. Such platform would allow our Company to gain direct access to the capital market for equity and/or debt financing to fund our existing operations and future expansion, which could be instrumental to our business development.

(iv) Strengthen our corporate profile

Our Directors believe that the Listing will further enhance the public image of our Group and enable our Group to be considered more favourably by our customers, suppliers and bankers, given that a listed company is subject to ongoing regulatory compliance in respect of, financial disclosure and corporate governance. The listing status would also raise our Group's corporate image and brand awareness amongst domestic and overseas potential customers, which would be in line with our business strategies to expand our geographical coverage.

FUTURE PLANS AND USE OF PROCEEDS

With more confidence from the customers and suppliers in our Group, our Directors believe that the listing status of our Group will enable us to have stronger bargaining power to negotiate more favourable terms than a private company, which will enhance our competitiveness in the market and improve our profitability in the long run.

(v) Retain our experienced staff and attract new staff

Our Directors believe that a listing status allows us to better attract talented management professionals to join our Group and further improve the management of our Group via the knowledge and experience that these professionals will bring along. We have also put in place the Share Option Scheme for our employees in order to attract and retain talents. For details of the Share Option Scheme, please refer to the section headed “Statutory and General Information – D. Other information – 1. Share Option Scheme” in Appendix VI to this prospectus.

(vi) Diversify our shareholder base and enhance liquidity in trading of our Shares

Our Directors are of the view that the Listing will enhance the liquidity of the Shares which will be freely traded on the Stock Exchange when compared to the limited liquidity of Shares that are privately held before the Listing. Hence, our Directors consider that the Global Offering will enlarge and diversify our Company’s shareholder base and potentially lead to a more liquid market in the trading of our Shares.

UNDERWRITING

HONG KONG UNDERWRITERS

Giraffe Capital Limited
ChaoShang Securities Limited
I Win Securities Limited
Sinomax Securities Limited
Zhong Jia Securities Limited
First Fidelity Capital (International) Limited
All EverGreen Securities Limited

INTERNATIONAL UNDERWRITERS

Giraffe Capital Limited
ChaoShang Securities Limited
I Win Securities Limited
Sinomax Securities Limited
Zhong Jia Securities Limited
First Fidelity Capital (International) Limited
All EverGreen 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 Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

The Hong Kong Underwriting Agreement is conditional upon and subject to, amongst others, the International Underwriting Agreement becoming unconditional and not having been terminated.

Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offering.

UNDERWRITING

Grounds for termination

The Joint Global Coordinators, at their sole and absolute discretion, may, for themselves and on behalf of the Hong Kong Underwriters, upon the giving of notice in writing to us and/or the other warrantors (including the Controlling Shareholders and all our executive Directors), terminate the Hong Kong Underwriting Agreement with immediate effect 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 Joint Global Coordinators or they have reasonable cause to believe that:
 - (i) any statement, estimate, forecast or expression of opinion, intention or expectation contained in this prospectus, the Application Forms, or any other documents which have been approved by our Company issued or used by or on behalf of our Company in connection with the Global Offering (the “**Offer Documents**”) (including any supplement or amendment thereto) considered by the Joint Global Coordinators in their sole and absolute opinion to be material in the context of the Global Offering, was, when it was issued, or has become, untrue, incomplete, incorrect or misleading in any material respect or that any forecast, expression of opinion, intention or expectation expressed in any Offer Documents is not, in the sole and absolute opinion of the Joint Global Coordinators, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute a misstatement or an omission therefrom considered by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) in their sole and absolute opinion to be material in the context of the Global Offering;
 - (iii) any of the representations, warranties, indemnities, agreements and undertakings given by our Company or the other warrantors in the Hong Kong Underwriting Agreement or the International Underwriting Agreement is (or would when repeated be) untrue, inaccurate or misleading or having been breached and considered by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) in their sole and absolute opinion to be material in the context of the Global Offering; or
 - (iv) any breach of any of the obligations or undertakings imposed upon any party (other than the Joint Global Coordinators or any of the Underwriters) to the Hong Kong Underwriting Agreement or the International Underwriting Agreement or the agreement between ourselves and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) to record our agreement of the Offer Price; or

UNDERWRITING

- (v) any material adverse change or prospective material adverse change in the condition, business, assets and liabilities, properties, results of operations, in the financial or trading position or prospects of any member of our Group; or
 - (vi) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (vii) other than with the written consent from the Joint Global Coordinators, our Company withdraws any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or
 - (viii) any matter, event, act or omission which gives or is likely to give rise to any material liability of any of our Company or the other warrantors pursuant to the indemnities given by our Group or any of the other warrantors in the Hong Kong Underwriting Agreement; or
 - (ix) any expert stated in this prospectus (other than the Sole Sponsor) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- (b) there shall develop, occur, happen, exist or come into effect:
- (i) any change or development involving a prospective change, or any event or series of events resulting or likely to result in or representing any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, legal, currency market, fiscal or regulatory or market conditions and matters and/or disaster or any monetary or trading settlement systems (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a revaluation or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, the PRC, the Cayman Islands, the BVI or any other jurisdiction relevant to our Group (each a “**Relevant Jurisdiction**”); or
 - (ii) any new law or regulation or change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdiction; or

UNDERWRITING

- (iii) any event, or series of events, in the nature of force majeure (including, without limitation, acts of government, strikes, lockouts, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), riot, public disorder, economic sanctions, outbreak of diseases or epidemics (including without limitation Severe Acute Respiratory Syndrome, avian influenza A (H5N1), swine influenza (H1N1) and coronavirus (including but not limited to COVID-19, and such related/mutated forms or interruption or delay in transportation), in or affecting any of the Relevant Jurisdiction; or
- (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or
- (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the Shanghai Stock Exchange, and the Shenzhen Stock Exchange, or (B) a general moratorium of commercial banking activities in any of the Relevant Jurisdictions declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- (vi) any adverse change or development or event involving a prospective adverse change in taxation or exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions; or
- (vii) any imposition of economic sanctions, in whatever form, directly or indirectly, in any of the Relevant Jurisdictions; or
- (viii) any adverse change or development or event involving a prospective adverse change in our assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or
- (ix) the commencement by any judicial or regulatory body or organisation of any public action against any member of our Group, any Director or any Controlling Shareholder or an announcement by any judicial or regulatory body or organisation that it intends to take any such action; or

UNDERWRITING

- (x) other than with the approval of the Joint Global Coordinators, the issue or requirement to issue by our Company of a supplementary prospectus or offering document pursuant to the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the opinion of the Joint Global Coordinators materially adverse to the marketing for or implementation of the Global Offering; or
- (xi) an order or a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (xii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (xiii) any loss or damage sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xiv) any litigation or claim party being threatened or instigated against any member of our Group, any Director or any Controlling Shareholder,

and which in any of the above cases and in the sole opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

1. is or may or will be or is likely to be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Company or its subsidiaries as a whole; or

UNDERWRITING

2. has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering and/or make it impracticable or inadvisable for any part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or implemented as envisaged; or
3. makes or may make or will or is likely to make it inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus.

UNDERWRITING

Undertakings to the Stock Exchange under the Listing Rules

Undertakings by our Company

Under Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that our Company will not issue any further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities of our Company will be completed within six months from the Listing Date), except under the Capitalisation Issue or the Global Offering (including the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme) or in certain circumstances provided under Rules 10.08(1) to 10.08(4) of the Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has undertaken to our Company and the Stock Exchange that he/she/it shall not, and shall procure that any other registered holder (if any) controlled by us shall not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with the applicable requirements of the Listing Rules:

- (i) during the period commencing on the date of this prospectus up to and including the date which is six months from the Listing Date, dispose of nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the “**Parent Shares**”); or
- (ii) during the period of six months immediately following the expiry of the period mentioned in paragraph (i) above, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Parent Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company,

provided that nothing in the above shall prevent the controlling shareholder of our Company from pledging or charging any Shares as security for a bona fide commercial loan in accordance with Note (2) to Rule 10.07(2) or the share lending arrangement to be entered into by the controlling shareholder of our Company pursuant to Rule 10.07(3) of the Listing Rules.

UNDERWRITING

Each of the Controlling Shareholders has further undertaken to each of the Stock Exchange and our Company that within the period commencing on the date of this prospectus and ending on the date which is 12 months from the Listing Date, he/she/it will:

- (i) when he/she/it pledges or charges any Shares beneficially owned by he/she/it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge or charge together with the number of Shares so pledged or charged; and
- (ii) when he/she/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform our Company in writing of such indications.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that except pursuant to the Global Offering (including the issue of new Shares pursuant to the Capitalisation Issue and the exercise of the Over-allotment Option) and grant of any options under the Share Option Scheme and the issue of new Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or with the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, our Company shall not, and shall procure that its subsidiaries shall not, to (a) allot or issue, or agree to allot or issue, any Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) (including warrants or other convertible or exchangeable securities), or (b) grant or agree to grant any options, warrants or other rights to subscribe for or otherwise acquire any securities or convertible or exchangeable into Shares or other securities of our Company, or (c) repurchase Shares or other securities of our Company (except in compliance with the Listing Rules and the Code on Share Buy-backs), or (d) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of any Shares, or (e) offer to or agree to do any of the foregoing or announce any intention to do so, within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date) and in the event of our Company doing any of the foregoing by virtue of the aforesaid consent or exceptions or during the period of six months immediately following the expiry of the first six months period after the Listing Date, our Company will take all steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

UNDERWRITING

Undertakings by our Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has jointly and severally undertaken to each of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters):

- (i) in the period commencing on the Listing Date and ending on a date which is six months from the Listing Date, he, she or it shall not directly or indirectly (except in connection with the Stock Borrowing Agreement or the exercise of the Over-allotment Option) and shall procure that the relevant registered holder(s) and his/her/its associates and companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/it shall not:
 - (a) transfer or dispose of, nor enter into any agreements to transfer or dispose of or otherwise create any options, rights, interests or encumbrances (including the creation or entering into of any agreement to create any pledge or charge) in respect of any of those securities in respect of which they are shown by this prospectus to be the beneficial owner(s) or any interest in such securities (which includes any interest in a company which holds any such securities) or securities that constitute or confer the right to receive such securities or securities convertible into or exercisable or exchangeable for or repayable with such securities; or
 - (b) enter into a swap agreement or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of such capital or securities or any interest therein; or
 - (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) and (b) above; or
 - (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above,

whether any such swap agreement or other agreement or transaction is to be settled by delivery of such capital or securities, in cash or otherwise;

UNDERWRITING

- (ii) within a further six months commencing on the expiry of the six-month period referred to in paragraph (i) above, he/she/it shall not and shall procure that the relevant registered holders and his/her/its associates and companies controlled by it and any nominee or trustee holding in trust for him/her/it shall not, take any action as referred to in (i) (a), (b), (c) or (d) above, if, immediately following such transfer or disposal, any of them, either individually or taken together with the others, would cease to be a controlling shareholder (within the meaning of the Listing Rules) of the Company or cease to hold a controlling interest (that is to say, an interest of over 30% or such lower amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer);
- (iii) in the event of any transfer or disposal of Shares or any such interests referred to in paragraph (i) above after expiry of the six-month period referred to in paragraph (i) above, all reasonable steps will be taken to ensure that such transfer or disposal will not create a false or disorderly market in the Shares; and
- (iv) without prejudice to paragraphs (i) and (ii) above, each of the Controlling Shareholders undertakes and covenants with our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, within the period from the date by reference to which disclosure of his/her/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date:
 - (a) when he/she/it pledges or charges any Shares or other securities or interests in the securities of our Company in respect of which he/she/it is the beneficial owner, immediately inform our Company, the Sole Sponsor and the Joint Global Coordinators in writing of such pledges or charges together with the number of Shares or other securities of our Company and nature of interest so pledged or charged; and
 - (b) when he/she/it receives any indication, whether verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company, the Sole Sponsor and the Joint Global Coordinators in writing of such indications.

HONG KONG UNDERWRITERS' INTERESTS IN OUR COMPANY

Save for their interests and obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters is interested beneficially or otherwise in any shares in any member of our Group or has any right (whether legally enforceable or not) or option to subscribe for, or to nominate persons to subscribe for, any shares in any member of our Group.

UNDERWRITING

Following the completion of the Global Offering, 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 PLACING

In connection with the International Placing, he/she/it is expected that our Company will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, agree to subscribe for or purchase the International Placing Shares being offered pursuant to the International Placing or procure subscribers to subscribe for or purchasers to purchase such International Placing Shares.

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the Listing Date until the date which is 30 days from the last date of lodging application under the Hong Kong Public Offering, to require our Company to allot and issue up to and not more than 37,500,000 additional new Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover over-allocations in the International Placing.

COMMISSION

The Hong Kong Underwriters will receive a commission of 10.0% of the aggregate Offer Price of the Hong Kong Offer Shares, out of which they will pay any sub-underwriting commission. In addition, the Sole Sponsor will receive a sponsorship, financial advisory and documentation fee in relation to the Global Offering. The underwriting commission, financial advisory and documentation fees, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering, assuming an Offer Price of HK\$0.55 per Offer Share (being the mid-point of the indicative Offer Price range of HK\$0.5 and HK\$0.6), are estimated to amount to approximately HK\$46.1 million in total (assuming that the Over-allotment Option is not being exercised).

UNDERWRITING

INDEMNITY

Our Company, the Controlling Shareholders and executive Directors have agreed to indemnify the Hong Kong Underwriters against certain losses which they may suffer, including but not limited to losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company, the Controlling Shareholders and executive Directors 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 he/she/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 Stabilising) Rules is made within seven days of the expiration of the stabilising period.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Placing (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process. The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively traded securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Company’s loans and other debt.

UNDERWRITING

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilising period described in the section headed “Structure and Conditions of the Global Offering” in this prospectus. Such activities may affect the market price or value of our Shares, the liquidity or trading volume in our Shares and the volatility of the price of our Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the stabilising manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 25,000,000 Hong Kong Offer Shares (subject to reallocation as mentioned below) to members of the public in Hong Kong as described in the section headed “Hong Kong Public Offering” below; and
- (ii) the International Placing of an aggregate of 225,000,000 International Placing Shares (subject to reallocation and the Over-allotment Option as mentioned below) to professional, institutional and private investors.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Placing Shares under the International Placing, but may not do both.

The Offer Shares will represent 25% of the total enlarged issued shares of our Company immediately after completion of the Capitalisation Issue and the Global Offering, 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 total enlarged issued shares immediately after completion of the Capitalisation Issue, the Global Offering and the exercise of the Over-allotment Option in full as set out in the paragraph headed “Over-allotment Option” below.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on or about Tuesday, 3 March 2020 and in any event, not later than Tuesday, 10 March 2020.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but not expected to be, lower than the indicative Offer Price range as stated in this prospectus. The Offer Price will not be more than HK\$0.6 per Offer Share and is expected to be not less than HK\$0.5 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where they consider appropriate, based on the level of interest expressed by prospective professional, institutional and private investors during a book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering on Tuesday, 3 March 2020 cause there to be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.slkj.cn notices of reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Upon issue of such a notice, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Before submitting applications for the Hong Kong Offer Shares, applicants should have regarded to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in the section headed "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any notice being published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.slkj.cn of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus. If the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications, unless positive confirmations from the applicants to proceed are received.

If, for any reason, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company are unable to enter into the agreement to fix the Offer Price by the Price Determination Date, the Global Offering will not become unconditional and will not proceed.

Announcement of the Offer Price, together with indication of the level of interests in the International Placing and the level of applications under the Hong Kong Public Offering and basis of allocation of the Hong Kong Offer Shares is expected to be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.slkj.cn on Wednesday, 11 March 2020.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$0.6 per Offer Share and is expected to be not less than HK\$0.5 per Offer Share. Applicants under the Hong Kong Public Offering should pay, on application, the maximum Offer Price of HK\$0.6 per Offer Share and 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy. That means a total of HK\$2,424.18 is payable for one board lot of 4,000 Shares. The Application Forms have tables showing the exact amount payable for certain numbers of Hong Kong Offer Shares. If the Offer Price, as finally determined in the manner as described above, is lower than the maximum Offer Price of HK\$0.6 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application money) will be made to applicants, without interest. Further details are set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of the application for the Offer Shares pursuant to the Hong Kong Public Offering is conditional upon the following:

- the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange and such approval not subsequently having been revoked prior to the commencement of dealings in the Shares;
- the obligations of the Underwriters under the Underwriting Agreements becoming unconditional, and not being terminated in accordance with the terms thereof;
- the execution and delivery of the International Underwriting Agreement prior to or on the Price Determination Date; and
- the Offer Price having been determined and the execution of the agreement for such determination on or around the Price Determination Date, in each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

If any of the conditions is not fulfilled or waived on or before the times specified above, the Global Offering will lapse and the application money will be returned to the applicants, without interest. The terms on which the application money will be returned to the applicants are set out in the paragraph headed “Refund of your money” in the relevant Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

In the meantime, the application money will be held in one or more separate bank accounts with the receiving bank or other bank(s) in Hong Kong, licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE GLOBAL OFFERING

The Global Offering comprises the International Placing and the Hong Kong Public Offering. A total of initially 250,000,000 Offer Shares will be made available under the Global Offering, of which 225,000,000 International Placing Shares (subject to reallocation and the Over-allotment Option), representing 90% of the Offer Shares, will initially be conditionally placed with selected professional, institutional and private investors under the International Placing. The remaining 25,000,000 Hong Kong Offer Share (subject to reallocation), representing 10% of the Offer Shares, will initially be offered to members of the public in Hong Kong under the Hong Kong Public Offering.

The Hong Kong Public Offering is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Underwriters have severally agreed to underwrite the Hong Kong Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriters are expected to severally underwrite the International Placing Shares pursuant to the terms of the International Underwriting Agreement. Further details of the underwriting are set out in the section headed “Underwriting” in this prospectus.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Placing, but may not do both.

INTERNATIONAL PLACING

Our Company is expected to offer initially 225,000,000 International Placing Shares (subject to reallocation and the Over-allotment Option) at the Offer Price under the International Placing. The number of International Placing Shares expected to be initially available for application under the International Placing represents 90% of the total number of Offer Shares being initially offered under the Global Offering. The International Placing is expected to be fully underwritten by the International Underwriters subject to the Offer Price being agreed on or before the Price Determination Date.

It is expected that the International Underwriters, or selling agents nominated by them, on behalf of our Company, will conditionally place the International Placing Shares at the Offer Price with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the International Placing Shares in the International Placing may also be allocated the International Placing Shares.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Allocation of the International Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and its shareholders as a whole. Investors to whom International Placing Shares are offered will be required to undertake not to apply for Shares under the Hong Kong Public Offering. Our Company, our Directors, the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who receive Shares under the International Placing, and to identify and reject indications of interest in the International Placing from investors who receive Shares under the Hong Kong Public Offering.

The International Placing is expected to be subject to the conditions as stated in the paragraph headed “Conditions of the Global Offering” in this section.

HONG KONG PUBLIC OFFERING

Our Company is initially offering 25,000,000 Hong Kong Offer Shares for subscription (subject to reallocation) by members of the public in Hong Kong under the Hong Kong Public Offering, representing 10% of the total number of Offer Shares being initially offered under the Global Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the Offer Price being agreed on or before Price Determination Date. Applicants for the Hong Kong Offer Shares are required on application to pay the maximum Offer Price of HK\$0.6 per Share plus a 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.0027% SFC transaction levy.

The Hong Kong Public Offering is open to all members of the public in Hong Kong. An applicant for Shares under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it has not applied for nor taken up any Shares under the International Placing nor otherwise participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue, such applicant's application under the Hong Kong Public Offering is liable to be rejected.

For allocation purposes only, the number of the Hong Kong Offer Shares will be divided equally into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the value of HK\$5 million or less (excluding brokerage, Stock Exchange trading fee and SFC transaction levy thereon). The Hong Kong Offer Shares available in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the value of more than HK\$5 million (excluding brokerage, Stock Exchange trading fee and SFC transaction levy).

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 50% of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering will be rejected.

Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. When there is over-subscription under the Hong Kong Public Offering, allocation of the Hong Kong Offer Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Offer Shares than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

ADJUSTMENT OF OFFER SHARES BETWEEN THE INTERNATIONAL PLACING AND THE HONG KONG PUBLIC OFFERING

The allocation of the Offer Shares between the International Placing and the Hong Kong Public Offering is subject to adjustment on the following basis:

- (a) Where the International Placing Shares are fully subscribed or oversubscribed:
 - (i) if the Hong Kong Offer Shares are not fully subscribed, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) will have the discretion (but shall not be under any obligation) to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing in such amount as the Joint Global Coordinators (for themselves and on behalf of the Underwriters) deems appropriate;
 - (ii) if the Hong Kong Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times of the number of Offer Shares initially available under the Hong Kong Public Offering, then up to 25,000,000 Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offering may be increased to 50,000,000 Shares, representing 20% of the Offer Shares initially available for subscription under the Global Offering;

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (iii) 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 of the number of Offer Shares initially available under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Placing so that the total number of Shares available for subscription under the Hong Kong Public Offering will be increased to 75,000,000 Shares, representing 30% of the Offer Shares initially available for subscription under the Global Offering;
 - (iv) 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 of the number of Offer Shares initially available under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Placing so that the total number of Shares available for subscription under the Hong Kong Public Offering will be increased to 100,000,000 Shares, representing 40% of the Offer Shares initially available for subscription under the Global Offering; and
 - (v) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Placing so that the total number of Shares available for subscription under the Hong Kong Public Offering will be increased to 125,000,000 Shares, representing 50% of the Offer Shares initially available for subscription under the Global Offering;
- (b) Where the International Placing Shares are not fully subscribed:
- (i) if the Hong Kong Offer Shares are not fully subscribed, the Global Offering will 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 Global Offering on the terms and conditions of this prospectus, the Application Forms and Underwriting Agreements; and
 - (ii) if the Hong Kong Offer Shares are fully subscribed irrespective of the number of times the number of Offer Shares initially available under the Hong Kong Public Offering, then up to 25,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offering may be increased to 50,000,000 Shares, representing 20% of the Offer Shares initially available for subscription under the Global Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

In the event of reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing in the circumstances where (A) the International Placing Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are oversubscribed by less than 15 times under paragraph (a) (ii) above, or (B) the International Placing Shares are not fully subscribed and the Hong Kong Offer Shares are oversubscribed under paragraph (b) (ii) above, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.5 per Offer Share) stated in this prospectus.

In addition, the Joint Global Coordinators may in its discretion reallocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be available under the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 50,000,000 Offer Shares).

For reallocation of Offer Shares from the International Placing to the Hong Kong Public Offering, the number of Offer Shares allocated to the International Placing will correspondingly be reduced and such additional Hong Kong Offer Shares will be allocated equally between pool A and pool B.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company is expected to grant to the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) the Over-allotment Option which will expire on a date which is the 30th day after the last date of lodging application under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Company may be required by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) to allot and issue up to and not more than 37,500,000 additional new Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover over-allocations in the International Placing. The Joint Global Coordinators (for themselves and on behalf of the International Underwriters) may also cover such over-allocations by purchasing Shares in the secondary market or through stock borrowing arrangement with Sunlight Global or by a combination of these means or otherwise as may be permitted under the applicable laws and regulatory requirements. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, the additional 37,500,000 new Shares will represent approximately 3.6% of our Company's total enlarged issued shares immediately after completion of the Global Offering, the Capitalisation Issue and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised or expired, an announcement will be made.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

STABILISATION

Stabilisation 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 newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. In Hong Kong, the stabilisation price is not permitted to exceed the offer price.

In connection with the Global Offering, ChaoShang Securities Limited, as the stabilising manager, or its affiliates or any person acting for them, for itself and on behalf of the Underwriters, may over-allocate Shares or effect transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. The number of Shares that may be over-allocated will be up to, but not more than, an aggregate of 37,500,000 additional Shares, being the number of the Shares that may be issued under the Over-allotment Option. Such stabilising actions may include over-allocating International Placing Shares and covering such over allocations by exercising the Over-allotment Option or by making purchases in the secondary market or through stock borrowing arrangement with Sunlight Global or through a combination of these means or otherwise. However, there is no obligation on the Joint Global Coordinators, its affiliates or any person acting for it to conduct any such stabilisation action. Such stabilisation action, if commenced, will be conducted at the absolute discretion of the stabilising manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. Such transactions may be effected in compliance with all applicable laws and regulatory requirements.

Subject to and under the Securities and Futures (Price Stabilising) Rules of the SFO, the stabilising manager (for itself and on behalf of the Underwriters) may take all or any of the following actions (“**primary stabilising action**”) with respect to any Shares during the stabilisation period, which should end on Thursday, 2 April 2020, being the 30th day after the last date for lodging application under the Hong Kong Public Offering:

- (1) purchase, or agree to purchase, any of the Shares;
- (2) offer or attempt to do anything as described in paragraph (1), for the sole purpose of preventing or minimising any reduction in the market price of the Shares. The stabilising manager (for itself and on behalf of the Underwriters) may also, in connection with any primary stabilising action, take all or any of the following actions:
 - (a) for the purpose of preventing or minimising any reduction in the market price of the Shares:
 - (i) allocate a greater number of Shares than the number that is initially offered under the Global Offering; or

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (ii) sell or agree to sell Shares so as to establish a short position in them;
- (b) pursuant to an option or other right to purchase or subscribe for Shares, purchase or subscribe for or agree to purchase or subscribe for Shares in order to close out any position established under paragraph (a);
- (c) sell or agree to sell any Shares acquired by it in the course of the primary stabilising action in order to liquidate any position that has been established by such action; and/or
- (d) offer or attempt to do anything as described in paragraphs (a) (ii), (b) or (c).

Investors should be aware:

- that the stabilising manager (for itself and on behalf of the Underwriters) may, in connection with the stabilising action, maintain a long position in the Shares;
- that there is no certainty regarding the extent to which and the time period for which the stabilising manager will maintain such a long position;
- of possible impact in the case of liquidation of such a long position by the stabilising manager;
- that stabilising action cannot be taken to support the price of the Shares for longer than the stabilising period which begins on the Listing Date and ends on the 30th day after the last date for the lodging of applications under the Hong Kong Public Offering on Thursday, 2 April 2020, and that after this date, when no further stabilising action may be taken, demand for the Shares, and therefore its price could fall;
- that the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- that stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

STOCK BORROWING ARRANGEMENT

In connection with the Global Offering, ChaoShang Securities Limited, as the stabilising manager, may over-allocate up to and not more than an aggregate of 37,500,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of covering such over-allocations, the stabilising manager may borrow up to 37,500,000 Shares from Sunlight Global, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement to be entered into with Sunlight Global.

Such stock borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the following requirements as set out in Rule 10.07(3) of the Listing Rules are complied with:

- the stock borrowing arrangement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from Sunlight Global will be limited to the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed will be returned to Sunlight Global or its nominees (as the case may be) within three business days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full; the borrowing of Shares pursuant to the stock borrowing arrangement will be effected in compliance with applicable Listing Rules, laws and other regulatory requirements; and
- no payments will be made to Sunlight Global in relation to such stock borrowing arrangement.

DEALING ARRANGEMENTS

Assuming that the Global Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 12 March 2020, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 12 March 2020. The Shares will be traded in board lots of 4,000 Shares each under the stock code 1950.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- (a) use a **WHITE** or **YELLOW** Application Form;
- (b) apply online via the **HK eIPO White Form** service at www.hkeipo.hk or the **IPO App**; or
- (c) electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, 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 U.S. person (as defined in Regulation S); 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 email address and a contact telephone number.

If you are a firm, the application must be in the names of the individual members. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person duly authorised under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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 its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a connected person of our Company or will become a connected person of our Company immediately upon completion of the Global Offering;
- an associate of any of the above; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

3. APPLYING FOR HONG KONG OFFER SHARES

Which application channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk or the **IPO App** under the **HK eIPO White Form** service.

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.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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, 27 February 2020 to 12:00 noon on Tuesday, 3 March 2020 from:

- (a) any of the following offices of the Hong Kong Underwriters:

Giraffe Capital Limited

3/F, 8 Wyndham Street, Central, Hong Kong

ChaoShang Securities Limited

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

I Win Securities Limited

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

Sinomax Securities Limited

Room 2705-6, 27/F, Tower One, Lippo Centre, 89 Queensway, Hong Kong

Zhong Jia Securities Limited

Room 9, 8/F, One Island South, 2 Heung Yip Street, Hong Kong

First Fidelity Capital (International) Limited

Room 908-909, 9/F, Great Eagle Centre, 23 Harbour Road, Wan Chai, Hong Kong

All EverGreen Securities Limited

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

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (b) any of the following branches of the receiving bank, Bank of China (Hong Kong) Limited:

District	Branch Name	Address
Hong Kong Island	Causeway Bay Branch	505 Hennessy Road, Causeway Bay, Hong Kong
Kowloon	Tsim Sha Tsui Branch	24-28 Carnarvon Road, Tsim Sha Tsui, Kowloon
New Territories	Tai Po Branch	68-70 Po Heung Street, Tai Po Market, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 27 February 2020 until 12: 00 noon on Tuesday, 3 March 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED – SUNLIGHT TECHNOLOGY PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Thursday, 27 February 2020	–	9: 00 a.m. to 5: 00 p.m.
Friday, 28 February 2020	–	9: 00 a.m. to 5: 00 p.m.
Saturday, 29 February 2020	–	9: 00 a.m. to 1: 00 p.m.
Monday, 2 March 2020	–	9: 00 a.m. to 5: 00 p.m.
Tuesday, 3 March 2020	–	9: 00 a.m. to 12: 00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, 3 March 2020, the last application day or such later time as described in the subsection headed "10. Effect of bad weather and/or extreme conditions on the opening of the application lists" in this section.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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 the **HK eIPO White Form** service, among other things, you:

- (a) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Global Coordinators and/or the Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (b) agree to comply with the Companies Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (d) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (e) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (f) agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (h) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving banks, the Joint Global Coordinators, the Joint Bookrunners, 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;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Global Coordinators, the Joint Bookrunners 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;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the Laws of Hong Kong;
- (l) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the US 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;
- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (o) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and for its agents to send any share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (p) understand that, if (i) the Offer Shares under the International Placing are fully subscribed or oversubscribed, and if the number of Offer Shares validly applied for in the Hong Kong Public Offering represents 100% or more, but less than 15 times, of the number of Offer Shares initially available under Hong Kong Public Offering; or (ii) the Offer Shares under the International Placing are not fully subscribed, and if the number of Offer Shares validly applied for in the Hong Kong Public Offering represents 100% or more of the number of Offer Shares initially available under the Hong Kong Public Offering, the Joint Global Coordinators may, at their discretion, reallocate the Offer Shares initially allocated from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, provided that the total number of Offer Shares available under the Hong Kong Public Offering shall not be increased to more than 50,000,000 Shares, representing double the number of Offer Shares initially available under the Hong Kong Public Offering and 20% of the total number of Offer Shares initially available under the Global Offering, and the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.50 per Offer Share) stated in this prospectus;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (q) 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;
- (r) understand that our Company, the Joint Global Coordinators and the Joint Bookrunners 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;
- (s) (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

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (t) (if you are making the application as an agent for the benefit of another person) warrant that 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 you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed “2. Who can apply” in this section, may apply through the **HK eIPO White Form** service for the Hong Kong 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 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 at www.hkeipo.hk or the **IPO App** (24 hours daily, except on the last application day) from 9: 00 a.m. on Thursday, 27 February 2020 until 11: 30 a.m. on Tuesday, 3 March 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12: 00 noon on Tuesday, 3 March 2020 or such later time under the paragraph headed “10. Effect of bad weather and/or extreme conditions on the opening of the application lists” in this section.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre

1/F, One & Two Exchange Square

8 Connaught Place

Central

Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators, the Joint Bookrunners 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:

- (a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (b) HKSCC Nominees will do the following things on your behalf:
 - 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 Placing;
 - (if electronic applications are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that our Company, our Directors, the Joint Global Coordinators and the Joint Bookrunners 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;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- 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 Joint Global Coordinators, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving banks, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and/or its 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 our Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- 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 itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance 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

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- 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 4,000 Hong Kong Offer Shares. Instructions for more than 4,000 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, 27 February 2020	–	9: 00 a.m. to 8: 30 p.m.
Friday, 28 February 2020	–	8: 00 a.m. to 8: 30 p.m.
Saturday, 29 February 2020	–	8: 00 a.m. to 1: 00 p.m.
Monday, 2 March 2020	–	8: 00 a.m. to 8: 30 p.m.
Tuesday, 3 March 2020	–	8: 00 a.m. to 12:00 noon

Note:

- (1) These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and or CCASS Investor Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Thursday, 27 February 2020 until 12:00 noon on Tuesday, 3 March 2020 (24 hours daily, except on Tuesday, 3 March 2020, the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Tuesday, 3 March 2020 the last application day or such later time as described in the paragraph headed “10. Effect of bad weather and/or extreme conditions on the opening of the application lists” in this section.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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 after 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, our Hong Kong Branch Share Registrar, the receiving banks, the Joint Global Coordinators, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for the Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Hong Kong Underwriters, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection with CCASS Phone Systems CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Tuesday, 3 March 2020.

8. HOW MANY APPLICATIONS MAY 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 the **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).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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 4,000 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 4,000 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 the **IPO App**.

If your application is successful, brokerage will be paid to the participants of the Sock Exchange, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and Conditions of the Global Offering – Determination of the Offer Price” in this prospectus.

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above;
- a “black” rainstorm warning signal; or
- an Extreme Condition.

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 3 March 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings and/or Extreme Conditions 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 Tuesday, 3 March 2020 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or an Extreme Condition in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, 11 March 2020 on our Company's website at www.slkj.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 our Company's website at www.slkj.cn and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Wednesday, 11 March 2020;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result (alternatively: www.hkeipo.hk/IPOResult) or from "Allotment Result" function in the **IPO App** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, 11 March 2020 to 12:00 midnight on Tuesday, 17 March 2020;
- from the allocation results telephone enquiry line by calling + 852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 11 March 2020 to Monday, 16 March 2020 (excluding Saturday and Sunday); and
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 11 March 2020 to Friday, 13 March 2020 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 Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Global Offering".

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.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED THE HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to the **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.

(b) If our Company, the Joint Global Coordinators, the Joint Bookrunners, the HK eIPO White Form Service Provider or our or their respective agents exercise their discretion to reject your application:

Our Company, the Joint Global Coordinators, the Joint Bookrunners, the **HK eIPO White Form** Service Provider or our or their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(c) 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 Offer 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 of the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(d) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up;
- indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- 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 the **IPO App**;
- your Application Form is not completed in accordance with the stated instructions;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators or the Joint Bookrunners 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.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$0.6 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 the section headed “Structure and Conditions of the Global Offering – Conditions of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, 11 March 2020.

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 instruction 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 Offer Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- 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, the SFC transaction levy and the Stock Exchange trading fee) but without interest. Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Wednesday, 11 March 2020. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, 12 March 2020 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal collection

(a) If you apply using a White Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or 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 Wednesday, 11 March 2020 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to 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 and 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 or before Wednesday, 11 March 2020, by ordinary post and at your own risk.

(b) If you apply using a Yellow Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, 11 March 2020, by ordinary post and at your own risk.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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 Wednesday, 11 March 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

(c) *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.

(d) *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 11 March 2020 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.

(e) *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 Wednesday, 11 March 2020, or, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- 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 Offer Shares in the manner specified in the paragraph headed “11. Publication of results” above on Wednesday, 11 March 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 11 March 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of 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 Wednesday, 11 March 2020. 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 Wednesday, 11 March 2020.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(f) 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 Wednesday, 11 March 2020 or such other date as notified by our Company on the website of the Stock Exchange at www.hkexnews.hk or the website of the Company at www.slkj.cn 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 and 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 Wednesday, 11 March 2020 by ordinary post and at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-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 and at your own risk.

15. ADMISSION OF THE OFFER SHARES INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in, the Offer Shares and we comply with the stock admission requirements of HKSCC, the Offer 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 Offer 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.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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 Offer Shares to be admitted into CCASS.

The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.



31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 February 2020

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SUNLIGHT TECHNOLOGY HOLDINGS LIMITED AND GIRAFFE CAPITAL LIMITED

Introduction

We report on the historical financial information of Sunlight Technology Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-5 to I-87, which comprises the consolidated statements of financial position as at 31 December 2016, 2017 and 2018 and 30 September 2019, the statements of financial position of the Company as at 30 September 2019 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 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-5 to I-87 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 27 February 2020 (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 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 ("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 Company's financial position as at 30 September 2019 and the Group's financial position as at 31 December 2016, 2017 and 2018 and 30 September 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 nine months ended 30 September 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 Hong Kong Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. 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 Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period 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-5 have been made.

Dividends

We refer to Note 16 to the Historical Financial Information which contains information about dividends paid by the Company's subsidiaries and states that no dividends have been paid by the Company in respect of the Track Record Period.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Shek Lui
Practising Certificate Number: P05895

Hong Kong, 27 February 2020

I. 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 Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statement").

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			Nine months ended 30 September	
		2016	2017	2018	2018	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)	
Revenue	8	151,160	157,641	167,307	121,741	130,114
Cost of sales		(95,990)	(106,863)	(116,619)	(87,125)	(84,643)
Gross profit		55,170	50,778	50,688	34,616	45,471
Other revenue	9	3,451	1,913	4,936	2,648	1,783
Other gains/(losses)	10	2,461	163	1,764	1,537	(59)
Selling and distribution expenses		(8,445)	(7,567)	(7,005)	(5,343)	(5,225)
Administrative and general expenses		(22,363)	(17,334)	(14,546)	(11,247)	(11,614)
Finance costs	11	(630)	(484)	(530)	(398)	(484)
Gain on disposal of a subsidiary	34	–	11,017	–	–	–
Listing expenses		–	–	–	–	(11,285)
Profit before tax	12	29,644	38,486	35,307	21,813	18,587
Income tax expenses	13	(4,238)	(3,536)	(4,517)	(2,611)	(3,383)
Profit for the year/period		25,406	34,950	30,790	19,202	15,204

	<i>Notes</i>	Year ended 31 December			Nine months ended 30 September	
		2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2018 <i>RMB'000</i> (unaudited)	2019 <i>RMB'000</i>
Other comprehensive loss						
Items that may be reclassified						
subsequently to profit or loss:						
Exchange differences						
on translating foreign						
operations		—	—	—	—	(363)
Other comprehensive loss for the						
year/period		—	—	—	—	(363)
Total comprehensive income for						
the year/period		25,406	34,950	30,790	19,202	14,841
Profit for the year/period						
attributable to owners of the						
Company		25,406	34,950	30,790	19,202	15,204
Total comprehensive income for						
the year/period attributable to						
owners of the Company		25,406	34,950	30,790	19,202	14,841
Earnings per share for profit						
attributable to owners of the						
Company						
Basic and diluted (RMB cents)	17	3.39	4.66	4.11	2.56	2.03

Consolidated statements of financial position

		As at 31 December			As at 30 September
		2016	2017	2018	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	18	96,961	95,510	63,420	62,689
Prepaid lease payments/ right-of-use assets	19	17,963	17,572	17,181	17,279
Deferred tax assets	31	66	145	90	78
		<u>114,990</u>	<u>113,227</u>	<u>80,691</u>	<u>80,046</u>
Current assets					
Inventories	20	14,140	14,625	12,962	18,338
Trade and bills receivables	21	50,989	59,857	67,532	85,937
Prepayments, deposits and other receivables	22	2,524	615	2,884	4,632
Pledged bank deposits	23(b)	2,415	2,908	1,560	2,852
Bank balances and cash	23(a)	9,261	6,215	10,162	3,395
		<u>79,329</u>	<u>84,220</u>	<u>95,100</u>	<u>115,154</u>
Assets of disposal group classified as held for sale	24	8,841	–	–	–
		<u>88,170</u>	<u>84,220</u>	<u>95,100</u>	<u>115,154</u>
Current liabilities					
Trade and bills payables	25	26,953	26,388	23,732	30,039
Other payables and accruals	26	17,755	9,528	7,046	4,694
Deferred income	27	–	137	137	137
Tax payables		3,622	1,811	3,843	984
Amount due to a director	28	4,451	–	–	–
Amounts due to shareholders	29	–	–	–	1,405
Bank and other borrowings	30	10,000	10,000	10,000	11,000
Dividend payables		28,430	1,710	2,907	–
		<u>91,211</u>	<u>49,574</u>	<u>47,665</u>	<u>48,259</u>
Liabilities of disposal group classified as held for sale	24	121	–	–	–
		<u>91,332</u>	<u>49,574</u>	<u>47,665</u>	<u>48,259</u>

	<i>Notes</i>	As at 31 December			As at 30 September
		2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>
Net current (liabilities)/assets		<u>(3,162)</u>	<u>34,646</u>	<u>47,435</u>	<u>66,895</u>
Total assets less current liabilities		<u>111,828</u>	<u>147,873</u>	<u>128,126</u>	<u>146,941</u>
Non-current liabilities					
Deferred income	27	–	1,095	958	855
Bank and other borrowings	30	<u>–</u>	<u>–</u>	<u>–</u>	<u>10,942</u>
		<u>–</u>	<u>1,095</u>	<u>958</u>	<u>11,797</u>
Net assets		<u><u>111,828</u></u>	<u><u>146,778</u></u>	<u><u>127,168</u></u>	<u><u>135,144</u></u>
Capital and reserves					
Share capital	32(b)	36,000	36,000	36,000	670
Reserves		<u>75,828</u>	<u>110,778</u>	<u>91,168</u>	<u>134,474</u>
Total equity		<u><u>111,828</u></u>	<u><u>146,778</u></u>	<u><u>127,168</u></u>	<u><u>135,144</u></u>

Statements of financial position of the Company

		As at 30 September 2019 RMB'000
	<i>Note</i>	
Non-current asset		
Investment in a subsidiary		36,000
Current assets		
Prepayments and other receivables		3,713
Bank balances and cash		370
		4,083
Current liabilities		
Other payables and accruals		29
Amounts due to subsidiaries		4,445
		4,474
Net current liabilities		(391)
Total assets less current liabilities		35,609
Non-current liability		
Bank and other borrowings		10,942
Net assets		24,667
Capital and reserves		
Share capital	32(b)	670
Reserves		23,997
		24,667

Consolidated statements of changes in equity

	Attributable to owners of the Company						Total equity RMB'000
	Share Capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000 (note a)	Exchange reserve RMB'000	Retained earnings RMB'000	
At 1 January 2016	30,357	–	9,799	17,004	–	79,262	136,422
Profit and total comprehensive income for the year	–	–	–	–	–	25,406	25,406
Restructuring of capital	5,643	–	51,475	(17,004)	–	(40,114)	–
Transfer to statutory reserve	–	–	–	1,583	–	(1,583)	–
Dividend declared	–	–	–	–	–	(50,000)	(50,000)
At 31 December 2016 and 1 January 2017	36,000	–	61,274	1,583	–	12,971	111,828
Profit and total comprehensive income for the year	–	–	–	–	–	34,950	34,950
Transfer to statutory reserve	–	–	–	3,372	–	(3,372)	–
At 31 December 2017 and 1 January 2018	36,000	–	61,274	4,955	–	44,549	146,778
Profit and total comprehensive income for the year	–	–	–	–	–	30,790	30,790
Transfer to statutory reserve	–	–	–	3,079	–	(3,079)	–
Dividend declared	–	–	–	–	–	(50,400)	(50,400)
At 31 December 2018 and 1 January 2019	36,000	–	61,274	8,034	–	21,860	127,168
Profit for the period	–	–	–	–	–	15,204	15,204
Other comprehensive loss for the period	–	–	–	–	(363)	–	(363)

	Attributable to owners of the Company						
	Share Capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Exchange reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total equity <i>RMB'000</i>
	<i>(note a)</i>						
Total comprehensive income for the period	–	–	–	–	(363)	15,204	14,841
Transfer to statutory reserve	–	–	–	2,374	–	(2,374)	–
Issue of shares	335	–	–	–	–	–	335
Effect of reorganisation <i>(note b)</i>	(35,665)	35,665	–	–	–	–	–
Dividend declared	–	–	–	–	–	(7,200)	(7,200)
At 30 September 2019	<u>670</u>	<u>35,665</u>	<u>61,274</u>	<u>10,408</u>	<u>(363)</u>	<u>27,490</u>	<u>135,144</u>
At 1 January 2018	36,000	–	61,274	4,955	–	44,549	146,778
Profit and total comprehensive income for the period	–	–	–	–	–	19,202	19,202
Transfer to statutory reserve	–	–	–	1,920	–	(1,920)	–
Dividend declared	–	–	–	–	–	(50,400)	(50,400)
At 30 September 2018 (Unaudited)	<u>36,000</u>	<u>–</u>	<u>61,274</u>	<u>6,875</u>	<u>–</u>	<u>11,431</u>	<u>115,580</u>

Notes:

- (a) Subsidiaries of the Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior year's losses or to increase capital after proper approval.

For the year ended 31 December 2016, no statutory net profit was transferred to the statutory reserve fund account as the balance of statutory reserve fund account reaches 50% of its share capital before the completion of the restructuring of capital.

- (b) Effect of reorganisation represents the effect of the completion of the acquisition of Zhejiang Sunlight by HongKong Gorgeous on 18 April 2019. The considerations for acquisition of the equity interests in Zhejiang Sunlight were financed by the Shareholder's Loans. The Shareholders' Loans were capitalised by way of the Company allotting and issuing shares, credited as fully paid, to its shareholders as the part of Reorganisation as set out in note 2. As at 31 December 2016, 2017 and 2018, the balance of share capital represented the paid-in capital of Zhejiang Sunlight under merger accounting for common control combination. Upon the completion of the acquisition of Zhejiang Sunlight, the Company became the holding company of the companies now comprising the Group including Zhejiang Sunlight, and the paid-in capital of Zhejiang Sunlight had been eliminated and the balance of share capital as at 30 September 2019 represents the share capital of the Company.

Consolidated statements of cash flow

		Year ended 31 December			Nine months ended 30 September	
		2016	2017	2018	2018	2019
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Operating activities						
Profit before tax		29,644	38,486	35,307	21,813	18,587
Adjustments for:						
Depreciation of property, plant and equipment	12	7,986	8,001	6,628	4,925	4,824
Amortisation of prepaid lease payments	12	391	391	391	293	–
Depreciation of right-of- use assets	12	–	–	–	–	293
Loss/(gain) on disposals of property, plant and equipment	10	166	(71)	(1,910)	(1,910)	(13)
(Reversal of)/provision for impairment loss on :						
– trade and bills receivables	10	(2,022)	(64)	206	338	70
– other receivables	10	(820)	(6)	(66)	29	2
Written off/(reversal of) on inventories		139	682	(582)	(404)	156
Bad debt written off/ (recover) on trade and bills receivables	10	215	(22)	6	6	–
Bank interest income	9	(193)	(108)	(67)	(42)	(35)
Finance costs	11	630	484	530	398	484
Gain on disposal of a subsidiary		–	(11,017)	–	–	–
Operating cash inflow before movements in working capital		36,136	36,756	40,443	25,446	24,368
(Increase)/decrease in inventories		(1,552)	(1,167)	2,245	(1,537)	(5,531)
Increase in trade and bills receivables		(5)	(8,782)	(7,887)	(12,519)	(18,475)
Decrease/(increase) in prepayments, deposits and other receivables		600	1,915	(2,203)	(2,829)	(2,057)
Increase/(decrease) in trade and bills payables		4,817	(565)	(2,656)	8,398	6,306
Increase/(decrease) in other payables and accruals		3,783	(8,290)	(2,482)	(359)	(2,776)
Increase/(decrease) in amount due to a director		13,806	(4,451)	–	–	–
Increase/(decrease) in deferred income		–	1,232	(137)	(103)	(103)

APPENDIX I

ACCOUNTANTS' REPORT

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
Notes	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash generated from operating activities	57,585	16,648	27,323	16,497	1,732
Income tax paid	(3,149)	(5,426)	(2,430)	(2,430)	(6,228)
Net cash generated from/(used in) operating activities	54,436	11,222	24,893	14,067	(4,496)
Investing activities					
Purchases of items of property, plant and equipment	(11,707)	(8,442)	(2,638)	(1,788)	(4,100)
Proceed from disposal of a subsidiary	–	19,800	–	–	–
Proceed from disposals of property, plant and equipment	114	1,963	10	10	20
(Increase)/decrease in pledged bank deposits	(2,415)	(493)	1,348	(1,268)	(1,292)
Interest received	193	108	67	42	35
Net cash (used in)/generated from investing activities	(13,815)	12,936	(1,213)	(3,004)	(5,337)
Financing activities					
Proceed from bank and other borrowings	12,000	10,000	12,000	5,200	21,830
Repayment of bank and other borrowings	(12,000)	(10,000)	(12,000)	(5,000)	(10,000)
Decrease in amount due from a former shareholder	2,264	–	–	–	–
Decrease in loan from a former shareholder	(312)	–	–	–	–
Decrease in loan from a related party	(2,627)	–	–	–	–
Increase in amounts due to shareholders	–	–	–	–	37,405
Paid up capital	–	–	–	–	670
Effect on reorganisation	–	–	–	–	(36,000)
Dividend paid	(35,250)	(26,720)	(19,203)	(12,004)	(10,107)
Interest paid	(580)	(484)	(530)	(398)	(452)

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Net cash (used in)/generated from financing activities	(36,505)	(27,204)	(19,733)	(12,202)	3,346
Increase/(decrease) in cash and cash equivalent	4,116	(3,046)	3,947	(1,139)	(6,487)
Cash and cash equivalents at beginning of the year/ period	5,145	9,261	6,215	6,215	10,162
Effect of exchange rate changes on the balance of cash held in foreign currencies	—	—	—	—	(280)
Cash and cash equivalents at end of the year/period	<u>9,261</u>	<u>6,215</u>	<u>10,162</u>	<u>5,076</u>	<u>3,395</u>

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. GENERAL INFORMATION OF THE GROUP**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 January 2019. The respective addresses of registered office and the principal place of business of the Company are set out in the section headed “Corporate Information” of the Prospectus.

The Company’s ultimate holding company is Sunlight Global Investment Limited (“Sunlight Global”), a company incorporated in the British Virgin Islands (“BVI”). Sunlight Global is ultimately controlled by Mr. Chen Hua.

The Company is an investment holding company and the principal activities of its subsidiaries are manufacturing and sales of faux leather chemicals. Particulars of Group’s subsidiaries are set out in Note 2 to the Historical Financial Information.

The Historical Financial Information is presented in Renminbi, which is also the functional currency of the Company. All values are rounded to the nearest thousands (RMB’000) except otherwise indicated.

2. REORGANISATION AND BASIS OF PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

Pursuant to the Reorganisation as fully explained in “History, Development and Reorganisation – Reorganisation” of the Prospectus, the Company became the holding company of the companies now comprising the Group on 18 April 2019. The Companies now comprising the Group were under the common control of Mr. Chen Hua and Ms. Liu Jing, two of controlling shareholder of the Company before and after the Reorganisation. Accordingly, the Historical Financial Information has been prepared on the basis by applying the principles of merger accounting as if the Reorganisation has been completed at the beginning of the Track Record Period.

The Reorganisation steps are described below:

1. *Incorporation of the Company and subsequent changes in share structure*

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 29 January 2019. On the date of its incorporation, the Company had an authorised share capital of US\$50,000 divided into 50,000 Shares at a par value of US\$1.00 each.

On the date of incorporation, (i) one Share was allotted and issued to the initial subscriber to the memorandum of association of the Company, which was then transferred to Sunlight Global Investment Limited (“Sunlight Global”) at par and credited as fully paid; and (ii) the Company allotted and issued to Sunlight Global 49,999 Shares at par and credited as fully paid.

On 11 March 2019, to align with the effective interests in Zhejiang Sunlight of its equity owners, Sunlight Global transferred 13,410 Shares and 1,500 Shares to Lilian Global Investment Limited (“Lilian Global”) and Jumping Jive International Limited (“Jumping Jive”) at par and credited as fully paid, respectively. After the said transfers, the Company was owned as to 70.18% by Sunlight Global, 26.82% by Lilian Global and 3% by Jumping Jive.

On 17 April 2019, each Share then of a par value of US\$1.00 was subdivided into 1,000 Shares of a par value of US\$0.001 each. Upon completion of the share subdivision, the authorised share capital of the Company was US\$50,000 divided into 50,000,000 Shares of a par value of US\$0.001 each, all of which had been issued and credited as fully paid.

On 9 May 2019, the authorised share capital of the Company was increased from US\$50,000 divided into 50,000,000 Shares of US\$0.001 each to US\$1,000,000 divided into 1,000,000,000 Shares of US\$0.001 each by creation of additional 950,000,000 Shares of US\$0.001 each ranking pari passu in all aspects with the existing issued Shares.

2. *Incorporation of Darkblue Investment Limited and subsequent change in share structure*

Darkblue Investment Limited (“Darkblue Investment”) was incorporated in the British Virgin Islands (the “BVI”) with limited liability on 31 January 2019. On the date of its incorporation, Darkblue Investment was authorised to issue a maximum of 50,000 ordinary shares with a par value of US\$1.00 each. On the date of its incorporation, 50,000 ordinary shares were allotted and issued at par and credited as fully paid to the Company and since then Darkblue Investment has been wholly-owned subsidiary of the Company.

3. *Incorporation of HongKong Gorgeous Investment Limited*

HongKong Gorgeous Investment Limited (“HongKong Gorgeous”) was incorporated in Hong Kong with limited liability on 7 March 2019. On the date of its incorporation, 10,000 ordinary shares were allotted and issued as fully paid to Darkblue Investment and the total amount of issued share capital was HK\$10,000 since then HongKong Gorgeous has been an indirect wholly-owned subsidiary of the Company.

4. *Acquisition of Zhejiang Sunlight by HongKong Gorgeous and subsequent loan capitalisations*

On 25 March 2019, HongKong Gorgeous entered into three respective equity transfer agreements with each of Huzhou Milan Investment Management Co., Ltd.* (湖州米藍投資管理有限公司) (formerly known as Hangzhou Sunlight Chemical Co., Ltd.* (杭州深藍化工有限公司)) (“Huzhou Milan”), Hangzhou Qiyue Investment Management Co., Ltd.* (杭州啟越投資管理有限公司) (formerly known as Deqing Qiyue Investment Management Co., Ltd.* (德清啟越投資管理有限公司)) (“Hangzhou Qiyue”) and Hong Kong New Element Consulting Services Limited (“New Element”), pursuant to which HongKong Gorgeous acquired 62.85%, 34.15% and 3% equity interests in Zhejiang Sunlight from Huzhou Milan, Hangzhou Qiyue and New Element, respectively, in cash considerations of RMB22,627,317, RMB12,292,683 and RMB1,080,000, respectively. The considerations were determined with reference to the then registered capital of Zhejiang Sunlight and were fully settled on 19 June 2019. After the said acquisition, Zhejiang Sunlight became an indirect wholly-owned subsidiary of the Company.

The abovementioned considerations for acquisition of the equity interests in Zhejiang Sunlight were financed by the shareholders’ loans from Sunlight Global, Lilian Global and Jumping Jive (the “Shareholders’ Loans”) and advanced HongKong Gorgeous (at the direction of the Company).

On 19 June 2019, the Shareholders’ Loans owed by the Company to Sunlight Global, Lilian Global and Jumping Jive were capitalised by way of the Company allotting and issuing 35,090,000, 13,410,000 and 1,500,000 Shares, credited as fully paid, to Sunlight Global, Lilian Global and Jumping Jive, respectively. After the said loan capitalisations, the shareholding of the Company remained unchanged, i.e. as to 70.18% by Sunlight Global, 26.82% by Lilian Global and 3% by Jumping Jive.

On 19 June 2019, the Shareholders’ Loans owed by HongKong Gorgeous to the Company were capitalised by way of HongKong Gorgeous allotting and issuing 100 ordinary shares of HongKong Gorgeous, credited as fully paid, to Darkblue Investment (at the direction of the Company). After the said loan capitalisation, HongKong Gorgeous remained wholly-owned by Darkblue Investment, which in turn wholly-owned by the Company.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows include the results and cash flows of the companies now comprising the Group have been prepared as if the current group structure upon completion of the Reorganisation had been in existence throughout the Track Record Period or since their respective date of incorporation, where there is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 September 2019 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure upon completion of the Reorganisation had been in existence as at those dates, taking into account the respective dates of incorporation.

All intra-group transactions and balances have been eliminated on combination.

The basis of preparation of the Historical Financial Information is disclosed in Note 4 to the Historical Financial Information.

All companies now comprising the Group have adopted 31 December as their financial year end date.

Upon completion of the Reorganisation and as at the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies, particulars of which are set out below:

Name of Company	Place of incorporation	Date of incorporation	Registered/ paid up capital	Proportion of ownership interest Group's effective interest	Principal activities
Directly held by the Company					
Darkblue Investment Limited (note a)	the BVI	31 January 2019	US\$50,000	100%	Investment holding
Indirectly held by the Company					
HongKong Gorgeous Investment Limited (note b)	Hong Kong	7 March 2019	HK\$10,000	100%	Investment holding
浙江深藍新材料科技有限公司 Zhejiang Sunlight Material Technology Co., Ltd.* (formerly known as 浙江深藍輕紡科技 有限公司 Zhejiang Sunlight Technology Co., Ltd.)* ("Zhejiang Sunlight") (note c)	the PRC	18 December 2003	RMB36,000,000	100%	Manufacturing and sales of faux leather chemicals

* English translations of official Chinese names are for identification purposes only.

Notes:–

- (a) No audited financial statements have been prepared for Darkblue Investment Limited since its respective dates of incorporation as it was incorporated in jurisdiction where there is no statutory audit requirements.
- (b) No audited financial statements have been prepared and issued for HongKong Gorgeous Investment Limited as it was newly established in 2019.
- (c) The statutory financial statements of Zhejiang Sunlight for the years ended 31 December 2016 and 2017 were prepared in accordance with the PRC GAAP and were audited by Pan-China Certified Public Accountant (天健會計師事務所), certified public accountants registered in the PRC. The statutory financial statements of Zhejiang Sunlight for the year ended 31 December 2018 were prepared in accordance with the PRC GAAP and were audited by Zhejiang Tianping Certified Public Accountant (浙江天平會計師事務所), certified public accountants registered in the PRC.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied International Accounting Standards (“IASs”), IFRSs, amendments and the related Interpretations (“IFRICs”) (herein collectively referred to as the (“IFRSs”), which are effective for financial periods beginning on 1 January 2019 (the “New and Revised IFRSs”) throughout the Track Record Period. In addition, the Group has early applied IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial instruments” throughout the Track Record Period. Except for IFRS 16 “Leases”, the Group has initially applied IFRS 16 as from 1 January 2019.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. The standard is effective for annual periods beginning on after 1 January 2018 and earlier application is permitted. The Group has reviewed its financial assets and liabilities and has elected to early apply IFRS 9 which has been applied consistently throughout the Track Record Period. Early adoption of IFRS 9 does not have significant impact on the Group’s consolidated financial statements.

IFRS 15 replaces the previous revenue standards IAS 18 “Revenue” and IAS 11 “Construction Contracts” and related interpretations. The standard is effective for annual periods beginning on after 1 January 2018 and earlier application is permitted. The Group has elected to early apply IFRS 15 which has been applied consistently throughout the Track Record Period. Early adoption of IFRS 15 does not have significant impact on the Group’s consolidated financial statements.

IFRS 16 replaces IAS 17, Leases, and the related interpretations, IFRIC 4, Determining whether an arrangement contains a lease, SIC 15, Operating leases-incentives, and SIC 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and recognised if any cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

As at 31 December 2018, the Group had no any non-cancellable operating lease commitments, therefore, the application of IFRS 16 would not have any impact on opening balance of equity at 1 January 2019, except for the following table summarises the impact of transition of IFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

		Carrying amount previously reported at 31 December 2018	Impact on adoption of IFRS 16 Reclassification	Carrying amount as restated 1 January 2019
	Note	RMB'000	RMB'000	RMB'000
Right-of-use assets	(a)	–	17,572	17,572
Prepaid lease payments	(a)	17,572	(17,572)	–
		<u> </u>	<u> </u>	<u> </u>

Note (a): Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB391,000 and RMB17,181,000 respectively were reclassified to right-of-use assets.

At the date of this report, the Group has not early adopted the following New and Revised IFRSs that have been issued but not yet effective:

IFRS 3 (Amendments)	Definition of a Business ³
IFRS 10 and IAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associates or Joint Venture ¹
IFRS 17	Insurance Contract ²
IAS 1 and IAS 8 (Amendments)	Definition of Material ⁴
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting 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 other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Statement of compliance**

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 include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of preparation

The Historical Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given 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 these Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

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 companies 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 statement 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.

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 transactions, balances, income and expenses are eliminated in full on consolidation.

Merger accounting for common control combination

The Historical Financial Information incorporate the financial statement items of the combining entities or business in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under the control of the controlling party.

The net assets of the combining entities or business are combined using the existing book values from the controlling party's perspective. No amount is recognised with respect to goodwill or any excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over its cost at the time of common control combination, to the extent of the contribution of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or business from the earliest date presented or since the date when combining entities or business first came under common control, where this is a shorter period, regardless of the date of common control combination.

Intra-group transactions, balances and unrealised gains on transactions between the combining entities or business are eliminated. Unrealised losses are eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of combining entities or business have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transaction costs, including professional fees, registration fees, cost of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as an expenses in the period in which they are incurred.

Non-current assets (or subsidiary) held-for-sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset or disposal group and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate.

After the disposal takes place, the Group accounts for any retained interest in the in accordance with IFRS 9 unless the retained interest continues to be an associate, in which case the Group uses the equity method.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses:

- buildings held for own use which are situated on leasehold land classified as held under operating leases; and
- other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

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 assets and is recognised in profit or loss.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Building held for own use	over the shorter of the unexpired lease term and their estimated useful lives, being no more than 20 years after the date of completion
Machinery and equipment	5-10 years
Motor vehicles	5 years
Office equipment and others	3-5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss and other comprehensive income in the year the asset is derecognised is the difference between the net proceeds and the carrying amount of the relevant assets.

Impairment of assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- Property, plant and equipment;
- Interests in leasehold land held for own use under operating leases;
- Prepayments;
- Investments in subsidiaries; and
- Lease Assets

If any such indication exists, the asset's recoverable amount is estimated.

– *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– *Reversals of impairment losses*

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying value that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

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 since 1 January 2016. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) 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 fair value through profit or loss 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.

Interest and dividend income which are derived from the financial assets and shareholders' rights are presented as other revenue and other income.

Financial assets*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 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, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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 as 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 excludes any dividend or interest earned on the financial asset and is included in the “other revenue and other income” line item.

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, deposit paid, other receivables, pledged bank deposits and cash and bank balances). The amount of ECL is updated at each reporting period 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, 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 period. 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 period as well as the forecast of future conditions.

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 period 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.

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.

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

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

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;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

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, or in the case of trade receivables, when the amounts are over 360 day past due, whichever occurs sooner. 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 derecognition 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 effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or 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 and other receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses 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 management 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.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Trade and other receivables

Trade and other receivables are amounts due from customers for goods sold in the ordinary course of business. Trade and other receivables are generally due from settlement within 360 days and therefore are all classified as current. Trade receivables are carried at initial billing amounts, which approximate fair value due to the short-term nature of the payment terms.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of processing, labour and indirect overheads, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Trade and other payables

Trade and payables are obligations to pay for goods, and services that have been acquired in the ordinary course of business from vendors. Trade and other payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are initially recognised at billed amounts, which approximately fair value and subsequent measured at amortised cost using effective interest method.

Borrowing

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

Government grant

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 are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or nonoccurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Revenue recognition

Under IFRS 15, 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 customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’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.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

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. A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

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.

(i) Sales of faux leather chemicals

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts, rebates and returns.

(ii) Interest income is recognised as it accrues using the effective interest method.

Leases

Policy applicable from 1 January 2019

Leased Assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group as lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities separately in the consolidated statement of financial position.

Policy applicable before 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownerships to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the consolidated statement of profit or loss and other comprehensive income or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with joint operations, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Employee benefits*Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Annual contributions to retirement benefit schemes operated by the government in the PRC are recognised in the profit or loss as and when incurred.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Borrowing costs directly attributable to the activity of a construction contract are included as part of the contract costs.

All other borrowing costs are expensed in the period in which they are incurred.

Research and development expense

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials and salaries where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure does not meet these criteria is recognised as an expense in the period in which it is incurred.

Related parties transactions

A party is considered to be related to the Group if:

- (i) A person or a close member of that person's family is related to the Group if that person:
 - (a) has control or joint control over the Group;
 - (b) has significant influence over the Group; or
 - (c) is a member of the key management personnel of the Group or of a parent of the reporting entity.
- (ii) An entity is related to the Group if any of the following conditions applies:
 - (a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (c) Both entities are joint ventures of the same third party.
 - (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
 - (f) The entity is controlled or jointly controlled by a person identified in (i).

- (g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (h) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close family members of an individual are those family members who may be expected to influence, or be inflecting by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Dividends

Dividends proposed by the directors of the Company are classified as a separate allocation of retained profits within the equity section of the statements of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The major judgments, estimates and assumptions that have the most significant effect on the amounts recognised in the Historical Financial Information and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Impairment of non-financial assets

The Group tests whether non-financial assets have suffered from any impairment, in accordance with the accounting policy stated in Note 4. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Management estimates value in use based on estimated discounted pre-tax future cash flows of the cash generating unit at the lowest level to which the asset belongs. If there is any significant change in management's assumptions, including discount rates or growth rates in the future cash flow projection, the estimated recoverable amounts of the non-financial assets and the Group's results would be significantly affected. Such impairment losses are recognised in the statement of profit or loss and other comprehensive income. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-financial assets.

Estimated loss allowance of financial assets measured at amortised cost

Management estimates the amount of loss allowance for expected credit loss on financial assets that are measured at amortised cost based on the credit risk of the respective financial instrument. The loss allowance amount is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows after taking into consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are different from expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

Write-down of inventories

Inventories are stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. In addition, the management performs an inventory review on a product-by-product basis at the end of the reporting period and assess the need for write-down of inventories.

Income tax

The Group is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**(a) Categories of financial instruments**

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets at amortised cost:				
– Trade and bills receivables	50,989	59,857	67,532	85,937
– Deposit and other receivables	336	3	158	170
– Pledged bank deposits	2,415	2,908	1,560	2,852
– Bank balances and cash	9,261	6,215	10,162	3,395
	<u>63,001</u>	<u>68,983</u>	<u>79,412</u>	<u>92,354</u>
Financial liabilities at amortised costs:				
– Trade and bills payables	26,953	26,388	23,732	30,039
– Other payables and accruals	12,777	7,704	2,072	2,143
– Amount due to a director	4,451	–	–	–
– Amounts due to shareholders	–	–	–	1,405
– Bank and other borrowings	10,000	10,000	10,000	21,942
	<u>54,181</u>	<u>44,092</u>	<u>35,804</u>	<u>55,529</u>

The Group's principal financial instruments comprise trade and bills receivables, deposits and other receivables, pledged bank deposit, bank balances and cash, trade and bills payables, other payables and accruals, amount due to a director, amounts due to shareholders and bank and other borrowings. The main purpose of these financial instruments is to finance the Group's operation.

The main risks arising from the Group's financial instruments are market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. The Group's management reviews and agrees policies for managing each of these risks and they are summarised below:

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates.

Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Bank and other borrowings bearing fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively and the exposure to the Group is considered immaterial.

The exposure to interest rate risk for the Group bank balances is considered immaterial.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is expose to the foreign currency risk arising from financial instruments which are primarily denominated in United States Dollars ("USD") from its ordinary operating activities, these are not the functional currency of the group entities to which these transactions relate.

As at each reporting date, foreign currency denominated financial assets, translated into RMB closing rates, are as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables:				
– USD	–	982	1,503	1,480

The following table demonstrates the sensitivity as at the end of each of the Track Record Period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets) and the Group's entity.

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000
As at 31 December 2016		
If RMB weakens against USD	5	–
If RMB strengthens against USD	(5)	–
As at 31 December 2017		
If RMB weakens against USD	5	(49)
If RMB strengthens against USD	(5)	49
As at 31 December 2018		
If RMB weakens against USD	5	(75)
If RMB strengthens against USD	(5)	75
As at 30 September		
If RMB weakens against USD	5	(74)
If RMB strengthens against USD	(5)	74

(b) Credit risk

The Group is exposed to credit risk in relation to its trade receivables and bank deposits. The carrying amounts of trade receivables and cash and cash equivalents and bank deposits represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group expects that there is no significant credit risk associated with bank deposits since they are substantially deposited at state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group accounts for credit losses, if any, using an expected credit losses model which utilises assumptions and estimates regarding expected future credit losses.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the loss allowance provision for the remaining balances was determined as follows. The expected credit losses below also incorporated forward looking information.

		Past due but not impaired			
	Current	within 90 days	91 to 180 days	over 180 days	Total
Trade receivables					
At 31 December 2016					
Expected loss rate	0.03%	0.06%	0.51%	33.40%	0.45%
Gross carrying amount (RMB'000)	25,958	16,053	2,566	521	45,098
Loss allowance provision (RMB'000)	<u>7</u>	<u>9</u>	<u>13</u>	<u>174</u>	<u>203</u>
At 31 December 2017					
Expected loss rate	0.01%	0.02%	0.20%	47.73%	0.27%
Gross carrying amount (RMB'000)	25,774	23,248	3,424	264	52,710
Loss allowance provision (RMB'000)	<u>2</u>	<u>4</u>	<u>7</u>	<u>126</u>	<u>139</u>
At 31 December 2018					
Expected loss rate	0.01%	0.08%	1.13%	30.75%	0.74%
Gross carrying amount (RMB'000)	30,262	13,748	1,593	1,021	46,624
Loss allowance provision (RMB'000)	<u>2</u>	<u>11</u>	<u>18</u>	<u>314</u>	<u>345</u>
At 30 September 2019					
Expected loss rate	0.01%	0.07%	0.92%	30.82%	0.57%
Gross carrying amount (RMB'000)	34,811	31,835	4,541	1,129	72,316
Loss allowance provision (RMB'000)	<u>3</u>	<u>22</u>	<u>42</u>	<u>348</u>	<u>415</u>

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the gross carrying amount of trade receivables was approximately RMB45,098,000, RMB52,710,000 and RMB46,624,000 and RMB72,316,000, respectively and thus the maximum exposure to loss was approximately RMB203,000, RMB139,000 and RMB345,000 and RMB415,000, respectively.

(c) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

Management monitors the cash flow forecasts of the Group in meeting its liabilities.

The following table detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted average effective interest rate	On demand or within 1 year <i>RMB'000</i>	Over 1 year and within 2 years <i>RMB'000</i>	Over 2 years and within 5 years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Total carrying amount <i>RMB'000</i>
At 31 December 2016						
Non-derivative financial liabilities						
Trade and bills payables	-	26,953	-	-	26,953	26,953
Other payables and accruals	-	12,777	-	-	12,777	12,777
Amount due to a director	-	4,451	-	-	4,451	4,451
Bank borrowings	4.79	10,000	-	-	10,000	10,000
		<u>54,181</u>	<u>-</u>	<u>-</u>	<u>54,181</u>	<u>54,181</u>

	Weighted average effective interest rate	On demand or within 1 year <i>RMB'000</i>	Over 1 year and within 2 years <i>RMB'000</i>	Over 2 years and within 5 years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Total carrying amount <i>RMB'000</i>
At 31 December 2017						
Non-derivative financial liabilities						
Trade and bills payables	–	26,388	–	–	26,388	26,388
Other payables and accruals	–	7,704	–	–	7,704	7,704
Bank borrowings	4.79	10,000	–	–	10,000	10,000
		<u>44,092</u>	<u>–</u>	<u>–</u>	<u>44,092</u>	<u>44,092</u>
At 31 December 2018						
Non-derivative financial liabilities						
Trade and bills payables	–	23,732	–	–	23,732	23,732
Other payables and accruals	–	2,072	–	–	2,072	2,072
Bank borrowings	5.13	10,000	–	–	10,000	10,000
		<u>35,804</u>	<u>–</u>	<u>–</u>	<u>35,804</u>	<u>35,804</u>
At 30 September 2019						
Non-derivative financial liabilities						
Trade and bills payables	–	30,039	–	–	30,039	30,039
Other payables and accruals	–	2,143	–	–	2,143	2,143
Amounts due to shareholders	–	1,405	–	–	1,405	1,405
Bank and other borrowings	3.40	11,000	11,167	–	22,167	21,942
		<u>44,587</u>	<u>11,167</u>	<u>–</u>	<u>55,754</u>	<u>55,529</u>

(d) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- (i) the fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid and ask prices respectively;
- (ii) the fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs); and

- (iii) the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(e) Capital risk management

The Group's objectives when managing capital are to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of debt (which includes amount due to a director, amounts due to shareholders and bank and other borrowings), bank balance and cash, pledged bank deposits and total equity attributable to owners of the Company, comprising issued share capital and retained profits.

Gearing ratio

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. The ratio is calculated based on net debt and total equity.

The gearing ratio at the end of the reporting period was as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Total debt#	14,451	10,000	10,000	23,347
Less: Bank balances and cash	(9,261)	(6,215)	(10,162)	(3,395)
Pledged bank deposits	(2,415)	(2,908)	(1,560)	(2,852)
Net debt	2,775	877	(1,722)	17,100
Total equity	111,828	146,778	127,168	135,144
Gearing ratio	2.5%	0.6%	N/A	12.7%

Total debt comprises amount due to a director, amounts due to shareholders and bank and other borrowings as detailed in Notes 28, 29 and 30 to the Historical Financial Information, respectively.

7. SEGMENT INFORMATION

(i) Operating segment information

The Group's most senior executive management has been identified as the chief executive officer who review the Group's internal reporting in order to assess performance and allocate resources. The Group's most senior executive management has determined the operating segments based on these reports.

The Group's most senior executive management assesses the performance based on a measure of profit after income tax and considers all businesses to be included in a single operating segment.

The Group is principally engaged in the manufacturing and sales of faux leather chemicals. Information reported to the Group's most senior executive management for the purpose of resources allocation and performance assessment, focuses on the operating result of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

(ii) Geographical information

The Group's operation is principally in the PRC and all its non-current assets are situated in the PRC.

The Group's revenue are derived from the PRC and overseas (i.e. Mexico, Brazil, Turkey and Vietnam) based on the location of goods delivered as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
The PRC	149,801	156,338	163,629	119,385	127,126
Overseas	1,359	1,303	3,678	2,356	2,988
	<u>151,160</u>	<u>157,641</u>	<u>167,307</u>	<u>121,741</u>	<u>130,114</u>

(iii) Information about major customers

Revenue from customers during the Track Record Period contributing individually over 10% of the Group's revenue is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Company A	—*	26,621	26,764	19,268	18,047

* Revenue from the relevant customer was less than 10% of the Group's total revenue for the respective year/period.

8. REVENUE

Revenue represents the amounts received and receivable from the sales of faux leather chemicals, net of discounts, sales return and sales related taxes during the years/period.

Year ended 31 December			Nine months ended 30 September	
2016	2017	2018	2018	2019
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	

Revenue from contracts

with customers:

Recognised at a point in time

Sales of faux

leather chemicals	151,160	157,641	167,307	121,741	130,114
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The Group has applied the practical expedient under IFRS 15 so that transaction price allocated to unsatisfied performance obligations under contracts for sales of faux leather chemicals are not disclosed as such contracts have an original expected duration of one year or less.

9. OTHER REVENUE

	Year ended 31 December			Nine months ended 30 September	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
Bank interest income	193	108	67	42	35
Interest income on amount due from a director and a shareholder (<i>Note 33</i>)	522	–	–	–	–
Government grants (<i>note (a)</i>)	2,170	1,691	4,117	2,455	1,191
Sundry income	566	114	752	151	557
	<u>3,451</u>	<u>1,913</u>	<u>4,936</u>	<u>2,648</u>	<u>1,783</u>

Note:

- (a) Government grants represent various form of subsidies granted to the Group by the local governmental authorities in the PRC for compensation of expenses incurred by the Group. These grants are generally made for business support and awarded to enterprises on a discretionary basis. The Group received these government grants in respect of its investments in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

10. OTHER GAINS/(LOSSES)

	Year ended 31 December			Nine months ended 30 September	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
Reversal of/(provision for) impairment loss on:					
– trade and bills receivables	2,022	64	(206)	(338)	(70)
– other receivables	820	6	66	(29)	(2)
Bad debt (written off)/ recover on trade and bills receivables	(215)	22	(6)	(6)	–
(Loss)/gain on disposal of properties, plant and equipment	(166)	71	1,910	1,910	13
	<u>2,461</u>	<u>163</u>	<u>1,764</u>	<u>1,537</u>	<u>(59)</u>

11. FINANCE COSTS

	Year ended 31 December			Nine months ended 30 September	
	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>
				(unaudited)	
Interests on bank and other borrowings wholly repayable within five years	580	484	530	398	484
Interests on loan from a former shareholder (<i>Note 33</i>)	6	—	—	—	—
Interests on loan from a related party (<i>Note 33</i>)	44	—	—	—	—
	<u>630</u>	<u>484</u>	<u>530</u>	<u>398</u>	<u>484</u>

12. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

	Year ended 31 December			Nine months ended 30 September	
	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>
				(unaudited)	
Auditors' remuneration	283	283	75	—	—
Cost of inventories sold	95,990	106,863	116,619	87,125	84,643
Depreciation and amortisation	8,377	8,392	7,019	5,218	5,117
Less: amounts included in cost of sales	<u>(3,333)</u>	<u>(4,440)</u>	<u>(4,903)</u>	<u>(3,585)</u>	<u>(3,802)</u>
	<u>5,044</u>	<u>3,952</u>	<u>2,116</u>	<u>1,633</u>	<u>1,315</u>

	Year ended 31 December			Nine months ended 30 September	
	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2018 <i>RMB'000</i> (unaudited)	2019 <i>RMB'000</i>
Directors' remuneration (Note 14)	838	820	699	552	691
Staff costs (excluding directors' remuneration)					
– Wages, salaries, allowance and bonus	14,253	11,380	10,573	7,514	7,953
– Contribution to retirement benefits schemes	<u>1,894</u>	<u>1,886</u>	<u>2,173</u>	<u>1,339</u>	<u>1,591</u>
	16,147	13,266	12,746	8,853	9,544
Less: amounts included in cost of sales	<u>(5,289)</u>	<u>(4,937)</u>	<u>(4,155)</u>	<u>(3,300)</u>	<u>(3,376)</u>
	<u>10,858</u>	<u>8,329</u>	<u>8,591</u>	<u>5,553</u>	<u>6,168</u>
Written off/(reversal of) on inventories	139	682	(582)	(404)	156
Exchange (gain)/loss	(6)	9	(118)	–	13
Research and development expenses	<u>7,793</u>	<u>6,994</u>	<u>7,249</u>	<u>5,506</u>	<u>6,108</u>

13. INCOME TAX EXPENSES

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
PRC Enterprise Income Tax ("EIT")					
– Current income tax	3,939	3,615	4,462	2,617	3,371
Deferred tax (<i>Note 31</i>)	299	(79)	55	(6)	12
Total tax charge for the years/period	<u>4,238</u>	<u>3,536</u>	<u>4,517</u>	<u>2,611</u>	<u>3,383</u>

The PRC

The income tax provision of the Group in respect of its operations in the PRC was calculated at tax rate of 25% on the assessable profits for the Track Record Period, based on the existing legislation, interpretations and practices in respect thereof.

Zhejiang Sunlight is approved as "high and new technology enterprise" and accordingly, it is subject to a reduced preferential corporate income tax rate of 15% for the Track Record Period.

Cayman Islands, BVI and Hong Kong

No Provision for taxation has been recognised for companies incorporated in the Cayman Islands, BVI and Hong Kong as they are not subject to any tax during the Track Record Period.

Withholding Tax in Mainland China ("WHT")

According to the New Corporate Income Tax Law ("New EIT Law"), distribution of profits earned by companies in Mainland China since 1 January 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas-incorporated immediate holding companies.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the retained earnings of the Group's PRC subsidiaries not yet remitted to holding company incorporated outside of the PRC, for which no deferred income tax liability had been provided, were approximately RMB12,971,000, RMB44,549,000 and RMB21,860,000 and RMB36,035,000, respectively. For this unrecognised amount, the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The income tax expense during the Track Record Period can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2018 <i>RMB'000</i> (unaudited)	2019 <i>RMB'000</i>
Profit before tax	<u>29,644</u>	<u>38,486</u>	<u>35,307</u>	<u>21,813</u>	<u>18,587</u>
Tax at applicable tax rate applicable to profits in the jurisdiction concerned	7,411	9,622	8,827	5,453	5,258
Tax effect of expenses not deductible for tax purposes	536	395	71	123	1,553
Tax effect of income not taxable for tax purposes	(667)	(2,797)	(105)	(101)	(18)
Effect attributable to the additional qualified tax deduction relating to research and development costs	(898)	(1,150)	(1,233)	(1,032)	(1,145)
Tax effects of deductible temporary differences not recognised	409	(106)	(19)	(55)	(13)
Tax concession	(2,553)	(2,428)	(3,024)	(1,777)	(2,264)
Tax effect of unrecognised tax losses	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12</u>
Total tax charge for the years/period	<u>4,238</u>	<u>3,536</u>	<u>4,517</u>	<u>2,611</u>	<u>3,383</u>

14. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the directors of the Company (including emoluments for services as employee/directors of the Group prior to becoming the directors of the Company) by entities comprising the Group during the Track Record Period are as follows:

	Year ended 31 December 2016				
	Directors' Fees	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement scheme contributions	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Mr. Chen Hua (<i>note (i)</i>)	–	267	–	22	289
Ms. Liu Jing (<i>note (ii)</i>)	–	–	–	–	–
Ms. Zhu Jianqin (<i>note (iii)</i>)	–	253	–	22	275
Mr. Li Xiangyu (<i>note (iv)</i>)	–	252	–	22	274
	–	772	–	66	838

Year ended 31 December 2017

	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement scheme contributions	Total	
Directors' Fees	RMB'000	RMB'000	RMB'000	RMB'000	
Executive directors:					
Mr. Chen Hua (note (i))	–	264	–	22	286
Ms. Liu Jing (note (ii))	–	–	–	–	–
Ms. Zhu Jianqin (note (iii))	–	245	–	22	267
Mr. Li Xiangyu (note (iv))	–	245	–	22	267
	–	754	–	66	820

Year ended 31 December 2018

	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement scheme contributions	Total	
Directors' Fees					
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Executive directors:					
Mr. Chen Hua (<i>note (i)</i>)	–	240	–	13	253
Ms. Liu Jing (<i>note (ii)</i>)	–	–	–	–	–
Ms. Zhu Jianqin (<i>note (iii)</i>)	–	211	–	6	217
Mr. Li Xiangyu (<i>note (iv)</i>)	–	211	–	18	229
	–	662	–	37	699

Nine months ended 30 September 2018 (Unaudited)

	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement scheme contributions	Total	
Directors' Fees					
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Executive directors:					
Mr. Chen Hua (<i>note (i)</i>)	–	188	–	10	198
Ms. Liu Jing (<i>note (ii)</i>)	–	–	–	–	–
Ms. Zhu Jianqin (<i>note (iii)</i>)	–	169	–	5	174
Mr. Li Xiangyu (<i>note (iv)</i>)	–	169	–	11	180
	–	526	–	26	552

Nine months ended 30 September 2019

	Salaries, allowances and benefits in kind	Discretionary bonus	Retirement scheme contributions	Total	
Directors' Fees					
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Executive directors:					
Mr. Chen Hua (<i>note (i)</i>)	–	209	–	35	244
Ms. Liu Jing (<i>note (ii)</i>)	–	–	–	–	–
Ms. Zhu Jianqin (<i>note (iii)</i>)	–	205	–	–	205
Mr. Li Xiangyu (<i>note iv)</i>)	–	208	–	34	242
	–	622	–	69	691

The executive directors' emoluments shown were mainly for their service in connection with the management of the affairs of the Company and the Group.

During the Track Record Period, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in Note 15 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any emoluments during the Track Record Period.

The appointment of independent non-executive directors subsequent to the Track Record Period is disclosed in the section headed "Directors and Senior Management" to the Prospectus.

Notes:

- (i) Mr. Chen Hua was appointed as executive director and on 21 June 2019.
- (ii) Ms. Liu Jing was appointed as executive director and chairman on 21 June 2019.
- (iii) Ms. Zhu Jianqin was appointed as executive director on 21 June 2019.
- (iv) Mr. Li Xiangyu was appointed as executive director on 21 June 2019.

15. EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals included 3, 3 and 3 and 3 and 3 executive directors of the Company for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 (unaudited) and 2019 respectively, details of whose emoluments are set out in Note 14. The emoluments of the remaining individuals for the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 (unaudited) and 2019 are 2, 2 and 2 and 2 and 2 respectively and individuals disclosed are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Salaries, allowance and benefits in kind	474	473	406	326	409
Retirement scheme contributions	42	42	41	23	68
	<u>516</u>	<u>515</u>	<u>447</u>	<u>349</u>	<u>477</u>

The number of non-director highest paid employees whose emoluments fell within the following bands is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
				(unaudited)	
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

The number of the senior management (excluding directors) whose emoluments fell within the following bands is as follows:

	Year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
				(unaudited)	
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

16. DIVIDENDS

During the years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2018 (unaudited) and 2019, Zhejiang Sunlight declared RMB50,000,000, nil and RMB50,400,000 and RMB50,400,000 and RMB7,200,000, respectively, dividends to its then shareholders.

The rate of dividend and number of shares ranking for the above dividends are not presented as such information is not meaningful having regard to the purpose of this report.

No dividend was paid or declared by the Company since its incorporation.

17. EARNINGS PER SHARE

The calculation of basic earnings per share for the Track Record Period is based on the profit attributable to the owners of the Company for the Track Record Period and on the assumption that 750,000,000 ordinary shares had been in issue, comprising 200,000,000 ordinary shares in issue as at the date of this prospectus and 550,000,000 ordinary shares to be issued pursuant to the capitalisation issue as detailed in “Share Capital” set out in this prospectus as if the shares had been outstanding throughout the entire Track Record Period.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture, fixtures and office equipment	Plant and machinery	Motor vehicles	Construction in process	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:						
At 1 January 2016	83,163	4,412	26,669	1,661	10,326	126,231
Additions	-	181	2,291	2,788	6,447	11,707
Transfer	-	-	10,811	-	(10,811)	-
Transfer to assets of disposal group classified as held for sale	(14,459)	-	-	-	-	(14,459)
Disposal	(6)	(508)	(56)	(381)	-	(951)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2016 and 1 January 2017	68,698	4,085	39,715	4,068	5,962	122,528
Additions	-	473	1,240	-	6,729	8,442
Transfer	9,342	-	295	-	(9,637)	-
Disposal	-	(474)	(747)	(2,589)	-	(3,810)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

	Buildings <i>RMB'000</i>	Furniture, fixtures and office equipment <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in process <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2017 and 1 January 2018	78,040	4,084	40,503	1,479	3,054	127,160
Additions	–	123	1,990	–	525	2,638
Transfer	–	–	1,276	–	(1,276)	–
Disposal	(33,206)	(137)	(101)	–	–	(33,444)
At 31 December 2018 and 1 January 2019	44,834	4,070	43,668	1,479	2,303	96,354
Additions	–	234	2,277	88	1,501	4,100
Transfer	–	–	2,642	–	(2,642)	–
Disposal	–	(78)	–	(44)	–	(122)
At 30 September 2019	44,834	4,226	48,587	1,523	1,162	100,332
Accumulated depreciation:						
At 1 January 2016	7,403	3,006	12,673	788	–	23,870
Charge for the year	3,978	528	2,841	639	–	7,986
Disposal	(2)	(482)	(52)	(135)	–	(671)
Transfer to assets of disposal group classified as held for sale	(5,618)	–	–	–	–	(5,618)
At 31 December 2016 and 1 January 2017	5,761	3,052	15,462	1,292	–	25,567
Charge for the year	4,078	341	3,227	355	–	8,001
Disposal	–	(449)	(669)	(800)	–	(1,918)
At 31 December 2017 and 1 January 2018	9,839	2,944	18,020	847	–	31,650
Charge for the year	2,406	324	3,624	274	–	6,628
Disposal	(5,119)	(130)	(95)	–	–	(5,344)
At 31 December 2018 and 1 January 2019	7,126	3,138	21,549	1,121	–	32,934
Charge for the period	1,597	228	2,904	95	–	4,824
Disposal	–	(74)	–	(41)	–	(115)

	Buildings <i>RMB'000</i>	Furniture, fixtures and office equipment <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construction in process <i>RMB'000</i>	Total <i>RMB'000</i>
At 30 September 2019	8,723	3,292	24,453	1,175	–	37,643
Net carrying amount:						
At 31 December 2016	62,937	1,033	24,253	2,776	5,962	96,961
At 31 December 2017	68,201	1,140	22,483	632	3,054	95,510
At 31 December 2018	37,708	932	22,119	358	2,303	63,420
At 30 September 2019	36,111	934	24,134	348	1,162	62,689

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the building of approximately RMB32,859,000, RMB39,837,000 and RMB37,707,000 and RMB36,111,000 were pledged to bank for the Group's bank borrowings, details of which are set out in Note 30.

The legal titles of the buildings with aggregate carrying value of approximately RMB30,024,000 and RMB28,364,000, respectively, as at 31 December 2016 and 2017, have not been granted by the relevant government authorities and the relevant titles are still under application. In the opinion of the management of the Group, taking into account of the PRC lawyer's legal opinion, all the risks and rewards of the buildings have been transferred to the Group. During the year ended 31 December 2018, the buildings were disposed to a former shareholder of Zhejiang Sunlight (Note 33(a)).

19. PREPAID LEASE PAYMENTS/RIGHT-OF-USE ASSETS

RMB'000

Cost:

At 1 January 2016, 31 December 2016, 1 January 2017, 31 December 2017, 1 January 2018, 31 December 2018, 1 January 2019 and 30 September 2019	19,550
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Accumulated depreciation:

At 1 January 2016	805
Amortisation for the year	391

At 31 December 2016 and 1 January 2017	1,196
Amortisation for the year	391

At 31 December 2017 and 1 January 2018	1,587
Amortisation for the year	391

At 31 December 2018 and 1 January 2019	1,978
Amortisation for the period	293

At 30 September 2019	2,271
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Net carrying amount:

At 31 December 2016	18,354
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At 31 December 2017	17,963
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At 31 December 2018	17,572
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At 30 September 2019	17,279
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The carrying amount of prepaid lease payments/right-of-use assets of the Group analysed for reporting purposes as:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets	391	391	391	–
Non-current assets	17,963	17,572	17,181	17,279
	<u>18,354</u>	<u>17,963</u>	<u>17,572</u>	<u>17,279</u>

The prepaid lease payments/right-of-use assets are land use rights located in the PRC which are under medium lease.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the carrying amount of the prepaid lease payments/right-of-use assets of approximately RMB15,823,000, RMB15,484,000 and RMB15,146,000 and RMB14,892,000 were pledged to bank for the Group's bank borrowings, details of which are set out in Note 30.

Upon application of IFRS 16 on 1 January 2019, the prepaid lease payments were classified as right-of-use assets.

20. INVENTORIES

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw material	9,726	9,367	8,080	12,968
Work in progress	474	802	624	574
Finished goods	3,940	4,456	4,258	4,796
	<u>14,140</u>	<u>14,625</u>	<u>12,962</u>	<u>18,338</u>

21. TRADE AND BILLS RECEIVABLES

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	45,098	52,710	46,624	72,316
Less: allowance for impairment	(203)	(139)	(345)	(415)
	44,895	52,571	46,279	71,901
Bills receivables	6,094	7,286	21,253	14,036
Total trade and bills receivables – net	<u>50,989</u>	<u>59,857</u>	<u>67,532</u>	<u>85,937</u>

- (a) The following is an ageing analysis of trade receivables presented based on the invoice dates:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	13,967	14,137	20,829	22,257
31 to 90 days	21,827	24,405	16,710	33,277
91 to 180 days	7,208	13,415	7,264	15,226
181 to 365 days	1,630	701	1,449	1,178
Over 1 year	466	52	372	378
	<u>45,098</u>	<u>52,710</u>	<u>46,624</u>	<u>72,316</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for customer. Credit limits attributed to customers and credit term granted to customers are reviewed annually. In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables throughout the Track Record Period.

The Group generally allows an average credit period range from 30 to 120 days to its customers. During the Track Period, the Group has applied the simplified approach to providing allowance for ECLs prescribed by IFRS 9, which permits the use of lifetime expected credit loss provision for all trade receivables at each reporting date. To measure the ECLs, the trade receivables have been grouped based on shared credit risk characteristics and the days past due. ECLs are estimated based on historical credit loss experience, adjusted for factors that are specific to the debtors and general economic condition. The assessment on expected credit loss provision set out in Note 6(b).

As at 31 December 2016, 2017 and 2018 and 30 September 2019, all bills received by the Group are with a maturity period of less than 6 months.

(b) Movements on the provision for impairment of trade receivables as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of the year/period	2,225	203	139	345
(Reversal of)/provision for impairment	(2,022)	(64)	206	70
At the end of the year/period	203	139	345	415

(c) As at 31 December 2016, 2017 and 2018 and 30 September 2019, the fair values of trade and bills receivables approximate their carrying amounts. The maximum exposure to credit risk at each of the reporting dates is the carrying value of the net receivable balance.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables	336	3	158	170
Prepayment to suppliers	1,797	221	2,335	1,112
Prepaid land leases – current portion	391	391	391	–
Prepaid Listing expenses	–	–	–	3,350
	2,524	615	2,884	4,632

23. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

(a) Cash and cash equivalents

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	9,261	6,215	10,162	3,395

Cash at banks deposit earn interest at floating rates based on daily bank deposit rates.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, bank balances and cash of the Group denominated in RMB amounted to approximately RMB9,261,000 RMB6,215,000 and RMB10,162,000 and RMB2,942,000, respectively. RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. For the Group's cash and cash equivalents denominated in RMB located in Hong Kong are not subject to the foreign exchange control.

(b) Pledged bank deposits

As at 31 December 2016, 2017 and 2018 and 30 September 2019, bank deposits of the Group of approximately RMB2,415,000, RMB2,908,000 and RMB1,560,000 and RMB2,852,000 are pledged as collateral for issuing bills (Note 25).

(c) Reconciliation of liabilities arising from financing activities

The table below details the cash flows and non-cash changes in the Group's liabilities arising from financing activities. Except as disclosed below, there were no non-cash changes in the Group's liabilities arising from financing activities.

	Bank borrowings RMB'000	Other borrowings RMB'000	Amounts due to shareholders RMB'000	Total RMB'000
At 1 January 2016	10,000	–	–	10,000
Changes from financing cash flows:				
Proceed from bank borrowings	12,000	–	–	12,000
Repayment of bank borrowings	(12,000)	–	–	(12,000)
	–	–	–	–
At 31 December 2016 and 1 January 2017	10,000	–	–	10,000
Changes from financing cash flows:				
Proceed from bank borrowings	10,000	–	–	10,000
Repayment of bank borrowings	(10,000)	–	–	(10,000)
	–	–	–	–

	Bank borrowings <i>RMB'000</i>	Other borrowings <i>RMB'000</i>	Amounts due to shareholders <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2017 and 1 January 2018	10,000	–	–	10,000
Changes from financing cash flows:				
Proceed from bank borrowings	12,000	–	–	12,000
Repayment of bank borrowings	(12,000)	–	–	(12,000)
	–	–	–	–
At 31 December 2018 and 1 January 2019	10,000	–	–	10,000
Changes from financing cash flows:				
Proceed from bank and other borrowings	11,000	10,830	–	21,830
Repayment of bank borrowings	(10,000)	–	–	(10,000)
Increase in amounts due to shareholders	–	–	37,405	37,405
Other change:				
Exchange adjustments	–	112	–	112
Capitalisation of Shareholders' Loan	–	–	(36,000)	(36,000)
	–	112	(36,000)	(35,888)
At 30 September 2019	<u>11,000</u>	<u>10,942</u>	<u>1,405</u>	<u>23,347</u>

24. ASSETS HELD FOR SALE

On 29 December 2016, Zhejiang Sunlight, an indirect wholly-owned subsidiary of the Company, as vender entered into the Sale and Purchase Agreement with independent third parties, as purchasers, to dispose of the entire equity interests in Deqing Hongsheng Investment Management Company Limited* (德清宏盛投资管理有限公司) (“Deqing Hongsheng”). The total cash consideration for the sale of the entire issued share capital of Deqing Hongsheng amounted to RMB19,800,000. The completion of the disposal of Deqing Hongsheng took place on 28 February 2017.

The following assets and liabilities were reclassified as disposal group held for sale as at 31 December 2016:

	<i>RMB'000</i>
Assets classified as held for sale	
Property, plant and equipment (<i>Note 18</i>)	8,841
	<u>8,841</u>
Liabilities classified as held for sale	
Accruals and other payables	100
Other tax payables	21
	<u>121</u>
	<u>8,720</u>

25. TRADE AND BILLS PAYABLES

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	18,903	16,695	18,532	20,532
Bills payables	8,050	9,693	5,200	9,507
	<u>26,953</u>	<u>26,388</u>	<u>23,732</u>	<u>30,039</u>

The average credit period from suppliers is up to 30 to 90 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting period:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	9,552	9,075	11,314	12,677
31 to 90 days	8,266	7,176	5,853	6,448
91 to 180 days	743	330	503	1,044
181 to 365 days	284	36	322	253
Over 1 year	58	78	540	110
	<u>18,903</u>	<u>16,695</u>	<u>18,532</u>	<u>20,532</u>

As at 31 December 2016, 2017 and 2018 and 30 September 2019, all bills issued by the Group are with a maturity period of less than 6 months.

26. OTHER PAYABLES AND ACCRUALS

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued staff cost	2,490	916	981	1,182
Accrued expenses and other payables	1,196	1,579	1,113	1,593
Contract liabilities (note a)	616	–	125	87
Payables for acquisition of property, plant and equipment	11,581	6,125	959	550
Other tax payables	1,872	908	3,868	1,282
	<u>17,755</u>	<u>9,528</u>	<u>7,046</u>	<u>4,694</u>

Note:

- (a) Contract liabilities related to sales of faux leather chemicals contracts. All contracts are for periods of one year. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

27. DEFERRED INCOME

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Assets related governments grants	–	1,232	1,095	992

Movement of assets related government grants:

	RMB'000
At 1 January 2016, 31 December 2016 and 1 January 2017	–
Government grants received	1,300
Credited to profit or loss	(68)
At 31 December 2017 and 1 January 2018	1,232
Credited to profit or loss	(137)
At 31 December 2018 and 1 January 2019	1,095
Credited to profit or loss	(103)
At 30 September 2019	992

The carrying amount of deferred income of the Group analysed for reporting purposes as:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Current portion	–	137	137	137
Non-current portion	–	1,095	958	855
	–	1,232	1,095	992

28. AMOUNT DUE TO A DIRECTOR

The amount due to a director was non-trade nature, unsecured, interests bearing at 6% per annum and repayable on demand.

29. AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders were non-trade nature, unsecured, interest-free and repayable on demand. The outstanding balance will be waived or settled upon the Listing.

30. BANK AND OTHER BORROWINGS

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank borrowing-secured	10,000	10,000	10,000	11,000
Other borrowing-unsecured	—	—	—	10,942
Total bank and other borrowings	10,000	10,000	10,000	21,942
Less: Amounts shown under current liabilities	(10,000)	(10,000)	(10,000)	(11,000)
Amounts shown under non-current liabilities	—	—	—	10,942

According to the repayment schedule, the bank and other borrowings are repayable as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	10,000	10,000	10,000	11,000
After one year but within two years	—	—	—	10,942
	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>21,942</u>

Bank borrowing of approximately RMB10,000,000 at 31 December 2016, 2017 and 2018 and approximately RMB11,000,000 at 30 September 2019 were denominated in RMB.

Other borrowing of approximately RMB10,942,000 at 30 September 2019 were denominated in HKD.

The ranges of effective interest rates (which equal to contracted interest rates) on the Group's borrowings are as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
Fixed rate borrowings	<u>4.79%</u>	<u>4.79%</u>	<u>5.13%</u>	<u>2.00%-4.79%</u>

Assets of the Group pledged to secure the bank borrowings comprise:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Buildings (<i>Note 18</i>)	32,859	39,837	37,707	36,111
Prepaid lease payments/right-of-use assets (<i>Note 19</i>)	15,823	15,484	15,146	14,892
	<u>48,682</u>	<u>55,321</u>	<u>52,853</u>	<u>51,003</u>

As at 31 December 2016 and 2017, a secured bank borrowing of approximately RMB10,000,000 was guaranteed by Mr. Chen Hua.

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Group has unutilised banking facilities and other finance institute facilities amounting to RMB14,365,000, RMB13,215,000 and RMB23,360,000 and RMB10,793,000, respectively.

31. DEFERRED TAX ASSETS

The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the Track Record Period are as follows:

	Provision of impairment RMB'000
At 1 January 2016	365
Charge to profit or loss (<i>Note 13</i>)	<u>(299)</u>
At 31 December 2016 and 1 January 2017	66
Credit to profit or loss (<i>Note 13</i>)	<u>79</u>
At 31 December 2017 and 1 January 2018	145
Charge to profit or loss (<i>Note 13</i>)	<u>(55)</u>
At 31 December 2018 and 1 January 2019	90
Charge to profit or loss (<i>Note 13</i>)	<u>(12)</u>
At 30 September 2019	<u>78</u>

32. CAPITAL AND RESERVES**(a) Movement in components of equity**

The reconciliation between the opening and closing balances of each component of the Group's combined equity is set out in the consolidated statements of changes in equity.

(b) Share capital**The Group**

As at 31 December 2016, 2017 and 2018, the balances represented share capital of Zhejiang Sunlight. As at 30 September 2019, the share capital of the Group represented share capital of the Company.

The Company

Details of movements of share capital of the Company are as follows:

	Number of shares	Share capital RMB'000
Authorised:		
At 29 January 2019 (date of incorporation), ordinary share of US\$1 each	50,000	335
Share subdivision	49,950,000	—
Increasing authorised share capital	<u>950,000,000</u>	<u>6,365</u>
At 30 September 2019, ordinary share of US\$0.001 each	<u><u>1,000,000,000</u></u>	<u><u>6,700</u></u>
Issued and fully paid:		
At 29 January 2019 (date of incorporation), ordinary share of US\$1 each	50,000	335
Share subdivision	49,950,000	—
Issue of shares	<u>50,000,000</u>	<u>335</u>
At 30 September 2019, ordinary share of US\$0.001 each	<u><u>100,000,000</u></u>	<u><u>670</u></u>

The Company was incorporated on 29 January 2019 with authorised share capital of US\$50,000 divided into 50,000 shares at a par value of US\$1 each. On the same day, one share of US\$1 was allotted and issued to initial subscriber of the Company, an Independent Third Party. Such one share was then immediately transferred to Sunlight Global, following which 49,999 new shares of US\$1 each were issued to Sunlight Global.

On 17 April 2019, each Share then of a par value of US\$1.00 was subdivided into 1,000 Shares of a par value of US\$0.001 each. Upon completion of the share subdivision, the authorised share capital of the Company was US\$50,000 divided into 50,000,000 Shares of a par value of US\$0.001 each, all of which had been issued and credited as fully paid.

On 9 May 2019, the authorised share capital of the Company was increased from US\$50,000 divided into 50,000,000 Shares of US\$0.001 each to US\$1,000,000 divided into 1,000,000,000 Shares of US\$0.001 each by creation of additional 950,000,000 Shares of US\$0.001 each ranking pari passu in all aspects with the existing issued Shares.

On 19 June 2019, the Shareholders' Loans owed by the Company to Sunlight Global, Lilian Global and Jumping Jive were capitalised by way of the Company allotting and issuing 50,000,000 Shares, credited as fully paid, to its shareholders.

33. MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Group had the following transaction balance with its related parties during the Track Record Period:

Name of related parties	Relationship
Mr. Chen Hua	A director and a controlling shareholder of the Company
Mr. Li Xiangyu	A director of the Company
Mr. He Zhangcai	A senior management and a controlling shareholder of the Company
Hangzhou Qiyue Investment Management Co., Ltd.* (杭州啟越投資管理有限公司) (formerly known as Deqing Qiyue Investment Management Co., Ltd.*) (前名為: 德清啟越投資管理有限公司)	A former shareholder of Zhejiang Sunlight which is beneficially owned as to by Mr. Chen Hua and Mr. He Zhangcai
Huzhou Milan Investment Management Co., Ltd.* (湖州米藍投資管理有限公司) (formerly known as Hangzhou Sunlight Chemical Co., Ltd.*) (前名為: 杭州深藍化工有限公司)	A former shareholder of Zhejiang Sunlight which is beneficially owned as to by the Controlling Shareholders
Hong Kong New Element Consulting Services Limited	A former shareholder of Zhejiang Sunlight which is beneficially owned as to by Jumping Jive
Sunlight Global Investment Limited	A controlling shareholder of the Company
Jumping Jive International Limited	A shareholder of the Company
Hangzhou Qiyue Garage Equipment Co., Ltd.* (杭州啟越車庫設備有限公司)	A common shareholder of Zhejiang Sunlight and a common shareholder of the Company after the organisation
Mr. Chen Hongshu	Father of Mr. Chen Hua
Ms. Xu Culian	Mother of Mr. Chen Hua

* English name is for identification purpose only.

(a) Non-recurring transaction

	For the year ended 31 December			Nine months ended 30 September	
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2018 RMB'000 (unaudited)	2019 RMB'000
Interests income on amount due from a director and a shareholder					
– Mr. Chen Hua	483	–	–	–	–
– Hangzhou Qiyue Investment Management Co., Ltd.	39	–	–	–	–
	<u>522</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Interests expense on loan from a former shareholder					
– Huzhou Milan Investment Management Co., Ltd.	6	–	–	–	–
	<u>6</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Interests expense on loan from a related party					
– Hangzhou Qiyue Garage Equipment Co., Ltd.	44	–	–	–	–
	<u>44</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Sales of motor vehicle to					
– Mr. Chen Hua	–	1,768	–	–	–
	<u>–</u>	<u>1,768</u>	<u>–</u>	<u>–</u>	<u>–</u>
Sales of buildings to					
– Hangzhou Qiyue Investment Management Co., Ltd.	–	–	30,000	30,000	–
	<u>–</u>	<u>–</u>	<u>30,000</u>	<u>30,000</u>	<u>–</u>
Motor vehicle expenses paid to					
– Mr. Chen Hongshu	50	–	–	–	–
– Ms. Xu Culian	200	–	–	–	–
– Mr. Li Xiangyu	75	–	–	–	–
	<u>325</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

(b) Recurring transaction

	For the year ended 31 December			Nine months ended 30 September	
	2016	2017	2018	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Rental expenses to a related party					
– Hangzhou Qiyue Investment Management Co., Ltd.	–	–	–	–	110

(c) Balance with related parties

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount due to a director				
– Mr. Chen Hua	4,451	–	–	–
Amounts due to shareholders				
– Sunlight Global Investment Limited	–	–	–	1,363
– Jumping Jive International Limited	–	–	–	42
	–	–	–	1,405

The amounts due to shareholders will be waived or settled upon the Listing.

- (d)** As at 31 December 2016 and 2017, a secured bank borrowing of RMB10,000,000 was guaranteed by Mr. Chen Hua.

(e) Compensation of key management personnel

	Year ended 31 December			Nine months ended 30 September	
	2016 <i>RMB'000</i>	2017 <i>RMB'000</i>	2018 <i>RMB'000</i>	2018 <i>RMB'000</i>	2019 <i>RMB'000</i>
				(unaudited)	
Salaries, allowance and benefits in kind	1,569	1,631	1,381	1,103	1,350
Retirement scheme contributions	140	151	145	77	190
	<u>1,709</u>	<u>1,782</u>	<u>1,526</u>	<u>1,180</u>	<u>1,540</u>

34. DISPOSAL OF A SUBSIDIARY

On 29 December 2016, Zhejiang Sunlight, an indirect wholly-owned subsidiary of the Company, as vender entered into the Sale and Purchase Agreement with independent third parties, as purchasers, to dispose of the entire equity interests in Deqing Hongsheng Investment Management Company Limited* (德清宏盛投資管理有限公司) (“Deqing Hongsheng”). The total cash consideration for the sale of the entire issued share capital of Deqing Hongsheng amounted to RMB19,800,000. The completion of the disposal of Deqing Hongsheng took place on 28 February 2017.

An analysis of the net assets of Deqing Hongsheng at the date on which the Group lost control (i.e. 28 February 2017) were as follows:

	<i>RMB'000</i>
Property, plant and equipment	8,841
Other payables	(497)
	<u>8,344</u>
Net assets disposal of	<u>8,344</u>

Gain on disposal of Deqing Hongsheng:

	<i>RMB'000</i>
Cash consideration received	19,800
Less: Waive of amount due from Deqing Hongsheng	(439)
Less: Net assets disposed of	(8,344)
	<u>11,017</u>

An analysis on net cash flows arising from the disposal:

	<i>RMB'000</i>
Net cash consideration	<u>19,800</u>

35. COMMITMENTS

(a) Operating lease commitment

As at 31 December 2016, 2017 and 2018 and 30 September 2019, the Group has no non-cancellable operating lease commitments.

(b) Capital commitment

Capital commitments of the Group as at 31 December 2016, 2017 and 2018 and 30 September 2019 not provided for in the consolidated financial statements were as follows:

	As at 31 December			As at 30 September
	2016	2017	2018	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for				
– Purchase of property, plant and equipment	<u>2,631</u>	<u>449</u>	<u>100</u>	<u>–</u>

36. NON-CASH TRANSACTIONS

During the year ended 31 December 2018, dividend payables of approximately RMB30,000,000 was settled by the way of offsetting on consideration receivables on sales of buildings to Hangzhou Qiyue Investment Management Co., Ltd..

37. SUBSEQUENT EVENTS

Save as disclosed in the report, subsequent to 30 September 2019, the following events took place:

On 10 February 2020, written resolutions of the shareholders of the Company were passed to approve the followings:

- (a) all the issued and unissued shares of the Company with par value of US\$0.001 each was subdivided into two shares of US\$0.0005 each. Accordingly, following the completion of the subdivision, the authorised share capital became US\$1,000,000 divided into 2,000,000,000 Shares of par value of US\$0.0005 each, each ranking pari passu with one another in all respects.
- (b) conditional upon the share premium account of the Company being credited as a result of the initial listing of shares of the Company on the Main Board of the Stock Exchange, the directors were authorised to capitalise an amount of US\$550,000 standing to the credit of the share premium account of the Company and applied in paying up in full at par a total of 550,000,000 shares for allotment and issue to the shareholders of the Company.
- (c) the share option scheme of the Company was conditionally adopted on 10 February 2020 and the principal terms of which are set out in Appendix VI to the Prospectus.

38. SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Company and its subsidiaries comprising the Group in respect of any period subsequent to 30 September 2019.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out below does not form part of the Accountants' Report received from the Company's reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included in this prospectus for information purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" to this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma adjusted net tangible asset of the Group (the "Unaudited Pro Forma Financial Information") attributable to owners of the Company is prepared by the directors of the Company in accordance with Rule 4.29 of the Listing Rules to illustrate purposes only, and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 as if the Global Offering had taken place on 30 September 2019.

The Unaudited Pro Forma Information of the Group is prepared for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 30 September 2019 or at any future dates.

The Unaudited Pro Forma Financial Information of the Group is prepared based on the consolidated net tangible assets attributable to owners of the Company as at 30 September 2019 as set out in the consolidated financial statements contained in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 RMB'000 (note 1)	Estimated net proceeds from the Global Offering RMB'000 (note 2)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 RMB'000 (note 3)	Unaudited pro forma adjusted consolidated net tangible assets per Share RMB (note 3)	Unaudited pro forma adjusted consolidated net tangible assets per Share HK\$ (note 4)
Based on the Global Offering price of HK\$0.50 per share	135,144	83,296	218,440	0.22	0.26
Based on the Global Offering price of HK\$0.60 per share	135,144	102,644	237,788	0.24	0.28

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2019 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited combined equity attributable to owners of the Company as at 30 September 2019 of approximately RMB135,144,000.
- (2) The estimated net proceeds from the Global Offering are based on the Global Offering of HK\$0.50 (being the minimum Offer Price) and HK\$0.60 (being the maximum Offer Price) per Share respectively, after deduction of the estimated underwriting commission and other listing related fees and expenses paid and payable by the Company and take no account of any Shares which may be allocated and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the directors of the Company to issue or repurchase Shares referred to in the sections headed "General mandate to issue Shares" or "General mandate to repurchase Shares" in this Prospectus. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.0 to RMB0.86. No representation is made that the Hong Kong dollars amounts have been, could have been or could be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.
- (3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 1,000,000,000 Shares, being Shares in issue immediately following Group Reorganisation and after the completion of the Capitalisation Issue and the Global Offering. It does not take into account of any Shares which may be allocated and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the directors of the Company to issue or repurchase Shares referred to in the sections headed "Share Capital – General mandate to issue Shares" and "Share Capital – General mandate to repurchase Shares" in this prospectus, respectively.
- (4) The unaudited pro forma adjusted consolidated net tangible assets per Share is converted from RMB into Hong Kong dollars at an exchange rate of RMB1.0 to HK\$1.17. 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 any other rates or at all.
- (5) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 September 2019.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus, in connection with the unaudited pro forma financial information.



31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 February 2020

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF SUNLIGHT TECHNOLOGY HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Sunlight Technology Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) by the directors of the Company for illustrative purpose only. The Unaudited Pro Forma Financial Information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 30 September 2019, and the related notes as set out in pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 27 February 2020 (the “**Prospectus**”), in connection with the proposed share offer (the “**Global Offering**”) of shares of the Company. The applicable criteria on the basis of which the directors of the Company have compiled the Unaudited Pro Forma Financial Information are described on Appendix II to the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors of the Company to illustrate the impact of the Global Offering of shares of the Company on the Group's financial position as at 30 September 2019 as if the Global Offering of shares of the Company had been taken place at 30 September 2019. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Group's financial statements for the nine months ended 30 September 2019, on which an accountants' report set out has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company 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 of the Company have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the reference to AG 7 issued by the HKICPA.

For the purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the 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 the Prospectus is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event or 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 September 2019 would have been as presented.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Shek Lui
Practising Certificate Number: P05895
Hong Kong, 27 February 2020

Our estimate of the consolidated profit attributable to owners of the Company for the year ended 31 December 2019 is set out in the section “Financial information – Profit estimate for the year ended 31 December 2019” to this prospectus.

A. OVERVIEW

Our directors estimate that, on the bases set out in Part B of this Appendix III and in the absence of unforeseen circumstances, the estimated consolidated profit attributable to owners of the Company for the year ended 31 December 2019 will be not less than approximately RMB23.5 million.

B. BASES

Our Directors have prepared the estimate of the consolidated profit attributable to owners of the Company for the year ended 31 December 2019 based on the audited consolidated results of our Group for the nine months ended 30 September 2019 and the unaudited consolidated results based on the management accounts of our Group for three months ended 31 December 2019. The estimate has been prepared on the basis consistent in all material respects with the accounting policies that we normally adopted by our Group as summarised in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

C. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter, prepared for the inclusion in the prospectus, received from HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in relation to our Group's profit estimate for the year ended 31 December 2019.



31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

27 February 2020

The Board of Directors
Sunlight Technology Holdings Limited

Giraffe Capital Limited

Dear Sirs

**Sunlight Technology Holdings Limited (the “Company”)
and its subsidiaries (collectively referred to as the “Group”)
Comfort letter on profit estimate for the year ended 31 December 2019**

We refer to the estimate of the consolidated profit attributable to owners of the Company for the year ended 31 December 2019 (the “Profit Estimate”) set forth in the section headed “Financial Information” in the prospectus of the Company dated 27 February 2020 (the “Prospectus”).

Directors’ Responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the audited consolidated results for the nine months ended 30 September 2019 and the unaudited consolidated results based on the management accounts of the Group for three months ended 31 December 2019.

The Company’s directors are solely responsible for the Profit Estimate.

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 Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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 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 on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company’s directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors of the Company and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors of the Company as set out in Appendix III of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants’ report dated 27 February 2020, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Hong Kong

D. LETTER FROM THE SOLE SPONSOR

The following is the text of a letter, prepared for inclusion in this prospectus, received from the Sole Sponsor, in relation to our Group's profit estimate for the year ended 31 December 2019.

Giraffe Capital Limited
3/F, 8 Wyndham Street
Central, Hong Kong

The Directors
Sunlight Technology Holdings Limited

27 February 2020

We refer to the estimate of the consolidated profit attributable to the owners of Sunlight Technology Holdings Limited (the “**Company**”, together with its subsidiaries, collectively referred to as the “**Group**”) for the year ended 31 December 2019 (the “**Profit Estimate**”), for which the directors of the Company (the “**Directors**”) are solely responsible, as set out in the section headed “Financial Information” in the prospectus of the Company dated 27 February 2020 (the “**Prospectus**”).

The Profit Estimate has been prepared by the Directors based on (i) the audited consolidated results of the Group for the nine months ended 30 September 2019 as set out in the Accountant's Report in Appendix I to the Prospectus; and (ii) the unaudited consolidated results based on the management accounts of the Group for the three months ended 31 December 2019.

We have discussed with you the bases and assumptions made by the Directors as set out in Appendix III to the Prospectus, upon which the Profit Estimate has been made. We have also considered the letter dated 27 February 2020 addressed to yourselves and ourselves from the Company's reporting accountants, HLB Hodgson Impey Cheng Limited, regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by HLB Hodgson Impey Cheng Limited, we are of the opinion that the Profit Estimate, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

For and on behalf of
Giraffe Capital Limited
Johnson Chen
Managing Director

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this prospectus received from AVISTA Valuation Advisory Limited, an independent valuer, in connection with its valuation of the property interests as at 31 January 2020.



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27 February 2020

The Board of Directors
Sunlight Technology Holdings Limited
No. 2 Jiangshan Road
Meicheng Town
Jiande County
Hangzhou City
Zhejiang Province
the PRC

Dear Sirs/Madams,

INSTRUCTIONS

In accordance with the instructions for us to value the property interests held by Sunlight Technology Holdings 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 of the market values of the property interests as at 31 January 2020 (the “**Valuation Date**”).

PREMISES OF VALUE

The valuation is our opinion of market value which is defined by the Hong Kong Institute of Surveyors as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion”.

BASIS OF VALUATION

In valuing the property interests, we have complied with all the requirements set out 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 “Listing Rules”), the HKIS Valuation Standards (2017 Edition) published by the Hong Kong Institute of Surveyors and the International Valuation Standards published from time to time by the International Valuation Standards Council.

Our valuation exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value or costs of sale and purchase or offset for any associated taxes.

VALUATION METHODOLOGY

In the course of our valuation, unless otherwise stated, we have valued the property in their designated uses with the understanding that the property will be used as such (hereafter referred to as “continued uses”).

In valuing the property interests, due to the nature of the buildings and structures of the property interests, there are no market sales comparables readily available, we have valued a property on the basis of its depreciated replacement cost. Depreciated replacement cost is defined as “the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation”. It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interests is subject to adequate potential profitability of the concerned business.

TITLE INVESTIGATION

We have been provided by the Company with copy of extract of the title documents relating to the property interests. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any amendments which may not appear on the copies handed to us.

However, we have not searched the original documents to verify ownership or to ascertain any amendment. Due to the current registration system of the PRC under which the registration information is not accessible to the public, no investigation has been made for the title of the property interests in the PRC and the material encumbrances that might be attached. In the course of our valuation, we have relied considerably on the legal opinion given by the Company’s PRC legal advisers – AllBright Law Offices Hangzhou Office, concerning the validity of title of the properties in the PRC.

SITE INVESTIGATION

We have inspected the exterior and, where possible, the accessible portions of the interior of the property being appraised. The inspection was carried out by Sr Oswald Au (Director), during the date 20 February 2019 to 22 February 2019. However, we have not been commissioned to carry out structural survey nor to arrange for an inspection of the services. We are, therefore, not able to report whether the property is free of rot, infestation or any other structural defects. We formulate our view as to the overall conditions of the property taking into account the general appearance, the apparent standard and age of fixtures and fittings and the existence of utility services. Hence it must be stressed that we have had regard to you with a view as to whether the buildings are free from defects or as to the possibility of latent defects which might affect our valuation. In the course of our inspection, we did not note any serious defects. No tests were carried out on any of the services. We have assumed that utility services, such as electricity, telephone, water, etc., are available and free from defect.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverised fly ash, or any other deleterious material has been used in the construction of the property. We are therefore unable to report that the property is free from risk in this respect. For the purpose of this valuation, we have assumed that deleterious material has not been used in the construction of the property.

We have not been commissioned to carry out detailed site measurements to verify the correctness of the land or building areas in respect of the property but have assumed that the areas provided to us are correct. Based on our experience of valuation of similar property, we consider the assumptions so made to be reasonable.

Moreover, we have not carried out any site investigation to determine the suitability of the ground conditions or the services for any property development erected or to be erected thereon. Nor did we undertake archaeological, ecological or environmental surveys for the property interests. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Should it be discovered that contamination, subsidence or other latent defects exists in the property or on adjoining or neighbouring land or that the property had been or are being put to contaminated use, we reserve right to revise our opinion of value.

SOURCE OF INFORMATION

Unless otherwise stated, we shall rely to a considerable extent on the information provided to us by the Company or the legal or other professional advisers on such matters as statutory notices, planning approval, zoning, easements, tenure, completion date of building, development proposal, identification of property, particulars of occupation, site areas, floor areas, matters relating to tenure, tenancies and all other relevant matters. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us and are therefore approximations and for reference only. We have not searched original plans, developer brochures and the like to verify them.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view and we have no reason to suspect that any material information has been withheld.

VALUATION ASSUMPTIONS

For the property which is held under long term land use rights, we have assumed that transferable land use rights in respect of the property interests at nominal land use fees has been granted and that any premium payable has already been fully settled. Unless stated as otherwise, we have assumed that the respective title owner of the properties have an enforceable title of the property interests and have free and uninterrupted rights to occupy, use, sell, lease, charge, mortgage or otherwise dispose of the properties without the need of seeking further approval from and paying additional premium to the Government for the unexpired land use term as granted. Unless noted in the report, vacant possession is assumed for the property concerned.

Moreover, we have assumed that the design and construction of the property is/will be in compliance with the local planning regulations and requirements and had been/would have been duly examined and approved by the relevant authorities.

Continued uses assumes the property will be used for the purposes for which the property is designed and built, or to which they are currently adapted. The valuation on the property in continued uses does not represent the amount that might be realised from piecemeal disposition of the property in the open market.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed. Moreover, it is assumed that all required licences, consents or other legislative or administrative authority from any local, provincial or national government or private entity or organisation either have been or can be obtained or renewed for any use which the report covers.

It is also assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined and considered in the valuation report. In addition, it is assumed that the utilisation of the land and improvements are within the boundaries of the property described and that no encroachment or trespass exists, unless noted in the report.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have further assumed that the property was not transferred or involved in any contentious or non-contentious dispute as at the valuation date. We have also assumed that there was not any material change of the properties in between dates of our inspection and the valuation date.

CURRENCY

Unless otherwise stated, all amounts are denominated in Renminbi (RMB). Our valuation certificate is attached.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited
Sr Oswald W Y Au
MHKIS (GP) AAPI MSc (RE)
Registered Professional Surveyor (GP)
Director

Note: Mr. Oswald W Y Au holds a Master's Degree of Science in Real Estate from the University of Hong Kong. He is also a member of Hong Kong Institute of Surveyors (General Practice) and Associate Member of Australian Property Institute. In addition, he is a Registered Professional Surveyor (General Practice) registered with Surveyors Registration Board. He has over 10 years of property valuation experience in Hong Kong, the PRC, the US, Canada, East and Southeast Asia including Singapore, Japan and Korea.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 January 2020 RMB
No. 2 Jiangshan Road Meicheng Town Jiande County Hangzhou City Zhejiang Province the PRC	The property comprises 2 parcels of land with a total site area of approximately 50,092.00 sq. m. and 10 blocks of building and ancillary structures erected thereon completed from 2015 to 2017.	As at the date of valuation, the property was occupied by the Group.	60,800,000
	Pursuant to the Real Estate Ownership Certificates, the buildings have a total gross floor area of approximately 22,490.84 sq. m. and mainly include 5 blocks of warehouse, 3 block of workshop, 1 block of comprehensive building and 1 block of fire pump room.		
	The land use rights of portion of the property have been granted for a term commencing from 15 November 2013 and expiring on 14 November 2063 for industrial use while the remaining portion of land use right of the property have been granted for a term commencing from 16 March 2015 and expiring on 15 March 2065 for industrial use.		

Notes:

1. Pursuant to 2 real estate ownership certificates dated 26 September 2016 and 12 May 2017 the land use rights of two parcels of land with a total site area of approximately 50,092.00 sq. m. and the property with a total gross floor area of approximately 22,490.84 sq. m. has been vested to Zhejiang Sunlight Material Technology Co., Ltd (“浙江深藍新材料科技有限公司”), an indirect wholly-owned subsidiary of Company, for a term of approximately 50 years. The details are tabulated as below:

Real Estate Ownership				Site Area	Gross Floor	Usage
No.	Certificates	Owner	Expiry Date	(sq. m.)	Area (sq. m.)	
1	Zhe (2016) Jian De Shi Bu Dong Chan Quan Di No. 0000867	Zhejiang Sunlight Material Technology Co., Ltd	14 Nov 2063	43,371.00	16,922.03	Industrial
2	Zhe (2017) Jian De Shi Bu Dong Chan Quan Di No. 0007303	Zhejiang Sunlight Material Technology Co., Ltd	15 Mar 2065	6,721.00	5,568.81	Industrial
Total:				<u>50,092.00</u>	<u>22,490.84</u>	

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 Company has legally and validly obtained both of the land use right and building ownership of the property under the terms of Real Estate Ownership Certificates; and
 - The Company has the right to possess, use, lease, transfer, pledge or dispose the property legally.
3. A summary of major certificates/licences is shown as follow:
- Real Estate Ownership Certificate Yes
4. In our valuation, we have made reference to some transaction price references of land comparables in the subject and nearby development. We have adopted the range of unit rates between RMB380 to RMB400 per sq. m.. The unit rates assumed by us are consistent with the said price reference. Due adjustments to the unit rates of those price reference have been made to reflect factors including but not limited to time, location and size in arriving at the key assumptions.
5. As confirmed by the Company, there are no material environmental and planning issues.

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 29 January 2019 under the Companies Law. The Company's constitutional documents consist of its Memorandum of Association and its Articles of Association.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 10 February 2020 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Stock Exchange or in such other form as the Board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The Board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The Board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the Board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) *Power of the Company to purchase its own shares*

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The Board may accept the surrender for no consideration of any fully paid share.

(vi) *Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) *Calls on shares and forfeiture of shares*

The Board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by 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 twenty per cent. (20%) per annum as the Board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the Board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the Board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the Board determines.

(b) Directors

(i) *Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The Board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the Board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) *Borrowing powers*

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) *Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The Board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of our Board

The Board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) *Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy (ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its 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 pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings and extraordinary general meeting

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders 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 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 2 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/herself (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.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly 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.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) *Accounts and audit*

The Board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the Board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

The Company may also upon the recommendation of the Board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the Board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the Board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3 (f) of this appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANIES LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 28 June 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands.

Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. While a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Ogier, the Company's legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection – Documents available for inspection" in Appendix VII to this prospectus. 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 GROUP**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 January 2019. Our Company's name was changed from "Darkblue Technology Co., Ltd." to "Sunlight Technology Co., Ltd" on 23 February 2019 and was further changed to "Sunlight Technology Holdings Limited 深藍科技控股有限公司" on 9 May 2019. Our Company has established a principal place of business in Hong Kong at 4404-10, 44th Floor, One Island East, 18 Westlands Road, Taikoo Place, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 3 July 2019. Mr. Lui Chi Ho of 4404-10, 44th Floor, One Island East, 18 Westlands Road, Taikoo Place, Hong Kong has been appointed as the authorised representative of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution which comprises the Memorandum of Association and Articles of Association. A summary of certain provisions of our Company's constitution and relevant aspects of the Cayman Islands company law is set out in Appendix V to this prospectus.

2. Changes in share capital of our Company

On 29 January 2019, i.e. the date of incorporation, (i) one Share was allotted and issued to the initial subscriber to the memorandum of association of our Company, which was then transferred to Sunlight Global at par and credited as fully paid; and (ii) our Company allotted and issued to Sunlight Global 49,999 Shares at par and credited as fully paid.

On 11 March 2019, to align with the ultimate beneficial interest in Zhejiang Sunlight of the then beneficial owners, Sunlight Global transferred 13,410 Shares and 1,500 Shares to Lilian Global and Jumping Jive at par and credited as fully paid, respectively. After the said transfers, our Company was owned as to 70.18% by Sunlight Global, 26.82% by Lilian Global and 3% by Jumping Jive.

On 17 April 2019, our Shareholders resolved that each Share then of US\$1.00 par value be subdivided into 1,000 Shares of US\$0.001 par value each.

On 9 May 2019, our Shareholders resolved to increase the authorised share capital of our Company from US\$50,000 divided into 50,000,000 Shares of US\$0.001 each to US\$1,000,000 divided into 1,000,000,000 Shares of US\$0.001 each by the creation of additional 950,000,000 Shares, each ranking pari passu with our Shares then in issue in all respects.

On 10 February 2020, our Shareholders resolved to subdivide each Share then of a par value of US\$0.001 into two Shares of a par value of US\$0.0005 each, such that upon completion of the share subdivision, the authorised share capital of our Company was US\$1,000,000 divided into 2,000,000,000 Shares of a par value of US\$0.0005 each, each ranking pari passu with one another in all respects.

Immediately following completion of the Capitalisation Issue and the Global Offering but taking no account of any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme, the issued share capital of our Company will be US\$500,000 divided into 1,000,000,000 Shares, all fully paid or credited as fully paid and 1,000,000,000 Shares will remain unissued.

Save for the aforesaid and as mentioned in the paragraph headed “3. Resolutions in writing of all our Shareholders passed on 10 February 2020” below, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of all our Shareholders passed on 10 February 2020

On 10 February 2020, resolutions in writing were passed by all our Shareholders, pursuant to which, among other things:

- (a) each Share then of a par value of US\$0.001 was subdivided into two Shares of a par value of US\$0.0005 each;
- (b) our Company approved and adopted its new Memorandum of Association with immediate effect and its new Articles of Association with effect from the Listing Date;
- (c) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme); (ii) the entering into of the agreement on the Offer Price between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on or before the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
 - (i) the Global Offering was approved and our Directors were authorised to allot and issue the new Shares pursuant to the Global Offering;
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “D. Other information – 1. Share Option Scheme” in this appendix, were approved and adopted and our Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as may be necessary and/or desirable to implement and give effect to the Share Option Scheme; and

- (iii) conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global offering, our Directors were authorised to capitalise an amount of US\$275,000 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 550,000,000 Shares, such Shares to be allotted and issued to our existing Shareholders namely, Sunlight Global, Lilian Global and Jumping Jive, in proportion (as nearly as possible without fractions) to their then respective shareholdings in our Company;
- (d) a general unconditional mandate was given to our Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by our Shareholders in general meeting, unissued Shares with an aggregate number not exceeding 20% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering (excluding any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of Cayman Islands to be held, or until revoked or varied or renewed by an ordinary resolution of our Shareholders at a general meeting of our Company, whichever occurs first;

- (e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose the total number of Shares may not exceed 10% of the number of Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering (excluding any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of Cayman Islands to be held, or until revoked or varied or renewed by an ordinary resolution of our Shareholders at a general meeting of our Company, whichever occurs first; and
- (f) the general unconditional mandate mentioned in paragraph (c) above was extended by the addition to the aggregate number of Shares which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (d) above.

4. Corporate reorganisation

Details of the Reorganisation are set out in the section headed “History, Development and Reorganisation” in this prospectus.

5. Changes in share capital of subsidiaries of our Group

Subsidiaries of our Company are referred to in the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section headed “History, Development and Reorganisation” in this prospectus, there is no alteration in the share capital of any of our Company’s subsidiaries within the two years immediately preceding the date of this prospectus.

6. Repurchase of Shares by our Company**(a) Provisions of the Listing Rules**

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholders on 10 February 2020, the Repurchase Mandate was granted to our Directors authorising the repurchase by our Company 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 for this purpose, of Shares with an aggregate number not exceeding 10% of the aggregate number of Shares of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering (excluding any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by any applicable law of the Cayman Islands or the Articles of Association to be held or when such mandate is revoked or varied or renewed by an ordinary resolution of our Shareholders of our Company in general meeting, whichever is the earliest.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) Trading restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a buy-back (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such purchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from purchasing its shares on the Stock Exchange if the purchase price is 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. The Listing Rules also prohibit a listed company from purchasing its securities if that purchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect the purchases of its securities discloses to the Stock Exchange such information with respect to such purchases made on behalf of such company as the Stock Exchange may require.

(iv) Status of purchased Shares

The listing of all securities which are purchased by a listed company (whether effected on the Stock Exchange or otherwise) will be automatically cancelled and the certificates for those securities must be cancelled and destroyed as soon as reasonably practicable.

(v) Suspension of Repurchases

A listed company may not make any purchase of its securities after inside information has come to its knowledge, until such information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (1) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarter or any other interim period (whether or not required under the Listing Rules) and (2) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarter or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, such listed company may not purchase its securities on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a listed company from purchasing its securities on the Stock Exchange if such listed company has breached the Listing Rules.

(vi) *Reporting Requirements*

Certain information relating to buy-backs made by a company of its securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding such purchases of securities made during the year, including a monthly analysis of the number of securities purchased, the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid. The directors' report shall contain references to the purchases made during the year and the directors' reasons for making such purchases.

(vii) *Core Connected Persons*

A listed company is prohibited from knowingly purchasing its securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their close associates, and a core connected person is prohibited from knowingly selling his securities to the company.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and its 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 its members. 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 securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands.

It is presently proposed that any repurchase of Shares will be made out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or the proceeds of a fresh issue of shares made for the purpose of the purchase or, subject to the Companies Law and if so authorised by the Articles, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Companies Law and if so authorised by the Articles, out of capital.

Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(d) 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), has any present intention 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 of the Cayman Islands. Our Company has not repurchased any Shares in the previous six months.

No core connected person (as defined in the Listing Rules) has notified our Company that he/she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falls below 25% of the total number of issued Shares.

If as a result of a securities repurchase pursuant to the Repurchase Mandate, 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, depending on the level of increase of our 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 any such increase. Save as aforesaid, our Directors are not aware of any consequences which may arise under the Takeovers Code if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP**1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by our Group within the two years preceding the date of this prospectus and are or may be material:







- (a) a transfer agreement* (轉讓合同) dated 20 March 2018 entered into between Zhejiang Sunlight as transferor and Hangzhou Qiyue as transferee in respect of the transfer of the title and risks of the property as referred to in the property transfer agreement (房屋轉讓合同) dated 23 December 2013 between Zhejiang Sunlight as purchaser and Zhejiang Zheda Wangxin Industry Development Co., Ltd.* (浙江浙大網新實業發展有限公司) as vendor (the “**Property**”) to Hangzhou Qiyue at a consideration of RMB30 million;
- (b) the supplemental agreement to transfer agreement* (轉讓合同之補充協議) entered into between Zhejiang Sunlight and Hangzhou Qiyue dated 31 March 2018, pursuant to which, among others, (1) Zhejiang Sunlight agreed to deliver possession of the Property to Hangzhou Qiyue from 1 April 2018 onwards; and (2) Hangzhou Qiyue waived its right to claim against Zhejiang Sunlight for the refund of consideration of RMB30 million on any ground (including but not limited to the failure to obtain ownership certificate of the Property);
- (c) an equity transfer agreement* (股權轉讓協議) dated 25 March 2019 entered into between Huzhou Milan as vendor and HongKong Gorgeous as purchaser in respect of the sale and purchase of 62.8537% equity interest in Zhejiang Sunlight for a consideration of RMB22,627,317;
- (d) an equity transfer agreement* (股權轉讓協議) dated 25 March 2019 entered into between Hangzhou Qiyue as vendor and HongKong Gorgeous as purchaser in respect of the sale and purchase of 34.1463% equity interest in Zhejiang Sunlight for a consideration of RMB12,292,683;
- (e) an equity transfer agreement* (股權轉讓協議) dated 25 March 2019 entered into between New Element as vendor and HongKong Gorgeous as purchaser in respect of the sale and purchase of 3% equity interest in Zhejiang Sunlight for a consideration of RMB1,080,000;
- (f) a shareholder’s loan agreement dated 22 May 2019 entered into between Sunlight Global and our Company pursuant to which Sunlight Global has agreed to lend a principal amount of RMB25,264,800 (or its equivalent in Hong Kong dollars) to our Company for satisfying part of the consideration payable for our acquisition, through HongKong Gorgeous, of Zhejiang Sunlight;




- (g) a shareholder's loan agreement dated 22 May 2019 entered into between Lilian Global and our Company pursuant to which Lilian Global has agreed to lend a principal amount of RMB9,655,200 (or its equivalent in Hong Kong dollars) to our Company for satisfying part of the consideration payable for our acquisition, through HongKong Gorgeous, of Zhejiang Sunlight;
- (h) a shareholder's loan agreement dated 22 May 2019 entered into between Jumping Jive and our Company pursuant to which Jumping Jive has agreed to lend a principal amount of RMB1,080,000 (or its equivalent in Hong Kong dollars) to our Company for satisfying part of the consideration payable for our acquisition, through HongKong Gorgeous, of Zhejiang Sunlight;
- (i) the Deed of Indemnity; and
- (j) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of our Group

(a) Trademarks

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

No.	Trademark	Class	Place of registration	Registered owner	Registration number	Registration date	Expiry date
1.		1	The PRC	Zhejiang Sunlight	6440436	14 September 2010	13 September 2030
2.		2	The PRC	Zhejiang Sunlight	6440437	28 April 2010	27 April 2030
3.		1	The PRC	Zhejiang Sunlight	6440438	7 July 2010	6 July 2030
4.		2	The PRC	Zhejiang Sunlight	6440449	28 March 2010	27 March 2030
5.		1	The PRC	Zhejiang Sunlight	6527017	28 March 2010	27 March 2030
6.		2	The PRC	Zhejiang Sunlight	31689636	14 March 2019	13 March 2029

No.	Trademark	Class	Place of registration	Registered owner	Registration number	Registration date	Expiry date
7.		1	The PRC	Zhejiang Sunlight	31695575	14 April 2019	13 April 2029
8.		1	The PRC	Zhejiang Sunlight	31681961	21 June 2019	20 June 2029
9.		1	The PRC	Zhejiang Sunlight	31697867	28 June 2019	27 June 2029

(b) Patents

- (i) As at the Latest Practicable Date, our Group had the following registered patents which are material to our business:

No.	Patent	Place of registration	Registered owner	Type	Patent number	Registration date	Expiry date
1.	Special fog black finishes applied in late-stage processing of synthetic leather and preparation method thereof (應用於合成革後段的霧黑表面處理劑及其製備方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2010 1 0148457.9	16 February 2011	14 April 2030
2.	Environment-friendly water-based black colour paste for textile coating and preparation method thereof (一種紡織品塗層用環保型水性黑色漿及其製備方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2010 1 0148455.X	27 April 2011	14 April 2030

No.	Patent	Place of registration	Registered owner	Type	Patent number	Registration date	Expiry date
3.	Environment-friendly solid colourant applied in dry-processed synthetic leather and preparation method thereof (應用於合成革乾法的環保型固態著色劑及其製備方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2010 1 0556748.1	28 September 2011	23 November 2030
4.	Polyester high-hydrolysis resistance and high-peeling strength polyurethane resins for wet-processed synthetic leather and preparation method thereof (濕法合成革用聚酯型高耐水解高剝離聚氨酯樹脂及其製備方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2010 1 0145366.X	7 March 2012	11 April 2030
5.	Environment-friendly water-based black paste for wet-processed synthetic leather and preparation method thereof (用於濕法合成革的環保型水性黑色漿及其製備方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2010 1 0145369.3	11 April 2012	11 April 2030
6.	Anti-graffito leather finishing agent and usage thereof (一種防塗鴉皮革塗飾劑及其使用方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2011 1 0039644.8	6 June 2012	16 February 2031
7.	Preparation method of organosilicone modified polyurethane resins for synthetic leather (一種合成革用有機硅改性聚氨酯樹脂的製備方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2011 1 0039559.1	5 September 2012	16 February 2031

No.	Patent	Place of registration	Registered owner	Type	Patent number	Registration date	Expiry date
8.	Weak solvent aliphatic polyurethane resins for synthetic leather and preparation method thereof (合成革用弱溶剂脂肪族聚氨酯树脂及其制备方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2010 1 0152476.9	7 November 2012	20 April 2030
9.	Mixed resins capable of producing derma effects and used for synthetic leather and preparation method thereof (一种能产生真皮效果的合成革用混合树脂及其制备方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2011 1 0391671.1	10 April 2013	30 November 2031
10.	Organosilicone modified polyurethane resins for synthetic leather and preparation method thereof (合成革用有机硅改性聚氨酯树脂的制备方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2012 1 0073759.3	17 July 2013	16 February 2031
11.	Method of preparing environment-friendly water-based black paste of wet-processed synthetic leather by grinding with bead mill (珠磨机研磨法制备湿法合成革环保型水性黑色浆的方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2011 1 0305620.2	18 September 2013	11 April 2030
12.	Method for preparing environmentally-friendly water-based black paste for wet-processed synthetic leather by grinding with three-roller mill (三辊机研磨法制备湿法合成革环保型水性黑色浆的方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2011 1 0305616.6	6 November 2013	11 April 2030

No.	Patent	Place of registration	Registered owner	Type	Patent number	Registration date	Expiry date
13.	Aliphatic polyurethane resins preparation method (一種脂肪族聚氨基酯樹脂的製備方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2012 1 0343671.9	4 June 2014	20 April 2030
14.	Hot-stamp gradient colour synthetic leather and preparation method thereof (一種烙印變色合成革及其製備方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2013 1 0118807.0	20 May 2015	7 April 2033
15.	Wash effect hot-stamp gradient colour resins for synthetic leather and preparation method thereof (一種合成革專用的水洗烙印變色樹脂及其製備方法)	The PRC	Zhejiang Sunlight	Invention Patent	ZL 2013 1 0118836.7	8 July 2015	7 April 2033
16.	Colour polyurethane resins for synthetic leather and preparation method thereof (一種合成革用彩色聚氨基酯樹脂及其製備方法)	The PRC	Zhejiang Sunlight	Invention patent	ZL 2015 1 0115872.7	10 May 2019	16 March 2035
17.	Speed-adjusting device for three-roller mill with variable frequency (一種三輥機變頻調速裝置)	The PRC	Zhejiang Sunlight	Utility Model	ZL 2010 2 0656845.3	6 July 2011	13 December 2020
18.	Three-roller mill auto-sorting discharging device (一種三輥機自動分級出料裝置)	The PRC	Zhejiang Sunlight	Utility Model	ZL 2010 2 0657302.3	17 August 2011	13 December 2020
19.	Water film air purifying equipment (一種水膜空氣淨化裝置)	The PRC	Zhejiang Sunlight	Utility Model	ZL 2010 2 0658197.5	17 August 2011	13 December 2020
20.	Discharging device for reactor (一種反應釜的出料裝置)	The PRC	Zhejiang Sunlight	Utility Model	ZL 2010 2 0657939.2	17 August 2011	13 December 2020

No.	Patent	Place of registration	Registered owner	Type	Patent number	Registration date	Expiry date
21.	A sand mill structure with taller cavity (一種砂磨機增高型機腔結構)	The PRC	Zhejiang Sunlight	Utility Model	ZL 2010 2 0656819.0	31 August 2011	13 December 2020
22.	Patents of auto-filtering system for large kettle production (大釜生產自動過濾系統)	The PRC	Zhejiang Sunlight	Utility Model	ZL 2013 2 0116521.4	7 August 2013	14 March 2023
23.	Leather (faux calf leather with lychee pattern) (皮革(仿牛皮荔枝紋))	The PRC	Zhejiang Sunlight	Design	ZL 2011 3 0025218.X	27 July 2011	20 February 2021
24.	Leather (panthera tigris patterns) (皮革(孟加拉虎紋))	The PRC	Zhejiang Sunlight	Design	ZL 2011 3 0025219.4	27 July 2011	20 February 2021
25.	Leather (fault-line patterns) (皮革(地震紋))	The PRC	Zhejiang Sunlight	Design	ZL 2011 3 0025220.7	27 July 2011	20 February 2021
26.	Leather (small crackles pattern) (皮革(細小龜裂紋))	The PRC	Zhejiang Sunlight	Design	ZL 2011 3 0025227.9	27 July 2011	20 February 2021
27.	Leather (gradient colour crackles pattern) (皮革(龜裂變色紋))	The PRC	Zhejiang Sunlight	Design	ZL 2011 3 0025226.4	3 August 2011	20 February 2021
28.	Leather (alternating paint and water pattern) (皮革(油水相間紋))	The PRC	Zhejiang Sunlight	Design	ZL 2011 3 0025229.8	3 August 2011	20 February 2021
29.	Leather (mosaic) (皮革(馬賽克紋))	The PRC	Zhejiang Sunlight	Design	ZL 2011 3 0025230.0	3 August 2011	20 February 2021
30.	Leather (faux tortoise pattern) (皮革(仿龜紋))	The PRC	Zhejiang Sunlight	Design	ZL 2011 3 0025232.X	3 August 2011	20 February 2021
31.	Leather sample (faux crocodile pattern) (皮革小樣(鱷魚紋))	The PRC	Zhejiang Sunlight	Design	ZL 2013 3 0102480.9	7 August 2013	7 April 2023

No.	Patent	Place of registration	Registered owner	Type	Patent number	Registration date	Expiry date
32.	Leather sample (hot-stamp gradient colour pattern) (皮革小樣(烙印變色))	The PRC	Zhejiang Sunlight	Design	ZL 2013 3 0102491.7	7 August 2013	7 April 2023
33.	Leather sample (shell pattern) (皮革小樣(貝殼紋))	The PRC	Zhejiang Sunlight	Design	ZL 2013 3 0102492.1	7 August 2013	7 April 2023
34.	Leather sample (brushed gradient colour) (皮革小樣(擦焦變色))	The PRC	Zhejiang Sunlight	Design	ZL 2013 3 0102479.6	7 August 2013	7 April 2023
35.	Leather sample (faux python pattern) (皮革小樣(蟒蛇紋))	The PRC	Zhejiang Sunlight	Design	ZL 2013 3 0102495.5	7 August 2013	7 April 2023
36.	Leather (classic faux crocodile pattern) (皮革(經典鱷魚紋))	The PRC	Zhejiang Sunlight	Design	ZL 2011 3 0025228.3	10 August 2011	20 February 2021

(ii) As at the Latest Practicable Date, our Group had applied for registration of the following patents:

No.	Patent	Place of application	Applicant	Type	Application number	Application date
1.	Colour paste, water-based ink for synthetic leather surface and preparation method thereof (用於合成革人造革表面的載體色漿、水性油墨及其製備方法)	The PRC	Zhejiang Sunlight	Invention patent	201610906859.8	18 October 2016
2.	Dyes for microfibre, and its preparation method and application thereof (超纖用染色料及其製備方法和應用)	The PRC	Zhejiang Sunlight	Invention patent	201910111203.0	12 February 2019

No.	Patent	Place of application	Applicant	Type	Application number	Application date
3.	Delustred water-based polyurethane resins and preparation method thereof (水性自消光樹脂的製備方法)	The PRC	Zhejiang Sunlight	Invention patent	201910111201.1	12 February 2019
4.	Organic silicone lotion for a smooth finish of synthetic leather and preparation method thereof (用於合成革人造革表面滑爽處理的有機硅乳液及其製備方法)	The PRC	Zhejiang Sunlight	Invention patent	201811622975.2	28 December 2018
5.	An experimental disperse mixer sand mill circular water cooling tank (一種實驗型分散砂磨機循環水冷卻槽)	The PRC	Zhejiang Sunlight	Utility model	201921432455.5	30 August 2019

(c) Domain names

As at the Latest Practicable Date, our Group was the registered proprietor of the following domain names which are material to our business:

No.	Domain name	Registered owner	Expiry date
1.	www.sl-ct1.com	Zhejiang Sunlight	9 February 2021
2.	www.sl-ct.cn	Zhejiang Sunlight	3 March 2021
3.	sunlight-technology.cn	Zhejiang Sunlight	20 March 2021
4.	www.slkj.cn	Zhejiang Sunlight	21 January 2022

Information contained in the above websites does not form part of this prospectus.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND OUR SUBSTANTIAL SHAREHOLDERS**1. Disclosure of interests**

- (a) Interests and short positions of our Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), the interests or short positions of Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its 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, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to our Company and Stock Exchange, once the Shares are listed are as follows:

(i) *Interests in our Company*

Name of Director/chief executive	Capacity/nature of interest	Percentage of interest in the total issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised) ^(note 5)	
		Number of Shares held immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised) ^(note 5)	Percentage of interest in the total issued share capital of our Company immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option is not exercised)
Mr. Chen Hua	Interest in controlled corporation ^(Notes 1, 3)	727,500,000 (L)	72.75%
	Interest of spouse ^(Note 4)		
Ms. Liu Jing	Interest in controlled corporation ^(Notes 2, 3)	727,500,000 (L)	72.75%
	Interest of spouse ^(Note 4)		
Ms. Zhu Jianqin	Interest in controlled corporation ^(Notes 1, 3)	727,500,000 (L)	72.75%
Mr. Li Xiangyu	Interest in controlled corporation ^(Notes 1, 3)	727,500,000 (L)	72.75%
Mr. He Zhangcai	Interest in controlled corporation ^(Notes 1, 3)	727,500,000 (L)	72.75%
Mr. Zhao Xuesheng	Interest in controlled corporation ^(Notes 1, 3)	727,500,000 (L)	72.75%
Mr. Cai Jianming	Interest in controlled corporation ^(Notes 1, 3)	727,500,000 (L)	72.75%

Notes:

1. Sunlight Global is owned as to 61.20% by Mr. Chen Hua, 13.24% by Ms. Zhu Jianqin, 13.24% by Mr. Li Xiangyu, 9.24% by Mr. He Zhangcai, 2.14% by Mr. Chen Yong, 0.54% by Mr. Cai Jianming and 0.40% by Mr. Zhao Xuesheng.
2. Lilian Global is wholly-owned by Ms. Liu Jing. Ms. Liu is therefore deemed to be interested in the Shares in which Lilian Global is interested under the SFO.

3. Pursuant to the Guidance Letter HKEX GL89-16 issued by the Stock Exchange, immediately following completion of the Global Offering (without taking into account any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), Mr. Chen Hua, Ms. Liu Jing, Ms. Zhu Jianqin, Mr. Li Xiangyu, Mr. He Zhangcai, Mr. Zhao Xuesheng, Mr. Cai Jianming and Mr. Chen Yong are entitled to exercise or control the exercise of 72.75% of the voting power at general meetings of our Company through exercising or controlling the exercise of the entire voting power at general meetings of Sunlight Global and Lilian Global, and are therefore deemed to be interested in the Shares in which Sunlight Global and Lilian Global are interested under the SFO.
4. Mr. Chen Hua and Ms. Liu Jing are spouses to each other. Therefore, each of them is deemed to be interested in the Shares in which he or she is interested under the SFO.
5. The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Shares.

(ii) *Interests in our associated corporations*

Name of Director	Name of associated corporation	Capacity/Nature of Interest	Number of shares held	Percentage of shareholding
Mr. Chen Hua	Sunlight Global	Beneficial Owner	30,600	61.20%
Ms. Zhu Jianqin	Sunlight Global	Beneficial Owner	6,620	13.24%
Mr. Li Xiangyu	Sunlight Global	Beneficial Owner	6,620	13.24%
Ms. Liu Jing	Lilian Global	Beneficial Owner	50,000	100.00%

- (b) Interests and short positions of the substantial shareholders in the Shares and underlying Shares of our Company

For information on the persons (other than a Director or chief executive of our Company) who, immediately following the completion of the Capitalisation Issue and the Global Offering without taking into account any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme, will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO or are directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group, please refer to the section headed “Substantial Shareholders” in this prospectus.

2. Particulars of our Directors' service contracts

Each of our executive Directors has entered into a service contract with our Company for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other and is subject to termination provisions therein and provisions on retirement by rotation of our Directors as set out in the Articles of Association.

Each of our executive Directors is entitled to a director's fee. Each of our executive Directors shall be paid a remuneration on the basis of twelve months in a year. In addition, each of our executive Directors is also entitled to bonus as determined by our Board based on the recommendations made by our remuneration committee. The current annual director's fees and remuneration of our executive Directors are as follows:

Name of Directors	Remuneration <i>RMB</i>
Ms. Liu Jing	120,000
Mr. Chen Hua	120,000
Ms. Zhu Jianqin	120,000
Mr. Li Xiangyu	120,000

Each of our independent non-executive Directors has entered into an appointment letter with our Company for an initial term of three years commencing from the Listing Date and is entitled to a director's fee of HK\$120,000 per annum.

3. Agency fees or commissions received

Save as disclosed in the sections headed "History, Development and Reorganisation", "Business", "Financial Information" and "Underwriting" in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

4. Disclaimers

Save as disclosed in this Appendix VI:

- (i) none of our Directors or chief executives of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO 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 set out in Appendix 10 to the Listing Rules once the Shares are listed;
- (ii) none of our Directors or experts referred to under the paragraph headed “D. Other information – 8. Consents 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;
- (iii) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (iv) 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));
- (v) taking no account of any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme, none of our Directors are aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Capitalisation Issue and the Global Offering, 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 voting shares of any other member of our Group;

- (vi) none of the experts referred to under the paragraph headed “D. Other information – 8. Consents of experts” in this appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (vii) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or our Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group; and
- (viii) none of our Directors has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group.

D. OTHER INFORMATION

1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the resolutions in writing of our Shareholders of our Company passed on 10 February 2020.

(a) Purpose

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group;
- (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group; and
- (iii) for such purposes as our Board may approve from time to time.

(b) Who may join

Our Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as our Board may determine at an exercise price determined in accordance with paragraph (e) below to the following (the “**Eligible Participants**”):

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any directors (including executive, non-executive and independent non-executive directors) of our Company or any of its subsidiaries; and
- (iii) any advisers, consultants, suppliers, customers, agents and related entities to our Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) Maximum number of Shares

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering, being 100,000,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to the options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, our Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by our Shareholders in general meeting; and/or

- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by our Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (q) below whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

- (d) Maximum number of options to any one individual

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant. Any further grant of Options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.03(4) and 17.06 of the Listing Rules and/or such other requirements as prescribed under the Listing Rules from time to time; and

- (ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (as defined in the Listing Rules) (or his associates (as defined in the Listing Rules) if the Eligible Participant is a Connected Person) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders' approval and the date of our Board meeting at which our Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. Our Board shall forward to such Eligible Participant an offer document in such form as our Board may from time to time determine.

(e) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

- (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(f) Granting options to connected persons

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If our Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares in issue; and

- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting on a poll at which the grantee, his/her associates and all core connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before our Shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
 - (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent shareholders as to voting;
 - (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
 - (iv) the information required under Rule 2.17 of the Listing Rules.
- (g) Restrictions on the time of grant of Options

A grant of options may not be made after inside information has come to the knowledge of our Company until it has announced such information pursuant to the requirements of the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of our Board meeting (as such date to first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's annual results or half-year or other interim period (whether or not required under the Listing Rules); and

- (ii) the deadline for our Company to publish an announcement of its annual results or half-year, or other interim period (whether or not required under the Listing Rules) and ending on the date of actual publication of the results announcement.

- (h) Rights are personal to grantee

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

- (i) Time of exercise of Option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the Listing Date. Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the Listing Date.

- (j) Performance target

A grantee may be required to achieve any performance targets as our Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

- (k) Rights on ceasing employment or death

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries:

- (i) by any reason other than death, ill-health, injury, disability or termination of his relationship with our Group on the grounds specified in paragraph (l) below, the option to the extent not already exercised on the date of cessation (which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not) shall lapse automatically on the date of cessation; or

- (ii) by reason of death, ill-health, injury or disability, his personal representative(s) may exercise the option within a period of 12 months from such cessation.

(l) Rights on dismissal

If the grantee of an Option ceases to be an employee of our Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or has become insolvent, bankrupt or has made arrangements or compositions with his creditors generally, or on any other ground that would warrant the termination of his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, or has been convicted of any criminal offence involving his integrity or honesty, his Option will lapse and not be exercisable after the date of termination of his employment.

(m) Rights on takeover

If a general offer is made to all our Shareholders (or all such shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Code)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(n) Rights on winding-up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid and register the grantee as holder thereof.

- (o) Rights on compromise or arrangement between our Company and its members or creditors

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12:00 noon (Hong Kong time) on the business day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full as if such compromise or arrangement had not been proposed by our Company.

- (p) Ranking of Shares

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully paid Shares in issue on the date of issue.

(q) Effect of alterations to capital

In the event of any alteration in the capital structure of our Company while any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer, consolidation, sub-division or reduction of share capital of our Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number of Shares subject to any options so far as unexercised; the subscription price per Share of each outstanding option; the shares to which the option relates; the method of exercise of the option; and/or any combination thereof, as the auditors of our Company or an independent financial adviser shall certify in writing to our Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance issued by the Stock Exchange on 5 September 2005 and any future guidance and interpretation of the Listing Rules issued by the Stock Exchange from time to time.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company for which any grantee of an Option is entitled to subscribe pursuant to the Options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(r) Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by our Board;
- (ii) the expiry of any of the periods referred to in paragraphs (k), (l), (m), (n) or (o);
- (iii) the date on which the scheme of arrangement of our Company referred to in paragraph (o) becomes effective;
- (iv) the date of commencement of the winding-up of our Company;

- (v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of our Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty, or has become insolvent, bankrupt or has made arrangements or compositions with his or her creditors generally, or any other ground that would warrant the termination of his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group. A resolution of our Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
 - (vi) the date on which our Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (h) above or the options are cancelled in accordance with paragraph (t) below.
- (s) Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of our Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted (except any alterations which take effect automatically under the terms of the Share Option Scheme) shall first be approved by our Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules and any change to the authority of our Board in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

(t) Cancellation of Options

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event that any option is cancelled pursuant to paragraph (h).

(u) Termination of the Share Option Scheme

Our Company may by resolution in general meeting or our Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) Administration of our Board

The Share Option Scheme shall be subject to the administration of our Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(w) Condition of the Share Option Scheme

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise;
- (iii) the approval of the rules of the Share Option Scheme by our Shareholders in general meeting; and
- (iv) the commencement of dealings in the Shares on the Stock Exchange.

- (x) Disclosure in annual and interim reports

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

- (y) Present status of the Share Option Scheme

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme.

2. Tax and other indemnities

Each of our Controlling Shareholders have entered into the Deed of Indemnity in favour of our Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities, on a joint and several basis, in connection with, among other things,

- (a) any taxation which might be payable by any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the date on which the Global Offering becomes unconditional; and
- (b) any and all expenses, payments, sums, outgoings, fees, demands, claims, actions, proceedings, judgments, damages, losses, costs (including but not limited to legal and other professional costs), charges, contributions, liabilities, fines and penalties which any member of our Group may incur, suffer or accrue, directly or indirectly from, among others:
 - (1) any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which the Global Offering becomes unconditional;
 - (2) the implementation of the Reorganisation and/or disposal or acquisition of the equity interest in any member of our Group since the date of incorporation of each member of our Group and up to the date on which the Global Offering becomes unconditional;

- (3) any failure, delay or defects of corporate or regulatory compliance under, or any breach of any provision of, the applicable laws, rules, regulations and agreements by any member of our Group on or before the date on which the Global Offering becomes unconditional;
- (4) any failure to obtain the necessary licences, consents or permits under applicable laws and regulations for any member of our Group's valid and legal establishment and/or operation on or before the date on which the Global Offering becomes unconditional; and
- (5) the incidents referred to in the section headed "Business – Legal proceedings and legal compliance" in this prospectus.

3. Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong, pursuant to which estate duty ceased to be chargeable in Hong Kong in respect of the estates of persons dying on or after that date. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of holders of Shares whose death occur on or after 11 February 2006.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands is likely to fall on our Group.

4. Litigation

As at the Latest Practicable Date, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened against any member of our Group that would have a material adverse effect on its operating results or financial condition.

5. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately US\$8,000 and are payable by our Company.

6. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
Giraffe Capital Limited	A corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO
HLB Hodgson Impey Cheng Limited	Certified public accountants
AllBright Law Offices Hangzhou Office	PRC legal advisers
Ogier	Cayman Islands legal advisers
China Insights Industry Consultancy Limited	Industry consultant
AVISTA Valuation Advisory Limited	Property valuer

8. Consents of experts

Each of the experts referred to in “D. Other information – 7. Qualifications of experts” in this appendix has given and has not withdrawn his or its written consent to the issue of this prospectus with the inclusion of his or its report and/or letter and/or valuation certificate and/or opinion and/or the references to his or its name included herein in the form and context in which it is respectively included.

9. 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.

10. Miscellaneous

- (a) Save as disclosed in the sections headed “History, Development and Reorganisation”, “Business”, “Financial Information” and “Underwriting” in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of its 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) our Group has no outstanding convertible debt securities or debentures;
 - (iv) 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;
 - (v) no founders, management or deferred shares of our Company or any of its subsidiaries have been issued or agreed to be issued; and
 - (vi) 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 its subsidiaries;
- (b) none of the persons named in the paragraph headed “D. Other information – 8. Consents 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) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 September 2019 (being the date to which the latest audited consolidated financial statements of our Group were made up);
- (d) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 24 months preceding the date of this prospectus;

- (e) the principal register of members of our Company will be maintained in Cayman Islands by our Company's principal share registrar, Ogier Global (Cayman) Limited, and a branch register of members of our Company will be maintained in Hong Kong by our Hong Kong Branch Share Registrar. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Hong Kong Branch Share Registrar and may not be lodged in the Cayman Islands;
- (f) no member of our Group is presently listed on any stock exchange or traded on any trading system;
- (g) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (h) all necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

11. Bilingual prospectus

The English and Chinese language version of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

12. Sole Sponsor

The Sole Sponsor has made an application for and on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme. The Sponsor is independent of our Company in accordance with Rule 3A.07 of the Listing Rules.

The Sole Sponsor's fees in relation to the Listing are HK\$5.5 million.

APPENDIX VII	DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION
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DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) the Application Forms;
- (b) the written consents referred to in the section headed “Statutory and General Information – D. Other information – 8. Consents of experts” in Appendix VI to this prospectus; and
- (c) copies of each of the material contracts referred to in the section headed “Statutory and General Information – B. Further information about the business of our Group – 1. Summary of material contracts” in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Stevenson, Wong & Co. in association with AllBright Law Offices at 39/F, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association;
- (b) the Accountants’ Report from HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the assurance report from HLB Hodgson Impey Cheng Limited on the compilation of unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Group for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 and the nine months ended 30 September 2019;
- (e) the letters relating to the profit estimate from HLB Hodgson Impey Cheng Limited and the Sole Sponsor, the text of which is set out in Appendix III to this prospectus;
- (f) the letter of advice from Ogier, our Cayman Islands legal advisers, summarising certain aspects of Cayman Islands company law referred to in the section headed “Summary of the Constitution of our Company and Cayman Islands company law” in Appendix V to this prospectus;
- (g) the Companies Law;

- (h) the legal opinions issued by AllBright Law Offices Hangzhou Office, our PRC legal advisers in respect of our general matters and property interests in the PRC;
- (i) the material contracts referred to in the section headed “Statutory and General Information – B. Further information about the business of our Group – 1. Summary of material contracts” in Appendix VI to this prospectus;
- (j) the service contracts and appointment letters referred to in the paragraph headed “Statutory and General Information – C. Further information about our Directors and our substantial shareholders – 2. Particulars of our Directors’ service contracts” in Appendix VI to this prospectus;
- (k) the written consents referred to in the section headed “Statutory and General Information – D. Other information – 8. Consents of experts” in Appendix VI to this prospectus;
- (l) the CIC Report;
- (m) the property valuation report prepared by AVISTA Valuation Advisory Limited, which is set out in Appendix IV to this prospectus; and
- (n) the rules of the Share Option Scheme.

