

# China New Energy Limited

(Incorporated in Jersey, Channel Islands with limited liability and carrying on business in Hong Kong as “Zhongke Tianyuan New Energy Limited”)

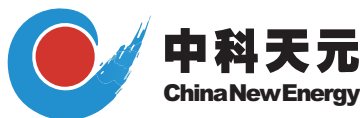
Stock code : 1156

# GLOBAL OFFERING



# IMPORTANT

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



## CHINA NEW ENERGY LIMITED

(Incorporated in Jersey, Channel Islands with limited liability and carrying on business in Hong Kong as "Zhongke Tianyuan New Energy Limited")

### GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	82,600,000 Shares (subject to adjustment)
Number of Hong Kong Offer Shares	:	8,260,000 Shares (subject to adjustment)
Number of International Placing Shares	:	74,340,000 Shares (subject to adjustment)
Maximum Offer Price	:	HK\$1.28 per Offer Share, plus brokerage of 1.0%, 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 on final pricing)
Nominal value	:	£0.00025 per Share
Stock code	:	1156

#### Sole Sponsor



#### Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



#### 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 section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (WUMP) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

A copy of this prospectus has been delivered to the Registrar of Companies in Jersey in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and the Registrar of Companies in Jersey has given, and has not withdrawn, consent to its circulation. The Jersey Financial Services Commission has given, and has not withdrawn, its consent under Article 2 of the Control of Borrowing (Jersey) Order 1958 to the Offer Shares. It must be distinctly understood that, in giving these consents, neither the Registrar of Companies in Jersey nor the Jersey Financial Services Commission takes any responsibility for the financial soundness of our Company or for the correctness of any statements made, or opinions expressed, with regard to it. If you are in any doubt about the contents of this prospectus you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser. Our Directors have taken all reasonable care to ensure that the facts stated in this prospectus are true and accurate in all material respects, and that there are no other facts the omission of which would make misleading any statement in this prospectus, whether of facts or of opinion. All Directors accept responsibility accordingly. It should be remembered that the price of our Shares and the income from them can go down as well as up.

The Offer Price is expected to be determined by agreement between the Company and the Joint Global Coordinators (on behalf of the Underwriters) on the Price Determination Date or such later date as may be agreed by our Company and the Joint Global Coordinators, but in any event no later than 10 July 2020 (Hong Kong time). The Offer Price is expected to be not more than HK\$1.28 per Offer Share and is expected to be not less than HK\$0.98 per Offer Share, unless otherwise announced. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$1.28 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 less than HK\$1.28 per Hong Kong Offer Share.

The Joint Global Coordinators (on behalf of the Underwriters, and with the Company's consent) may reduce the indicative Offer Price range stated in this prospectus and/or reduce the number of Offer Shares being offered pursuant to the Global Offering at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction of the Offer Price range and/or the number of Offer Shares will be published on the website of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) and our website at [www.zkty.com.cn](http://www.zkty.com.cn) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to apply for Hong Kong Offer Shares" in this prospectus. If, for any reason, the Offer Price is not agreed between the Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before 10 July 2020 (Hong Kong time), 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 the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Please refer to the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination by the Hong Kong Underwriters" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulations S.

30 June 2020

---

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

---

The Company will publish an announcement on the website of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) and our website at [www.zkty.com.cn](http://www.zkty.com.cn) if there is any change in the following expected timetable of the Hong Kong Public Offering.

Latest time for completing electronic applications under <b>White Form eIPO</b> service through the designated website <a href="http://www.eipo.com.hk">www.eipo.com.hk</a> <sup>(4)</sup> . . . . .	11:30 a.m. on Tuesday, 7 July 2020
Application lists open <sup>(2)</sup> . . . . .	11:45 a.m. on Tuesday, 7 July 2020
Latest time for lodging <b>WHITE</b> and <b>YELLOW</b> Application Forms . . . . .	12:00 noon on Tuesday, 7 July 2020
Latest time to give <b>electronic application instructions</b> to HKSCC <sup>(3)</sup> . . . . .	12:00 noon on Tuesday, 7 July 2020
Latest time for completing payment of <b>White Form eIPO</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . .	12:00 noon on Tuesday, 7 July 2020
Application lists close <sup>(2)</sup> . . . . .	12:00 noon on Tuesday, 7 July 2020
Expected Price Determination Date <sup>(5)</sup> . . . . .	Tuesday, 7 July 2020
Announcement of 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 to be published on the Stock Exchange's website at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> and the Company's website at <a href="http://www.zkty.com.cn">www.zkty.com.cn</a> on or before . . . . .	Tuesday, 14 July 2020
Announcement of results of allocations in the Hong Kong Public Offering (with successful applicants' identification document or business registration numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus from . . . . .	Tuesday, 14 July 2020

---

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

---

Results of allocations in the Hong Kong Public Offering will be available at [www.iporeresults.com.hk](http://www.iporeresults.com.hk) (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID” function from . . . . . Tuesday, 14 July 2020

Dispatch/collection of Share certificates or deposit of the Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before<sup>(6)(8)</sup> . . . . . Tuesday, 14 July 2020

Dispatch/collection of refund checks and White Form e-Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before<sup>(6)(7)</sup> . . . . . Tuesday, 14 July 2020

Dealings in the Shares on the Stock Exchange expected to commence . . . . . Wednesday, 15 July 2020

*Notes:*

- (1) All dates and times refer to Hong Kong local time and dates unless otherwise stated.
- (2) If there is/are a “black” rainstorm warning or a tropical cyclone warning signal number eight or above, and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 7 July 2020, the application lists will not open or close on that day. Further information is set out in the paragraph headed “How to apply for Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this prospectus.
- (3) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the paragraph headed “How to apply for Hong Kong Offer Shares — 6. Applying by giving electronic application instructions to HKSCC VIA CCASS” in this prospectus.
- (4) You will not be permitted to submit your application through the designated website at [www.eipo.com.hk](http://www.eipo.com.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, at which time the application lists will close.
- (5) The Price Determination Date is expected to be on or around Tuesday, 7 July 2020, and in any event no later than Friday, 10 July 2020. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (on behalf of the Underwriters) and the Company by Friday, 10 July 2020, the Global Offering will not proceed and will lapse.
- (6) Applicants who have applied on **WHITE** Application Forms or through the **White Form eIPO** service for 1,000,000 Shares or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund checks and/or Share certificates in person from our Company’s Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 14 July 2020 or such other date as notified by our Company in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund checks. Applicants being individuals who is eligible for personal collection must not authorize any person to make collection on their behalf. Applicants being corporations which is eligible for personal collection must attend through their authorized representatives bearing letters of authorization from their corporations stamped with the corporation’s chops (bearing the name of the corporations). Both individuals and authorized representatives of corporations (as applicable) must produce, at the time of collection, evidence of identity and authority (as applicable) acceptable to the Company’s Hong Kong Branch Share Registrar.

---

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

---

Applicants who apply on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering, have indicated in their Application Forms that they wish to collect refund cheques in person and have provided all information required may collect their refund cheques (if any) in person but may not elect to collect their Share certificates as such Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to their designated CCASS Participants' stock accounts as stated in their Application Forms. The procedure for collection of refund cheques for applicants who apply on **YELLOW** Application Forms is the same as that for **WHITE** Application Form applicants.

Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the paragraph headed "How to apply for Hong Kong Offer Shares — 14. Despatch/collection of share certificates and refund monies — Personal collection — (d) If you apply via electronic application instructions to HKSCC" in this prospectus for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to that bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund checks by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected Share certificates and/or refund checks will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant Application Forms. Further information is set out in the paragraph headed "How to apply for Hong Kong Offer Shares — 14. Despatch/collection of share certificates and refunds monies" in this prospectus.

Further information is set out in the paragraphs headed "How to apply for Hong Kong Offer Shares — 13. Refund of application monies" and "How to apply for Hong Kong Offer Shares — 14. Despatch/collection of share certificates and refund monies" in this prospectus.

For details of the structure of the Hong Kong Public Offering, please refer to the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

- (7) e-Refund payment instructions or 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 and 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/ passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheques, 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/passport number before encashment of the refund cheques. Inaccurate completion of an applicant's Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheques.
- (8) Share certificates for the Hong Kong Offer Shares are expected to be issued on Tuesday, 14 July 2020 but will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination described in the paragraph headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination by the Hong Kong Underwriters" in this prospectus has not been exercised and has lapsed. Investors who trade the Hong Kong Offer Shares on the basis of publicly available allocation details before the receipt of their Share certificates or before the Share certificates becoming valid certificates of title do so entirely at their own risk.

---

## CONTENTS

---

*This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares. This prospectus is not an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or advisors, or any other person or party involved in the Hong Kong Public Offering have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorized by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, any of our or their respective directors or advisors, or any other person or party involved in the Global Offering. If anyone provides you with different or inconsistent information, you should not rely on it. Information contained in our website, located at [www.zkty.com.cn](http://www.zkty.com.cn) does not form part of this prospectus.*

	<u>Page</u>
<b>EXPECTED TIMETABLE</b> .....	i
<b>CONTENTS</b> .....	iv
<b>SUMMARY</b> .....	1
<b>DEFINITIONS</b> .....	24
<b>GLOSSARY</b> .....	36
<b>FORWARD-LOOKING STATEMENTS</b> .....	38
<b>RISK FACTORS</b> .....	40
<b>WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES AND THE COMPANIES (WUMP) ORDINANCE</b> .....	61
<b>INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING</b> .....	70
<b>DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING</b> .....	74

---

## CONTENTS

---

	<u>Page</u>
<b>CORPORATE INFORMATION</b> .....	78
<b>INDUSTRY OVERVIEW</b> .....	80
<b>REGULATORY OVERVIEW</b> .....	102
<b>HISTORY, REORGANISATION AND CORPORATE STRUCTURE</b> .....	117
<b>BUSINESS</b> .....	134
<b>RELATIONSHIP WITH OUR SUBSTANTIAL SHAREHOLDERS</b> .....	200
<b>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</b> .....	203
<b>SUBSTANTIAL SHAREHOLDERS</b> .....	221
<b>SHARE CAPITAL</b> .....	223
<b>FINANCIAL INFORMATION</b> .....	228
<b>FUTURE PLANS AND USE OF PROCEEDS</b> .....	291
<b>UNDERWRITING</b> .....	300
<b>STRUCTURE OF THE GLOBAL OFFERING</b> .....	310
<b>HOW TO APPLY FOR HONG KONG OFFER SHARES</b> .....	318
<b>APPENDIX I — ACCOUNTANT’S REPORT</b> .....	I-1
<b>APPENDIX II — UNAUDITED PRO FORMA FINANCIAL INFORMATION</b> .....	II-1
<b>APPENDIX III — SUMMARY OF THE CONSTITUTION OF THE COMPANY AND JERSEY COMPANIES LAW</b> .....	III-1
<b>APPENDIX IV — STATUTORY AND GENERAL INFORMATION</b> .....	IV-1
<b>APPENDIX V — DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION</b> .....	V-1

---

## 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 and is qualified by its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read this prospectus in its entirety before you decide to invest in the Offer Shares.*

*There are risks associated with an investment in the Offer Shares. Some of the particular risks associated with an investment in the Offer Shares are set out in the section headed “Risk Factors”. You should read that section carefully before you decide to invest in the Offer Shares.*

### BUSINESS OVERVIEW

Founded in 2006, we are a leading ethanol production system producer in the PRC. We primarily provide integrated services including engineering design, equipment manufacturing, installation and commissioning and subsequent value-added maintenance for the core system of ethanol production system in the ethanol fuel and alcoholic beverage industries in the PRC. During the Track Record Period, we also provided our technology integrated services for other chemical production systems in Canada, Russia, Indonesia and other countries. With 13 years of operating history, we have gained substantial experience and established a solid reputation in terms of advanced technology skills and proven track records in the PRC. According to the CIC Report, we ranked the first in terms of revenue with a market share of 10.8%, in the ethanol production system industry in the PRC in 2019.

For the years ended 31 December 2017, 2018 and 2019, our total revenue amounted to RMB257.1 million, RMB250.0 million and RMB398.6 million, respectively. We completed 20, 27 and 22 technology integrated service projects for the three years ended 31 December 2019, respectively. Our integrated services are provided on a project basis and are primarily offered to the ethanol fuel and alcoholic beverage industries. Set out below is our revenue by industry during the Track Record Period:

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Ethanol fuel	212,378	145,273	347,184
Alcoholic beverage	42,210	88,697	45,080
Others <sup>(Note)</sup>	2,521	16,008	6,294
<b>Total</b>	<b>257,109</b>	<b>249,978</b>	<b>398,558</b>

*Note: Others refer to revenue generated from the provision of services for pharmaceutical alcohol, sales of component and other chemical production systems such as ethyl acetate and vital fiber oligosaccharide.*



## SUMMARY

### Major projects completed during the Track Record Period

During the three years ended 31 December 2019, we have completed 20, 27 and 22 projects respectively. The following table sets out details of our top five projects completed during the Track Record Period in terms of the total revenue recognized during the relevant periods:

*During the year ended 31 December 2017*

Project No.	Industry	Project type	Location	Commencement date	Contract value (exclusive of VAT) (RMB'000)	Total revenue recognized during the year (RMB'000)
1. Project 070	Other (viter fiber oligosaccharide)	Integrated service for viter fiber oligosaccharide devices project	Canada	March 2016	12,308	2,521
2. Project 060	Ethanol fuel	Technical system upgrade project for dehydrated ethanol distillation and dehydration devices	Jilin Province, the PRC	July 2015	7,180	2,285
3. Project 105	Ethanol fuel	Integrated service project for dehydrated alcohol equipment	Liaoning Province, the PRC	September 2017	1,734	1,734
4. Project 090	Alcoholic beverage	Technical system upgrade project for premium grade edible alcohol distillation devices	Jiangsu Province, the PRC	December 2016	1,300	1,240
5. Project 001	Alcoholic beverage	Integrated service project for distillation and dehydration equipment	Heilongjiang Province, the PRC	October 2009	11,966	941
Other 15 projects					10,527	3,109
<b>Total:</b>					<b>45,015</b>	<b>11,830</b>

## SUMMARY

*During the year ended 31 December 2018*

Project No.	Industry	Project type	Location	Commencement date	Contract value (exclusive of VAT) (RMB'000)	Total revenue recognized during the year (RMB'000)
1. Project 111	Alcoholic beverage	Integrated service for distillation equipment project	Henan Province, the PRC	March 2018	11,542	11,542
2. Project 106	Ethanol fuel	Environmental deodorization and energy efficient distillation technology system upgrade project	Jilin Province, the PRC	September 2017	21,368	5,444
3. Project 072	Ethanol fuel	Integrated service project for distillation devices	Anhui Province, the PRC	March 2017	56,996	5,078
4. Project 091	Ethanol fuel	Technical system upgrade project for crushing, liquefaction and fermentation devices	Guangxi Province, the PRC	January 2017	17,953	3,790
5. Project 103	Ethanol fuel	Integrated service project for dehydrated alcohol	Heilongjiang Province, the PRC	September 2017	4,327	3,724
Other 22 projects					178,207	8,239
<b>Total:</b>					<b>290,393</b>	<b>37,817</b>

*During the year ended 31 December 2019*

Project No.	Industry	Project type	Location	Commencement date	Contract value (exclusive of VAT) (RMB'000)	Total revenue recognized during the year (RMB'000)
1. Project 125	Ethanol fuel	Integrated service project for ethanol fuel distillation and dehydration equipment	Heilongjiang Province, the PRC	December 2018	61,324	48,416
2. Project 121	Alcoholic beverage & ethanol fuel	Technical system upgrade project for premium grade edible alcohol and dehydrated alcohol devices (corn raw materials)	Jilin Province, the PRC	September 2018	48,138	42,071
3. Project 124	Alcoholic beverage	Integrated service for distillation unit project for special grade edible alcohol	Henan Province, the PRC	November 2018	17,241	6,615
4. Project 135	Ethanol fuel	Integrated service project for dehydration devices for dehydrated alcohol	Thailand	January 2019	3,296	3,296
5. Project 119	Alcoholic beverage	Distillation section technology system upgrade project	Jilin Province, the PRC	June 2018	47,243	2,693
Other 17 projects					55,005	6,647
<b>Total:</b>					<b>232,247</b>	<b>109,738</b>

## SUMMARY

### Backlog

The following table sets forth the movement of the number of our projects during the Track Record Period:

	For the year ended 31 December		
	2017	2018	2019
Number of projects at the beginning of the year (Note 1)	25	30	31
Number of new projects awarded (Note 2)	25	28	24
Less: Number of projects completed (Note 3)	20	27	22
Number of projects at the end of the year (Note 4)	30	31	33

Notes:

- (1) The number of projects where the percentage of completion had not reached 100% as at the beginning of the relevant year.
- (2) The number of projects awarded to us during the relevant year. During the Track Record Period, save for suspended projects, our Group has not re-negotiated any awarded contracts which would result in material changes in their terms and conditions and/or profit margins.
- (3) The number of completed projects means the number of projects where the percentage of completion reached 100% during the relevant year.
- (4) The number of projects where the percentage of completion had not reached 100% as at the end of the relevant year. As at 31 December 2017, 2018 and 2019, it was agreed by our Group to suspend six projects with a total outstanding contract value (exclusive of VAT) of RMB46.2 million. The contracts of these six projects were entered into between 2010 and 2014, of which, four projects have been suspended since the period between 2012 and 2014 and two projects have not yet commenced as at the Latest Practicable Date. To the best knowledge of our Directors, as at the Latest Practicable Date, these customers had no timetable to resume these projects.

The following table sets forth the movement of backlog (representing our estimate of the contract value of work that remains to be completed as at a certain date) of our projects during the Track Record Period and during the period from 1 January 2020 to 30 April 2020:

	For the year ended 31 December			For the period from 1 January 2020 to 30 April 2020
	2017	2018	2019	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000
Contract value (exclusive of VAT) at the beginning of the year/period	138,142	98,565	329,577	584,901
Contract value (exclusive of VAT) of new contracts awarded during the year/period	217,532	480,990	653,882 (Note 1)	86,414 (Note 3)

## SUMMARY

	For the year ended 31 December			For the period from 1 January 2020 to 30 April 2020
	2017	2018	2019	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000
Less:				
Revenue recognised during the year/period	(257,109)	(249,978)	(398,558)	(136,196)
Contract value (exclusive of VAT) at the end of year/period	<b>98,565</b>	<b>329,577</b>	<b>584,901</b>	<b>535,119</b>
Less:				
Contract value (exclusive of VAT) of suspended projects at the end of the year/period ( <i>Note 2</i> )	(46,236)	(46,236)	(46,236)	(46,236)
Contract value (exclusive of VAT) of active projects at the end of the year/period	<b>52,329</b>	<b>283,341</b>	<b>538,665</b>	<b>488,883</b>

*Notes:*

- This amount includes (i) tax adjustments of RMB15.7 million made to the unbilled contract value (exclusive of VAT) of certain projects due to change in VAT rate pursuant to the new policies on VAT rates issued on 20 March 2019 by the Ministry of Finance of the PRC (中華人民共和國財政部), the State Taxation Administration (國家稅務總局) and the General Administration Customs of the PRC (中華人民共和國海關總署); (ii) contract value adjustments of RMB0.8 million; and (iii) the replacement of one existing contract of RMB8.7 million by a new contract with contract value of RMB14.6 million.*
- As at 31 December 2017, 2018 and 2019 and as at 30 April 2020, it was agreed by our Group to suspend six projects with a total outstanding contract value (exclusive of VAT) of RMB46.2 million. The contracts of these six projects were entered into between 2010 and 2014, of which, four projects have been suspended since the period between 2012 and 2014 and two projects have not yet commenced as at the Latest Practicable Date. During the Track Record Period, we have no re-negotiated the contracts of these suspended projects which would result in material changes in their terms and conditions and/or profit margins. To the best knowledge of our Directors, as at the Latest Practicable Date, these customers had no timetable to resume these projects.*
- Due to the outbreak of COVID-19, the contract value of the new contracts awarded during the period from 1 January 2020 to 30 April 2020 was relatively lower than that in the same period during the Track Record Period. However, in view of (i) resumption of normal operations of ethanol production system providers in February 2020; (ii) the support provided by the Ministry of Industry and Information Technology to ethanol producers to ensure their normal operations; and (iii) the continuous support from E10 Mandate, the number of new contracts and the contract value of new contracts to be awarded will continue to resume to normal level.*

### Backlog projects

The following table sets forth our backlog projects as at 30 April 2020:

Project code	Industry	Project Type	Location	Commencement date	Expected time of completion	Contract value (exclusive of VAT)	Total revenue recognised during the Track Record Period and up to 30 April 2020	Revenue expected to be recognised after 30 April 2020
							(RMB'000)	(RMB'000)
Project 136	Ethanol fuel	Integrated service project for ethanol fuel device	Inner Mongolia Autonomous Region, the PRC	March 2019	Fourth quarter of 2020	330,776	164,915	165,861

## SUMMARY

Project code	Industry	Project Type	Location	Commencement date	Expected time of completion	Contract value (exclusive of VAT)	Total revenue recognised during the Track Record	Revenue expected to be recognised after
							Period and up to 30 April 2020	30 April 2020
						(RMB'000)	(RMB'000)	(RMB'000)
Project 114	Ethanol fuel	Integrated service project for corn-based ethanol fuel devices	Heilongjiang Province, the PRC	May 2018	Fourth quarter of 2020	237,970	156,651	81,319
Project 138	Ethanol fuel	Integrated service project for ethanol fuel equipment (corn raw materials)	Heilongjiang Province, the PRC	May 2019	Fourth quarter of 2020	212,389	152,712	59,677
Project 206	Ethanol fuel	Integrated service project for premium alcohol and dehydrated ethanol	Heilongjiang Province, the PRC	April 2020	Fourth quarter of 2020	53,861	20	53,841
Project 194	Alcoholic beverage & other (ethyl acetate)	Integrated service project for special grade edible alcohol and ethyl acetate equipment	Hungary	– (Note 1)	First quarter of 2021	28,590	–	28,590
Project 140	Alcoholic beverage & ethanol fuel	Integrated service project for edible alcohol and ethanol fuel equipment	Heilongjiang Province, the PRC	February 2020	Third quarter of 2020	26,724	1,828	24,896
Project 215	Alcoholic beverage	Integrated service project for special grade edible alcohol and neutral alcohol distillation equipment	Shandong Province, the PRC	May 2020	September 2020	13,782	–	13,782
Project 186	Alcoholic beverage	Integrated service project for special grade edible alcohol equipment (corn raw materials)	Myanmar	August 2019	Third quarter of 2020	14,602	5,933	8,669
Project 207	Alcoholic beverage	Technical system upgrade project for distillation device	Jilin Province, the PRC	May 2020	Third quarter of 2020	6,460	–	6,460
Project 208	Alcoholic beverage	Technical system upgrade product for normal grade alcohol distillation device	Heilongjiang Province, the PRC	May 2020	Second quarter of 2020	5,403	–	5,403
Other 30 projects (Note 2)						229,070	52,939	86,621
<b>Total</b>						<b>1,159,627</b>	<b>534,998</b>	<b>535,119</b>

Notes:

(1) works for this project have not commenced.

(2) it was agreed by our Group to suspend six projects with a total outstanding contract value (exclusive of VAT) of RMB46.2 million as at 30 April 2020. The contracts of these six projects were entered into between 2010 and 2014, of which, four projects have been suspended since the period between 2012 and 2014 and two projects have not yet commenced as at the Latest Practicable Date. During the Track Record Period, we have no re-negotiated the contracts of these suspended projects which would result in material changes in their terms and conditions and/or profit margins. To the best knowledge of our Directors, as at the Latest Practicable Date, these customers had no timetable to resume these projects.

### Impact of oil price fluctuation

#### *Extreme oil price drop in early 2020:*

In early 2020, since OPEC and Russia could not reach an agreement in respect of the reduction of oil output volume and due to the outbreak of COVID-19, the oil price has experienced an extreme drop in

---

## SUMMARY

---

April 2020. The outbreak of COVID-19 has also affected the domestic economic activities, which decreased the demand for gasoline in the PRC. As a result, there was an excessive inventory of gasoline in the PRC, which in turn, led to a substantial decrease in gasoline price in April and May 2020. Triggered by such price drop, the ethanol fuel price in the PRC has also decreased from approximately USD880.0/tonne in January 2020 to approximately USD630.0/tonne in mid-May 2020. For the historical ethanol fuel trading price, retail price for E10 fuel and gasoline in the PRC, please refer to the charts in the section headed “Industry Overview — Impact of oil price fluctuation” in this prospectus.

Based on the publicly available information, OPEC and the allies led by Russia have reached an agreement on 12 April 2020 to cut their oil output to prop up oil prices with fellow oil nations; and the oil price in May 2020 has already resumed to the level of USD35/barrel before the extreme drop in April 2020. With the reduction of excessive inventory of gasoline and the resumption of the domestic economic activities in the PRC, the gasoline price has bounced in early June 2020 as well. According to CIC, the ethanol fuel price in the PRC has already hit its bottom-line level at approximately USD630.0/tonne in mid-May 2020 and has bounced to approximately USD680.0/tonne in early June 2020.

***Negative factors that may affect the industry and ethanol fuel price:***

In May 2020, oil price has resumed to the level of USD35.0/barrel before the extreme drop in April 2020 while gasoline price and ethanol fuel price have also rebounded in early 2020. According to CIC, the drop in oil price, gasoline price and ethanol fuel price in early 2020 was one-off and short-term and their prices will continue to bounce back. In addition, the regulations on oil price and gasoline price can protect the gasoline price and ethanol fuel price to maintain within a stable range against oil price fluctuations. Although these regulations have not been amended, suspended or terminated since their adoption, there may be negative factors that will affect the industry and ethanol fuel price.

Should there be any extreme economic downturn or political crisis in the PRC, or should the oil price remains at an extreme low level for a long period of time, these regulations may be amended in material aspects, suspended or even terminated. Assuming that there is no other favourable factor to support the ethanol fuel price, if there are any material changes to the above regulations, such as the adjustment or abolition of the minimum trading oil price of USD40.0/barrel to determine gasoline price in the PRC or the proportion of approximately 0.9 between ethanol fuel price and gasoline price, long-term extreme low oil price will adversely affect the gasoline price in the PRC which in turn may adversely affect the ethanol fuel price, which would then affect the business of our ethanol fuel production system and our financial performance.

In addition, should there be any changes to the supportive favourable policies, in particular the E10 Mandate or the outbreak of grain crisis, our business of ethanol fuel production system and our financial performance will be adversely affected.

---

## SUMMARY

---

For details of the above negative factors, please refer to the paragraphs headed “Any significant and unfavourable shifts in the political, economic and social conditions, or the legal and regulatory environment of the PRC may lead to reduction in demand for our services” and “Changes to the regulations on the oil price and gasoline price and extreme long-term low level of oil price could render our ethanol fuel production system less attractive” in the section headed “Risk Factors — Risk Relating to our Business and Industry” in this prospectus.

### ***Price and market demand of ethanol fuel:***

According to CIC, ethanol fuel is a complimentary, rather than a substitute, of gasoline. E10 fuel is a combination of 90% of gasoline and 10% of ethanol fuel. As the majority of E10 fuel is gasoline, the historical price fluctuation in E10 fuel has demonstrated a similar trend of that of gasoline. Although oil price and gasoline price are, to a certain extent, correlated to ethanol fuel price, according to CIC, given that (i) oil price is only one of the price determining factors of gasoline and contributes approximately one-third of its costs in the PRC; (ii) in order to maintain the gasoline price at a stable range, the National Development and Reform Commission has set the minimum trading price of oil as USD40.0/barrel as the basis to determine the gasoline price in the PRC; (iii) according to NEA, the ethanol fuel price is approximately 0.9 times of gasoline price in the PRC; and (iv) the demand for ethanol fuel is mainly driven by the implementation of favourable government policy, which will in turn support the ethanol fuel price, the ethanol fuel price in the PRC can be maintained at a more stable range than that of gasoline and its price fluctuation are limited in the PRC. Accordingly, extreme oil price drop would not have any material impact on the ethanol fuel price in the PRC.

According to CIC, there is no direct correlation between the oil price and the ethanol fuel demand. Oil price fluctuation has no material direct impact on the ethanol fuel demand. In 2019, despite that the oil price dropped from around USD72.0/barrel in 2018 to USD64.0/barrel in 2019, the sales volume of ethanol fuel in the PRC has increased from 3.3 million tonnes in 2018 to 4.2 million tonnes in 2019. The demand for ethanol fuel has been mainly driven by the implementation of favourable government policy, instead of the oil price fluctuation. Since the announcement of the E10 Mandate in September 2017 that was designed to expand the mandatory use of E10 fuel from 12 trial provinces to the entire country by 2020, the sales volume of ethanol fuel recorded a significant increase from 2.7 million tonnes in 2017 to 3.3 million tonnes in 2018, representing a growth of 22.2%, and further increase to 4.2 million tonnes in 2019, representing a growth of 27.3%. According to CIC, the ethanol fuel demand will be continued to be driven by the E10 Mandate.

### ***Impact on our Group:***

Although the ethanol fuel price has decreased from approximately USD880.0/tonne to approximately USD630.0/tonne in mid-May 2020, according to CIC, as (i) the demand for ethanol fuel is driven by the implementation of favourable government policy; and (ii) more than ten cities have been selected to adopt the mandatory use of E10 fuel during the first four months of 2020, the production volume of ethanol fuel has recorded an increase of approximately 20% from January 2020 to April 2020. Hence, the extreme drop in oil price in April 2020 has limited impact on the demand for and market price of ethanol fuel as well as the ethanol fuel market in the PRC as a whole; and in turn would have limited impact on the demand for and market price of our ethanol production systems for ethanol fuel.

---

## SUMMARY

---

In June 2020, we proposed to join the tendering shown on the public domain of one of our existing customers for the construction of ethanol fuel production system upgrade project. According to the Ministry of Industry and Information Technology, the production volume of ethanol has increased in February 2020, compared to that in January 2020.

***Directors' and Sole Sponsor's view:***

CIC and our Directors are of the view, and the Sole Sponsor concurred, that the drop in oil price, gasoline price and ethanol fuel price in early 2020 was one-off and short-term and their prices will continue to bounce back. Our Directors confirmed, and the Sole Sponsor concurred, that (i) the key terms and profit margins of the contracts entered into after the Track Record Period are substantially the same as those entered into during the Track Record Period; and based on the above, (ii) the oil price fluctuation has no material adverse impact on the operation and financial performance of our Group as a whole.

### OUR CUSTOMERS

During the Track Record Period, most of our Group's customers were based in the PRC and majority of our Group's services were delivered in the PRC market. Apart from the PRC, we had also provided services to customers located in overseas countries, such as Canada, Russia, Indonesia and other countries. Our major customers mainly engage in production and sales of ethanol fuel and alcoholic beverages.

For the three years ended 31 December 2019, revenue from our top five customers amounted to approximately RMB225.7 million, RMB178.9 million and RMB371.2 million, respectively, accounting for approximately 87.9%, 71.6% and 93.1% of our total revenue, respectively. During the same periods, revenue from our largest customer amounted to approximately RMB110.7 million, RMB93.9 million and RMB144.8 million, respectively, accounting for approximately 43.1%, 37.6% and 36.3% of our total revenue, respectively.

Set out below is our revenue by geographical location of our customers during the Track Record Period:

**Revenue by geographical location:**

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
PRC	254,427	233,945	379,852
Canada	2,521	–	–
Russia	–	16,008	187
Indonesia	–	–	14,601
Other countries ( <i>Note</i> )	161	25	3,918
<b>Total</b>	<b>257,109</b>	<b>249,978</b>	<b>398,558</b>

*Note: Other countries include Thailand and Myanmar.*



---

## SUMMARY

---

### SALES AND MARKETING AND PRICING STRATEGY

During the Track Record Period, our projects were obtained by way of providing quotations directly to our customers, open tendering and invitational tendering. Please refer to the paragraph headed “Business — Project origination — Contract negotiation” in this prospectus for details of the number of projects secured by us by way of direct quotation, open tendering and invitational tendering during the Track Record Period. Our contract price is determined primarily based on a number of factors, including the availability and costs of raw materials, project schedule, subcontracting costs, labour costs, geographical location, condition of the project site, as well as the complexity and scale of the project.

### OUR SUPPLIERS

Our suppliers primarily included (i) suppliers of raw materials and equipment; (ii) labour subcontractors; and (iii) delivery service companies for transporting the processed materials from our processing plant in Boluo to the customers’ sites.

Our principal raw materials include raw materials such as steel plates, steel pipes etc. for the production of key components and the equipment such as molecular sieve filling flowmeters, grinders and heat exchangers, for the provision of our services. We also engaged labour subcontractors to complete and deliver the manual and ancillary works such as production, assembling and installation of components for our projects in accordance with our requirements set forth in the contracts entered into with us.

Purchases from our top five suppliers collectively amounted to approximately RMB57.8 million, RMB58.6 million and RMB120.8 million, during the Track Record Period, accounting for approximately 32.9%, 36.7% and 42.3%, respectively of our total purchase and subcontracting costs during the corresponding period. Purchases from our largest supplier amounted to approximately RMB21.3 million, RMB22.1 million and RMB56.4 million, during the Track Record Period, accounting for approximately 12.1%, 13.8% and 19.7%, respectively, of our total purchase and subcontracting costs during the corresponding period. For details of our suppliers please refer to the paragraph headed “Business — Suppliers” in this prospectus.

### COMPETITIVE LANDSCAPE AND OUR COMPETITIVE STRENGTHS

According to the CIC Report, the ethanol production system market is highly fragmented because the whole ethanol production system consists of numbers of equipment and sub-systems. Some companies in the industry focus on the manufacturing of one or few equipment or non-core systems, while our Group targets to provide integrated services for the core systems to downstream customers. According to the CIC Report, we have strong competitive strengths in the domestic market, in terms of advanced technology skills and proven track records.

We believe the competitive strengths which contribute to our continued success and potential for growth include: (i) the advanced technologies and research and development capabilities that enhance our competitiveness, (ii) our well-established reputation with proven track records, and (iii) our experienced and professional management team with extensive industry knowledge. For details of our competitive strengths, please refer to the paragraph headed “Business — Our competitive strengths’ in this prospectus.

---

## SUMMARY

---

### **BUSINESS STRATEGIES**

We aim to capture greater market share in the ethanol production system industry and expand our presence to solidify our position as a leading ethanol production system producer in the PRC by pursuing the following strategies: (i) continue to maintain and further consolidate our leading market position by undertaking more projects in the PRC; and (ii) continue to focus on research and development to strengthen our design and engineering capability. For details of our business strategies, please refer to the paragraph headed “Business — Our business strategies” in this prospectus.

### **RISK FACTORS**

There are certain risks involved in our Group’s operations, many of which are beyond our control. Material risks we face include, among others:

1. all of our contracts with customers are on a project basis;
2. any significant and unfavourable shifts in the political, economic and social conditions, or the legal and regulatory environment of the PRC may lead to reduction in demand for our services;
3. changes to the regulations on the oil price and gasoline price and extreme long-term low level of oil price could render our ethanol fuel production system less attractive;
4. we may experience delays or defaults in realizing accounts receivable and progress payments from our customers;
5. we experienced poor recoverability of our receivables;
6. we are exposed to credit risks from our customers and the recoverability of our contract assets is subject to uncertainties;
7. we are exposed to fair value changes for financial liabilities at fair value through profit or loss and valuation uncertainty due to the use of unobservable inputs that require judgement and assumptions which are inherently uncertain;
8. our results of operations and financial position may be adversely affected if our intangible assets are impaired;
9. projected revenue amounts reported in our backlog could fail to result in actual revenue or translate into profits; and
10. we make estimation of our project costs and any failure to estimate the project costs accurately and/or delay in completion of any service project could lead to cost overruns or even result in losses.

Further details of the risks we are exposed to are set out in the section headed “Risk factors” in this prospectus. Potential investors are advised to read the section headed “Risk factors” in this prospectus carefully before making any investment decision in the Offer Shares.

## SUMMARY

### SUMMARY HISTORICAL FINANCIAL INFORMATION

The tables below present selected financial information derived from our consolidated financial statements set out in the Accountant’s Report in Appendix I to this prospectus as well as certain financial ratios relating to our Group as at the dates or for the years indicated. The following information should be read in conjunction with the accompanying notes set out in the Accountant’s Report and the section headed “Financial information” in this prospectus. Our consolidated balance sheets have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, including related interpretations issued by the International Financial Reporting Interpretations Committee. Our historical results are not necessarily indicative of results that may be achieved in any future periods.

#### Summary Consolidated Income Statements

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Revenue	257,109	249,978	398,558
Cost of sales	(179,788)	(177,374)	(289,141)
<b>Gross profit</b>	<b>77,321</b>	<b>72,604</b>	<b>109,417</b>
Selling and marketing expenses	(5,573)	(5,801)	(8,617)
Administrative expenses	(14,430)	(20,218)	(27,700)
Net impairment losses on financial assets and contract assets	(6,193)	(362)	(3,555)
Other income	1,061	1,685	1,836
Other gains – net	2,937	263	2,409
<b>Operating profit</b>	<b>55,123</b>	<b>48,171</b>	<b>73,790</b>
Finance income	87	22	49
Finance costs	(747)	(1,094)	(1,384)
Finance costs-net	(660)	(1,072)	(1,335)
<b>Profit before income tax</b>	<b>54,463</b>	<b>47,099</b>	<b>72,455</b>
Income tax expenses	(8,804)	(1,278)	(13,287)
<b>Profit for the year</b>	<b>45,659</b>	<b>45,821</b>	<b>59,168</b>
Profit attributable to owners of the Company	45,659	45,821	59,168

Revenue increased by 59.4% from RMB250.0 million for the year ended 31 December 2018 to RMB398.6 million for the year ended 31 December 2019. This increase was mainly attributable to the RMB201.9 million revenue generated from projects in the ethanol fuel industry. Such increase was mainly due to the continuous growth in demand for ethanol production system and our ability in securing sizable ethanol fuel projects. The aggregate contract value (exclusive of VAT) of the new projects secured by us increased from RMB481.0 million for the year ended 31 December 2018 to RMB653.9 million for the year ended 31 December 2019.

---

## SUMMARY

---

Revenue decreased slightly by 2.8% to RMB250.0 million for the year ended 31 December 2018 from RMB257.1 million for the year ended 31 December 2017. This decrease was mainly attributable to a decrease in revenue generated due to the completion of the major stages of several sizable projects in 2017. This was partially offset by an increase in revenue generated from Project 114 in the ethanol fuel industry and Project 119 in the alcoholic beverage respectively.

Please refer to the paragraph headed “Financial information — Period to period comparison” in this prospectus for further analysis.

Prior to the Track Record Period, our Group recorded net losses, resulting in an accumulated losses of RMB101.7 million and RMB89.8 million as at 1 January 2016 and 2017, respectively. However, our financial performance turned around from losses to profits since 2016.

Prior to the Track Record Period, we recorded bad debt provisions due to default of our customers during the material downturn period of the ethanol production system industry in the PRC; and an impairment loss on investment for the year ended 31 December 2013 due to the impairment made in 2013 in respect of our investment in a customer which we subscribed for 4.63% share capital of the customer in 2012 as part of the settlement of the project fees of RMB30 million owed by the customer to us. In 2013, taking into consideration of the customer’s accumulated trading loss and limited ability to return to profitability in the future, our Directors considered that the investment in the customer carried zero intrinsic value and full impairment loss was made in respect of the investment in the customer.

According to CIC, before 2016, in order to ensure corn price, food security and enhance farmers’ enthusiasm for growing grain, the PRC government implemented the corn stock policy under which the PRC government limited the amount of corn used for ethanol fuel production due to the concern over food price and safety. As corn is one of the major raw materials for producing ethanol, the approval of ethanol production plant construction was strictly controlled. Between 2013 and 2016, the ethanol production system industry has started to enter into a recovery period and recorded steady growth, however, the approval of ethanol production plant construction was still strictly controlled which limited the growth of the industry. In addition, due to the overcapacity in the alcoholic beverage industry, there were only a few newly-built ethanol production plants between 2013 and 2016. During that period, ethanol production systems were mainly applied in reconstruction projects, capacity expansion projects, and technology upgrade projects which were generally of smaller contract value. Due to the inactive market environment during the period from 2013 to 2015, the aggregate value of the contracts we secured during 2013 to 2015 was generally smaller as compared with the contracts secured during the Track Record Period.

Excessive corn stock leads to food waste problem and high storage costs. Consequently, in 2016, the PRC government eliminated the corn stock policy and encouraged the development of the ethanol fuel industry, in order to address the excessive corn stock problem. The elimination of the corn stock policy has boosted the development of the ethanol production industry. Moreover, the 13th Five-Year Plan for Renewable Energy Development implemented in December 2016 proposed to expand ethanol fuel production capacity in consideration of environment protection and improving energy consumption structure. To seize market opportunity raised by government supportive policies, many ethanol producers begin to either invest in new ethanol fuel plant construction or upgrade ethanol production systems, which in turn drove demand for ethanol production systems. During the year ended 31 December 2016, we had been awarded with 33 new contracts with a total contract value (exclusive of VAT) of RMB69.7 million. Leveraging our industry experience in ethanol production technology system projects and our advanced technology skills and proven track records as shown from patents researched, developed and owned by us, we started to turnaround our business starting from 2016.

---

## SUMMARY

---

According to CIC, the E10 Mandate announced in September 2017 that was designed to expand the mandatory use of E10 fuel from 12 trial provinces to the entire country by 2020 is the government policy that has a material impact on our business. As at 30 April 2020, E10 fuel has been used in 26 provincial-level administrative regions, of which six regions have adopted the mandatory use of E10 fuel for vehicles in the whole region; five regions have adopted the mandatory use of E10 fuel for vehicles in selected cities; and optional use in the remaining regions. Since the implementation of such E10 mandate, the sales volume of ethanol fuel in the PRC recorded a significant increase from 2.7 million tonnes in 2017 to 3.3 million tonnes in 2018, representing a growth of 22.2%, and further increased to 4.2 million tonnes in 2019, representing a growth of 27.3%. Our revenue generated from the ethanol production system for ethanol fuel has also increased from RMB145.3 million in 2018 to RMB347.2 million in 2019, representing a growth of approximately 139.0%.

According to CIC, environmental protection is a key long-term development strategy in the PRC and the PRC government's support for the development of new energy is one of its key strategies in environmental protection. Compared with gasoline, E10 fuel is a more environmental friendly fuel which is less poisonous and less corrosive; and hence reduces the corrosion of the car engine. Moreover, the application of E10 fuel is able to reduce the emission of hazardous gas. For instance, E10 fuel can reduce carbon monoxide, hydrocarbon emission and oxynitride emissions significantly compared to gasoline. The PRC's commitment to promote environmental protection has been demonstrated by its declaration in November 2015 at the Paris Conference on Climate Change that: (i) China will peak carbon dioxide emissions in around 2030 and strive to achieve the above commitment as soon as possible; (ii) China's carbon dioxide emissions will decrease from 4.5 metric tonnes in 2005 to 1.8 metric tonnes in 2030, representing a decrease of approximately 60%; and (iii) proportion of non-fossil energy of primary energy consumption in 2030 will be approximately doubled as compared to that in 2010. The promotion of E10 fuel was listed by the NEA in "the Key Task List for Energy Regulation in 2020", which will continue to stimulate the future development of China's ethanol fuel industry. Driven by the promotion of the E10 fuel market, the sales volume of the entire ethanol market is expected to grow from 8.6 million tonnes in 2020 to approximately 12.2 million tonnes in 2024, representing a CAGR of 9.1% from 2020 to 2024. Given that environmental protection is a key long-term development strategy in the PRC and the PRC government's support for the development of new energy is one of its key strategies in environmental protection, CIC and our Directors are of the view that should there be any changes in the near future to the government policy, in particular the E10 Mandate, such changes would be supportive and favourable to the promotion of the environmental-friendly ethanol fuel.

Our financial performance may be subject to material fluctuation depending on the nature of the government policies as may be promulgated by the PRC government from time to time.

### Summary Consolidated Balance Sheets

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Non-current assets	16,567	27,599	45,462
Current assets	176,314	221,323	355,569
Current liabilities	163,231	177,896	267,712
Net current assets	13,083	43,427	87,857
Net assets	29,650	71,026	130,430

## SUMMARY

As at 31 December 2017, allowance for impairment losses for trade and bills receivables amounted to RMB96.8 million. Total amount of RMB78.3 million of the abovementioned impaired trade receivables had been written off during 2018.

For details of our summary of consolidated balance sheets, please refer to the paragraph headed “Financial Information — Analysis of selected items from the consolidated balance sheets” in this prospectus.

### Summary Consolidated Statements of Cash Flows

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Net cash generated from operations before changes in working capital	64,110	51,923	82,344
Changes in working capital	(77,245)	(41,854)	(57,409)
Income tax paid	(175)	(3,425)	(545)
Interest paid	(660)	(1,072)	(1,335)
<b>Net cash (used in)/generated from operating activities</b>	<b>(13,970)</b>	<b>5,572</b>	<b>23,055</b>
<b>Net cash used in investing activities</b>	<b>(1,282)</b>	<b>(6,840)</b>	<b>(18,718)</b>
<b>Net cash generated from/(used in) financing activities</b>	<b>20,686</b>	<b>(558)</b>	<b>15,027</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>5,434</b>	<b>(1,826)</b>	<b>19,364</b>
Cash and cash equivalents at beginning of year	2,666	8,180	6,358
Translation differences on cash and cash equivalents	80	4	744
<b>Cash and cash equivalents at end of year</b>	<b>8,180</b>	<b>6,358</b>	<b>26,466</b>

Net cash used in operating activities for the year ended 31 December 2017 was RMB14.0 million, which primarily reflected our cash generated from operations before changes in working capital of RMB64.1 million as negatively adjusted for changes in working capital of RMB77.2 million, income tax payment of RMB0.2 million and interest payment of RMB0.7 million. Such changes in working capital mainly consisted of an increase in contract assets of RMB53.5 million, an increase in inventories of RMB8.1 million and an increase in trade and bills receivables and other receivables and prepayment of RMB39.6 million due to our business growth in 2017 in particular, the increase in contract assets and trade receivables were mainly resulted from the execution of certain sizable projects (including 066, 091, 072 and 094), partially offset by an increase of RMB27.0 million in trade and other payables due to the increase in the contract value of the new projects secured by us in 2017, thereby resulting in the increase in the procurement of labour subcontractors and purchases of raw materials and equipment.

In view of the net cash used in operating activities for the year ended 31 December 2017, we had strengthened our efforts on the collection of our trade receivables to improve our cash flow position. Our trade and bills receivables decreased from RMB103.6 million as at 31 December 2018 to RMB94.6

## SUMMARY

million as at 31 December 2019, of which our trade and bills receivables aged one to two years decreased from RMB23.3 million as at 31 December 2018 to RMB8.3 million as at 31 December 2019. We did not have any trade and bills receivables aged over three years as at 31 December 2019. As a result, we recorded net cash generated from operating activities of RMB5.6 million and RMB23.1 million for the years ended 31 December 2018 and 2019, respectively.

We generated net cash inflow of RMB5.4 million, net cash outflow of RMB1.8 million and net cash inflow of RMB19.4 million for the years ended 31 December 2017, 2018 and 2019, respectively.

For details of our cash flow data, please refer to the paragraph headed “Financial information — Liquidity and capital resources” in this prospectus.

### Key Financial Ratios

	As at/for the year ended 31 December		
	2017	2018	2019
Gross profit margin (%) <sup>(Note 1)</sup>	30.1	29.0	27.5
Net profit margin (%) <sup>(Note 2)</sup>	17.8	18.3	14.8
Current ratio <sup>(Note 3)</sup>	1.1	1.2	1.3
Quick ratio <sup>(Note 4)</sup>	1.0	1.2	1.3
Return on assets (%) <sup>(Note 5)</sup>	31.5	20.7	18.2
Return on equity (%) <sup>(Note 6)</sup>	1,228.1	91.0	58.7
Gearing ratio (%) <sup>(Note 7)</sup>	34.1	9.2	14.5
Interest coverage ratio <sup>(Note 8)</sup>	73.9	44.1	53.4

*Notes:*

1. *Gross profit margin is calculated based on our gross profit of the relevant year divided by our revenue of the corresponding year and multiplied by 100%.*
2. *Net profit margin is calculated based on our profit for the relevant year divided by our revenue of the corresponding year and multiplied by 100%.*
3. *Current ratio is calculated by dividing total current assets by total current liabilities as at the date indicated.*
4. *Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the date indicated.*
5. *Return on assets is calculated by dividing net profit for the year by the arithmetic mean of the opening and closing balance of total assets of the year and multiplied by 100%.*
6. *Return on equity is calculated by dividing net profit for the year by the arithmetic mean of the opening and closing balance of the total equity of the year and multiplied by 100%.*
7. *Gearing ratio is calculated by dividing total interest-bearing borrowings by total equity as at the date indicated and multiplied by 100%.*
8. *Interest coverage ratio equals profit before interest and tax of the year divided by finance cost of the same year.*

---

## SUMMARY

---

### OUR SHAREHOLDING STRUCTURE

Immediately following completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of options which have been granted under the Pre-IPO Share Option Schemes), approximately 17.97% of the total number of issued Shares will be held by Tewin Capital, which is in turn owned as to 100% by Mr. Yu. In view of the above, Mr. Yu and Tewin Capital will be considered to be our Substantial Shareholders within the meaning of the Listing Rules.

We have adopted the Pre-IPO Share Option Schemes in order to incentivise and reward our Directors and senior management for their contribution to our Group. As of the Latest Practicable Date, options in respect of 39,300,508 Shares were granted under the Pre-IPO Share Option Schemes, representing 7.13% of the enlarged issued share capital of our Company immediately after completion of the Global Offering (without taking into account any Shares which may be issued upon exercise of the options granted under the Pre-IPO Share Option Schemes). Assuming the full exercise of the options granted under the Pre-IPO Share Option Schemes, (a) the shareholding of the Shareholders immediately after the completion of the Global Offering would be diluted by approximately 6.66% and (b) assuming our Company had been listed on the Stock Exchange since 1 January 2020 with 590,272,551 Shares in issue and all the options granted under the Pre-IPO Share Option Schemes were exercised on 1 January 2020, the dilution effect on our earnings per Share attributable to owners of the parent on a pro forma basis would be approximately 6.66% for the year ending 31 December 2020. The principal terms of the Pre-IPO Share Option Schemes are summarised in the paragraph headed “Statutory and general information — D. Pre-IPO share option schemes” in Appendix IV to this prospectus.

### NON-COMPLIANCE

We were involved in certain non-compliance incidents relating to foreign exchanges regulations and contribution to social insurance plans and the housing provident funds for our employees during the Track Record Period. For details, please refer to the paragraph headed “Business — Non-compliance” in this prospectus.

### PRE-IPO INVESTMENT

On 1 February 2019, our Company as borrower and Mr. Yu, Mr. Tang and Mr. Jiang as guarantors entered into a convertible loan agreement with Double River pursuant to which Double River agreed to grant a loan to our Company in the principal amount of HK\$11.5 million (the “**Pre-HKIPO Loan**”) which shall be convertible into 23,924,502 Shares upon obtaining the approval on the Listing by our Company. On 14 July 2020, the Pre-HKIPO Loan will be fully converted into 23,924,502 Shares and Double River will become interested in 4.34% of the entire issued Share capital of our Company immediately after the Global Offering (without taking into account Shares which may be allotted and issued pursuant to the exercise of the options which have been granted under the Pre-IPO Share Option Schemes). To the best knowledge, information and belief of, and having made all reasonable enquiries by our Directors, each of Double River and its ultimate beneficial owner is an Independent Third Party.



---

## SUMMARY

---

### GLOBAL OFFERING STATISTICS

Number of Offer Shares: 82,600,000

Offer Price: Not more than HK\$1.28 per Offer Share and expected not less than HK\$0.98 per Offer Share (excluding brokerage, Stock Exchange trading fee and SFC transaction levy)

	Based on an Offer Price of HK\$0.98	Based on an Offer Price of HK\$1.28
	HK\$	HK\$
Market capitalisation	540.0 million	705.2 million
Unaudited pro forma adjusted net tangible assets per Share ( <i>Note</i> )	0.33	0.37

*Note:* Please refer to Appendix II to this prospectus for the bases and assumptions in calculating this figure.

### DIVIDEND

No dividend has been paid or declared by our Company during the Track Record Period.

Our Shareholders will be entitled to receive dividends that we declare. We do not have a fixed dividend policy and the payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem relevant. Our 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 Company in the future. Any future declarations and payments of dividends will be at the discretion of our Directors and may require the approval of our Shareholders.

### LISTING EXPENSES

Total expenses in relation to the Listing, which may be subject to a material adjustment as a result of the discretionary incentives that may be paid to the Underwriters with a maximum amount of approximately HK\$4.7 million (equivalent to approximately RMB4.3 million) (based on the mid-point of the Offer Price), is estimated to be RMB48.4 million, representing 56.7% of the gross proceeds of approximately HK\$93.3 million (equivalent to RMB85.4 million) (based on the mid-point of the indicative Offer Price range of HK\$1.13). During the Track Record Period, we incurred Listing expenses of RMB20.9 million, of which RMB5.1 million and RMB11.7 million was charged to our consolidated income statements for the years ended 31 December 2018 and 2019, respectively, and we expect to incur additional total Listing expenses of RMB27.5 million for the year ending 31 December 2020. During the year ending 31 December 2020, RMB14.2 million is expected to be charged to our consolidated income statements, and RMB17.4 million is expected to be recognized as a deduction in equity for the year ending 31 December 2020.

Expenses in relation to the Listing are non-recurring in nature. Our Group's financial performance and results of operations for the year ending 31 December 2020 will be adversely affected by the estimated expenses in relation to the Listing.

---

## SUMMARY

---

### DELISTING FROM AIM

Our Shares have been admitted to trading on AIM since 23 May 2011. After careful consideration, our Directors have concluded that it would be beneficial to our Group and Shareholders if we are delisted from AIM. For the reasons for the Delisting, please refer to the section headed “Future plans and use of proceeds — Reasons for Delisting” for details.

Pursuant to rule 41 of the AIM Rules, the Delisting is conditional on the consent of not less than 75% of votes cast by our Shareholders given in a general meeting and 20 business days from the date on which notice of the Delisting was given. Furthermore, a period of at least five business days following the Shareholders’ approval for the Delisting is required before the Delisting can be effected. It is expected that the Delisting will take place on the first day of dealings in our Shares on the Stock Exchange, subject to the granting of the approval of the Listing. For the details about the Delisting, please refer to the section headed “History, reorganisation and corporate structure — Delisting and Listing”.

### REASONS FOR SEEKING LISTING ON THE STOCK EXCHANGE

Our Directors believe that the successful implementation of our future plans would be conducive to increase our competitiveness in the market in which we operate which will in turn assist us in achieving our goal of expanding of our business and increasing our market position. For details of the reasons for seeking listing on the Stock Exchange, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

We estimate the net proceeds from the Global Offering which we will receive, assuming an Offer Price of HK\$1.13 per Offer Share (being the mid-point of the Offer Price range), will be approximately HK\$40.4 million (equivalent to approximately RMB37.0 million), after deducting the underwriting commissions, costs and other estimated expenses payable by us in connection with the Global Offering, which may be subject to a material adjustment as a result of the discretionary incentives that may be paid to the Underwriters with a maximum amount of approximately HK\$4.7 million (equivalent to approximately RMB4.3 million) (based on the mid-point of the Offer Price). We intend to apply the net proceeds of the Global Offering for the following purposes:

- approximately 80%, or HK\$32.4 million (equivalent to approximately RMB29.6 million) of the net proceeds will be used to strengthen our financial position so that we can satisfy the cost commitment at the early stage of the projects to fund the expected net cash outflow for our potential projects with our potential customers for various payments, which include, amongst others, the purchase of raw materials and equipment as well as the procurement of labour subcontracting, and therefore there would allow us to undertake more projects in the future, thereby maintaining and further consolidating our market position in the industry;
- approximately 10%, or HK\$4.0 million (equivalent to approximately RMB3.7 million) of the net proceeds will be used for the development of demonstration projects for (i) Generation 2.0 technology; and (ii) molecular sieve dehydration technology; and
- approximately 10%, or HK\$4.0 million (equivalent to approximately RMB3.7 million) of the net proceeds will be used as our general working capital.

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

---

## SUMMARY

---

### RECENT DEVELOPMENT

#### Latest business development

Subsequent to the Track Record Period and up to the Latest Practicable Date, we continue to focus on our principal business of provision of ethanol production system technology integrated services. As at 30 April 2020, our outstanding contract value (exclusive of VAT) of our service contracts in our backlog was RMB535.1 million. Subsequent to the Track Record Period and up to 30 April 2020, we had entered into 11 contracts with an aggregate contract value (exclusive of VAT) of RMB86.4 million. As at the Latest Practicable Date, we had three letters of intent in relation to ethanol production system projects with an aggregate expected investment amount of approximately RMB680 million. To the best estimate of our Directors, the unrecognised revenue based on the existing contracts as at 30 April 2020 of approximately RMB303.9 million and RMB185.0 million are expected to be recognised as revenue in the financial years ending 31 December 2020 and 2021, respectively.

Our revenue and net profit for the four months ended 30 April 2020 increased significantly as compared with the corresponding period in 2019. Such increase was mainly due to the increase in the contract value of our backlog from RMB329.6 million as at 31 December 2018 to RMB584.9 million as at 31 December 2019. Our revenue recognised during the four months ended 30 April 2020 amounted to RMB136.2 million.

The financial information for the four months ended 30 April 2020 as mentioned above was extracted from the unaudited interim condensed financial information of the Group for the four months ended 30 April 2020, which has been reviewed by the reporting accountant of the Company in accordance with the International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board.

#### Outbreak of COVID-19

Recently, there has been an outbreak of COVID-19, a respiratory illness which was first emerged in Wuhan city, Hubei province, China in late 2019 and later continues to spread within the PRC and globally. On 23 January 2020, the PRC government announced the lockdown of Wuhan city in an attempt to quarantine the city. Since then, draconian measures including travel restrictions have been imposed in other major cities in the PRC, as well as other countries and territories, in an effort to control the outbreak.

As at the Latest Practicable Date, confirmed cases of COVID-19 have been reported in various provinces in the PRC and had spread across countries and territories globally. The outbreak of COVID-19, which is expected to result in a high number of fatalities, is likely to have an adverse impact on the livelihood of the people and the economy in the PRC, particularly Wuhan city and Hubei province.

#### *Impact on our business operation*

While our office was temporarily closed during the Chinese New Year holiday and until 9 February 2020 in accordance with the extension of the Chinese New Year holiday and delay in resumption of work announced by the PRC government, we have resumed our operation on 10 February 2020.

---

## SUMMARY

---

Although a majority of our income during the Track Record Period was generated in the PRC and our customers are mainly based in the PRC, our Directors, after careful and due consideration, confirm that the business, financial conditions and result of operations of our Group would not be materially affected by the outbreak of COVID-19 for the following reasons:

- (1) as at the Latest Practicable Date, (i) we had been able to honour all of our obligations under the existing contracts with our customers; (ii) there was no material delay to any of our backlog projects as a result of the COVID-19 pandemic; (iii) none of the cities in which we, our major customers and major suppliers operate were locked-down or had been materially affected by the COVID-19 pandemic; and (iv) we did not have any changes relating to the terms and conditions in the contracts with our customers and we did not experience any cancellation of contract by our customers; due to the outbreak of COVID-19;
- (2) all of our principal business operations and major customers during the Track Record Period were not located in Wuhan city or Hubei province. We only generated minimal revenue from Hubei province during the Track Record Period. As at the Latest Practicable Date, we did not have any customer based in Wuhan city or Hubei province, nor was there any service required to be provided in Wuhan city or Hubei province and none of our office, processing plants or backlog projects were located in Wuhan city or Hubei province;
- (3) according to the interviews with our existing major customers of our backlog projects with revenue over RMB50 million expected to be recognised after 30 April 2020, their operations, business and financial conditions have not been materially affected by the outbreak of COVID-19;
- (4) we did not encounter and do not expect to encounter any disruption of, including logistical difficulties in procuring our supplies of raw materials and equipment in light of the outbreak of COVID-19. As confirmed by our Directors, the raw materials and equipment procured by us for the provision of our services such as steel plates, steel pipes, flowmeters, grinders and heat exchanges are readily available in the PRC market and we do not have reliance on any major suppliers in Wuhan city or Hubei province for the above raw materials and equipment;
- (5) according to CIC, ethanol production system providers have generally resumed normal operations in February 2020 and the Ministry of Industry and Information Technology provided support to ethanol producers to ensure their normal operations. As advised by CIC, the demand for ethanol products has experienced a short term drop due to the COVID-19 pandemic, but as of mid-May 2020, the demand for ethanol products has basically resumed to the level before the outbreak of COVID-19. In addition, as at the Latest Practicable Date, there was no material change to E10 Mandate announced in September 2017 related to the nationwide ethanol mandate. According to CIC, there would be no material impact on the long term demand for ethanol products. Further, the construction of an ethanol production system generally takes around six months to one year to complete, the short term drop in the demand for ethanol products and the temporary suspension of operation of ethanol production system providers would have no material impact on the market demand and the prices of our products in the PRC in long run due to the COVID-19 pandemic. For details of the latest market outlook, please refer to the paragraphs headed “Overview of the Ethanol Production System Industry — Market Size of the Ethanol Production System Industry and Market Drivers” and “Impact of COVID-19” in the “Industry Overview” section in this prospectus; and

---

## SUMMARY

---

- (6) given (i) the resumption of normal operations of ethanol production system providers in February 2020; (ii) the support provided by the Ministry of Industry and Information Technology to ethanol producers to ensure their normal operations; and (iii) the continuous support from E10 Mandate, our Directors are of the view, and the Sole Sponsor concurred, that (i) the number and the contract value of new contracts to be awarded will continue to resume to normal level; (ii) there will be no material change to the expected commencement date and contract sum of the potential projects that we proposed to fund by the proceeds from the Global Offering; and (iii) there will be no material change to our plan to undertake more projects to further consolidate our leading market position in the PRC. For details of these potential projects and our expansion plan, please refer to the section headed “Future Plans and Use of Proceeds — Reasons for Seeking Listing on the Stock Exchange — (b) Strengthen our financial position to undertake more projects in order to maintain and further consolidate our leading market position in the PRC” in this prospectus.

### ***Impact on our employees***

In line with our continuing efforts to provide a safe and healthy working environment to our own employees, we have prepared an internal manual on prevention of spread of COVID-19 and have implemented pandemic prevention measures in response to the outbreak of COVID-19:

- (1) we have set up a pandemic prevention group led by our general manager, Mr. Jiang, to coordinate the implementation of pandemic prevention measures in accordance with the requirements of the PRC government;
- (2) before an employee returns to work, we will obtain information and keep record on his/her travelling history in the past 14 days, health conditions and whether he/she has close contact with persons with symptoms of respiratory diseases; and
- (3) we will carry out disinfection of our office area on a daily basis.

We believe such measures are effective in reducing the risk of spreading of COVID-19 among our employees. As at the Latest Practicable Date, none of our employees had been suspected or confirmed to have contracted COVID-19.

### ***Business contingency plans***

In view of the outbreak of COVID-19, apart from the adoption of pandemic prevention measures as mentioned above, our Directors have also considered the following business contingency plans which will be in place to avoid any material disruptions to our daily operations, particularly to reduce any negative impact from business interruptions and maintain our profitability:

- (1) maintain minimal headcount to support our operations by keeping our essential staffs in the office and the project sites;
- (2) arrange with our essential staffs, apart from physical visit, to work remotely on a rotational basis so that we are able to continue our provision of services through electronic media and telephone; and

---

## SUMMARY

---

- (3) maintain more than one subcontractor and supplier for our major raw materials.

### *Extreme situation and its impact on our financial conditions*

Our Group has conducted a worst case scenario business assessment by taking into consideration that: (i) all of our backlog projects are forced to be delayed for a 6-month period due to the impact of COVID-19 and therefore a corresponding delay in receipt of contract assets and trade receivables and settlement of trade and other payables for 6 months; (ii) operating and administrative expenses will be incurred to maintain our operations at a minimum level (including basic head office maintenance cost and utilities expenses); and (iii) there will be no further internal or external financing from Shareholders or financial institutions. To the best estimate of our Directors, based on (i) the cash and cash equivalent of approximately RMB14.7 million as at 30 April 2020; (ii) the general working capital of RMB2.7 million from the net proceeds of approximately HK\$29.3 million (equivalent to approximately RMB26.8 million) from the Global Offering, being the proceeds from the Global Offering after deducting the Listing expenses to be paid for the year ending 31 December 2020 and assuming an Offer Price of HK\$0.98 per Offer Share (being the low-end of the Offer Price range); (iii) the contract assets and the trade receivables (without taking into account deposit receivables) as at 30 April 2020 based on the historical turnover days; (iv) the outstanding trade payables as at 30 April 2020; (v) the outstanding loan repayable as at 30 April 2020; and (vi) the above assumptions, our Directors believe that we will be financially viable to support our minimum operations for at least the next 12 months from the date of this prospectus.

The abovementioned extreme situation may or may not occur. The abovementioned analysis is for illustrative purpose only and our Directors currently assessed that the likelihood of such situation is remote. The actual impact caused by the outbreak of COVID-19 will depend on its subsequent development; therefore there is a possibility that such impact to our Group may be out of our Directors' control and beyond our estimation and assessment. If the outbreak of COVID-19 in the PRC continues and deteriorates, negative impact may be caused to our business, results of operation, financial performance and future prospects.

Our Directors are of the view that the outbreak of COVID-19 will not have material impact on our Group's business operations and financial conditions. As at the Latest Practicable Date, our Directors confirmed that we did not face any financial difficulties as a result of the outbreak of COVID-19. Our Directors will continue to assess the impact of COVID-19 on our Group's operation and financial performance and closely monitor our Group's exposure to the risks and uncertainties in connection with the pandemic. We will take appropriate measures as necessary and inform our Shareholders and potential investors as and where necessary. For further details, please refer to the paragraphs headed "The outbreak of any severe communicable disease, if uncontrolled, could adversely affect our results of operations" in the "Risk Factors" section; and refer to the paragraph headed "Impact of COVID-19" in the "Industry Overview" section of this prospectus.

Our Directors have confirmed that, since 31 December 2019 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in our consolidated financial statements set out in the Accountant's Report included in Appendix I to this prospectus.

---

## DEFINITIONS

---

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

“13th Five-Year Plan”	The Thirteenth Five-Year Plan Guidelines for National Economic and Social Development of the PRC (《中華人民共和國國民經濟和社會發展第十三個五年規劃綱要》)
“AIM”	the market of that name operated by the LSE
“AIM Rules”	the AIM Rules for Companies published by the LSE from time to time
“Application Form(s)”	<b>WHITE</b> Application Form(s), <b>YELLOW</b> Application Form(s) and <b>GREEN</b> Applications Form or, where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of the Company, a summary of which is set out in Appendix III to this prospectus
“Asia Tianxing”	Asia Tianxing Investment Limited, a company incorporated in Hong Kong with limited liability on 26 May 2005 and is wholly owned by Mr. Tang, our executive Director
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Baojie”	Guangzhou Baojie Electromechanical Co., Ltd.* (廣州保捷機電有限公司), a company established in the PRC on 24 December 2004, being a former shareholder of Boluo Tianyuan
“Best Full”	Best Full Investments Limited, a company incorporated in the BVI with limited liability on 22 March 2006 and is wholly owned by Mr. Liang Hongtao (梁洪濤), a director of Zhongke Tianyuan
“Board of Directors” or “Board”	the board of Directors of the Company
“Boluo Tianyuan”	Guangdong Boluo Zhongke Tianyuan High and New Technology Engineering Co., Limited* (廣東省博羅中科天元高新技術工程有限公司) (formerly known as “Guangdong Boluo Jiuneng High and New Technology Co., Limited*” (廣東省博羅九能高新技術工程有限公司)), a company established in the PRC on 30 September 1998 with limited liability, being a wholly-owned subsidiary of our Company

---

## DEFINITIONS

---

“Business Day” or “business day”	a day on which banks in Hong Kong, or, as the contexts require, the PRC are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	British Virgin Islands
“CAGR”	compound annual growth rate
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operation and functions of CCASS, as from to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC” or “Mainland”	the People’s Republic of China, and for the purposes of this prospectus only, excluding Hong Kong, Macau and Taiwan
“CIC”	China Insights Consultancy Limited, a market research and consulting company, which is an Independent Third Party
“CIC Report”	the industry report prepared and provided by CIC, which was commissioned by us in relation to, amongst other things, the ethanol production system market in the PRC
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time



---

## DEFINITIONS

---

“Companies (WUMP) 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”	China New Energy Limited (carrying on business in Hong Kong as Zhongke Tianyuan New Energy Limited), a public company with limited liability incorporated in Jersey on 2 May 2006 under the Jersey Companies Law
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and as at the Latest Practicable Date, our Company had no Controlling Shareholder
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“COVID-19”	COVID-19 virus, a coronavirus identified as the cause of an outbreak of respiratory illness that was first detected in Wuhan city, Hubei province in the PRC in late 2019
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity dated 16 June 2020 and entered into by Tewin Capital, Mr. Yu, Tonzest Capital, Mr. Tang, Jojo and Mr. Jiang in favor of our Company, the details of which are set out in the section headed “Appendix IV — Statutory and General Information — F. Other Information — 1. Tax and other indemnity” of this prospectus
“Delisting”	the cancellation of admission of our Shares to trading on AIM conditional on the Listing
“Director(s)” or “our Directors”	director(s) of our Company
“Double River”	Double River Limited, a company incorporated in BVI with limited liability on 5 August 2010 and is wholly owned by Mr. Kwan Hoi Wang (關開宏), being an Independent Third Party and the pre-HKIPO investor
“E10 Mandate”	the new nationwide ethanol mandate announced by NEA in September 2017 that was designed to expand the mandatory use of E10 fuel from 12 trial provinces to the entire country by 2020
“EIT”	enterprise income tax

---

## DEFINITIONS

---

“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) which was adopted by the Tenth National People’s Congress on 16 March 2007, and became effective on 1 January 2008, as amended, supplemented and otherwise modified from time to time and subsequently amended by the Standing Committee of NPC and became effective on 29 December 2018
“Exchange Participant(s)”	a person: (a) who, in accordance with the Listing Rules, may trade on or through the Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Stock Exchange as a person who may trade on or through the Stock Exchange
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
“First Record Date”	30 June 2020
“GIEC CAS”	Guangzhou Institute of Energy Conversion, Chinese Academy of Sciences* (中國科學院廣州能源研究所)
“Global Offering”	the Hong Kong Public Offering and the International Placing
“GREEN Application Form”	the application form(s) to be completed by the <b>White Form eIPO</b> Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “we”, “our”, “us”, “ourselves” or “our Group”	our Company and its subsidiaries or any of them at the relevant time, or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company or (as the case may be) their predecessors
“HK\$”, “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Computershare Hong Kong Investor Services Limited

---

## DEFINITIONS

---

“Hong Kong Offer Shares”	the 8,260,000 Shares initially offered by our Company for subscription pursuant to the Hong Kong Public Offering, subject to adjustment as described in the section headed “Structure of the Global Offering” of this prospectus
“Hong Kong Public Offering”	the offering by our Company of the Hong Kong Offer Shares for subscription at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) on and subject to the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” of this prospectus
“Hong Kong Underwriting Agreement”	the Hong Kong Public Offering underwriting agreement dated 29 June 2020 relating to the Hong Kong Public Offering and entered into by our Company; the Sole Sponsor; Mr. Yu, as warranting Shareholder and warranting Director; Tewin Capital as warranting Shareholder; Mr. Tang, as warranting Director; the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters, as further described in the section headed “Underwriting — Underwriting arrangements and expenses — Underwriting Agreements — Hong Kong Public Offering — Hong Kong Underwriting Agreement” of this prospectus
“Independent Third Party(ies)”	individual(s) or company(ies) who/which, is/are independent of and not connected with (within the meaning of the Listing Rules) our Company or its connected persons
“International Placing”	the conditional placing of the International Placing Shares by the Underwriters, outside the United States in offshore transactions in accordance with Regulation S, as further described in the section headed “Structure of the Global Offering” of this prospectus
“International Placing Shares”	the 74,340,000 Shares initially offered pursuant to the International Placing

---

## DEFINITIONS

---

“International Sanctions”	all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the U.S. government, the European Union and its member states, the United Nations or the government of Australia
“International Sanctions Legal Advisers”	Hogan Lovells, our legal advisers as to International Sanctions laws
“International Underwriters”	the underwriters who are expected to enter into the International Underwriting Agreement, being the underwriters of the International Placing
“International Underwriting Agreement”	the International Placing underwriting agreement expected to be entered into on or around the Price Determination Date by our Company; the Sole Sponsor; Mr. Yu, as warranting Shareholder and warranting Director; Tewin Capital as warranting Shareholder; Mr. Tang, as warranting Director; the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the International Underwriters in respect of the International Placing, as further described in the section headed “Underwriting — Underwriting arrangements and expenses — Underwriting Agreements — International Placing — International Underwriting Agreement” of this prospectus
“Jersey Companies Law”	Companies (Jersey) Law 1991 Jersey, as amended, supplemented or otherwise modified from time to time
“Joint Bookrunners”	SPDB International Capital Limited, DL Securities (HK) Limited, Soochow Securities International Brokerage Limited and Founder Securities (Hong Kong) Limited
“Joint Global Coordinators”	SPDB International Capital Limited and DL Securities (HK) Limited
“Joint Lead Managers”	SPDB International Capital Limited, DL Securities (HK) Limited, Soochow Securities International Brokerage Limited, Founder Securities (Hong Kong) Limited, Realord Asia Pacific Securities Limited, Standard Perpetual Securities Limited, AWSG International Securities Limited and Seazen Resources Securities Limited
“Jojo”	Jojo Global Investment Limited, a company incorporated in BVI with limited liability on 7 September 2006 and is wholly owned by Mr. Jiang, our general manager and a senior management of our Group
“Latest Practicable Date”	20 June 2020, being the latest practicable date for the inclusion of certain information in this prospectus prior to its publication

---

## DEFINITIONS

---

“Leader Vision”	Leader Vision Investments Limited, a company incorporated in BVI with limited liability on 12 December 2005 and is wholly owned by Mr. Yu, an executive Director
“Listing”	listing of the Shares on the Main Board of the Hong Kong Stock Exchange
“Listing Committee”	the Listing Committee of the Hong Kong Stock Exchange
“Listing Date”	the date, expected to be on or about 15 July 2020, on which our Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“LSE”	London Stock Exchange Group plc
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange (excluding the futures market) operated by the Hong Kong Stock Exchange which is independent from and operates in parallel with the GEM of the Hong Kong Stock Exchange
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company, as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“MOF”	Ministry of Finance of the PRC (中華人民共和國財政部)
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Jiang”	Mr. Jiang Xinchun (姜新春), our general manager and a senior management of our Group
“Mr. Tang”	Mr. Tang Zhaoxing (唐兆興), an executive Director
“Mr. Yu”	Mr. Yu Weijun (余偉俊), an executive Director and one of our Substantial Shareholders
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Nomination Committee”	the nomination committee of the Board

---

## DEFINITIONS

---

“NPC”	National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“OFAC”	the United States Department of Treasury’s Office of Foreign Assets Control
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%), at which Hong Kong Offer Shares are to be subscribed, to be determined in the manner further described in the paragraph headed “Structure of the Global Offering — Pricing and allocation” of this prospectus
“Offer Share(s)”	the Hong Kong Offer Shares and the International Placing Shares, collectively
“OPEC”	Organisation of the Petroleum Exporting Countries
“PBOC”	People’s Bank of China (中國人民銀行), the central bank in China
“Praise Hero”	Praise Hero Limited, a company incorporated in BVI with limited liability on 9 January 2014 and is owned as to 50% by each of Ms. Xu Huijuan (徐惠娟), a joint company secretary and senior management of our Group, and Mr. Zhou Hongcai (周宏才), a senior management of our Group
“PRC Company Law”	Company Law of the PRC (中華人民共和國公司法), enacted by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective on 1 July 1994, and subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 26 October 2018 as amended, supplemented or otherwise modified from time to time
“PRC government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities
“PRC Legal Advisers”	Zhong Lun Law Firm (Guangzhou), our legal advisers as to the PRC laws

---

## DEFINITIONS

---

“Pre-IPO Share Option Schemes”	collectively, the pre-IPO share option schemes adopted to provide long-term incentives to the then (i) employee and (ii) directors and senior management, respectively, of our Group, further information on the Pre-IPO Share Option Schemes is set forth in the paragraph headed “History, reorganisation and corporate structure — Pre-IPO share option schemes” in this prospectus and a summary of its principal terms is set forth in the paragraphs under “D. Pre-IPO Share option schemes — The Pre-IPO Share Option Schemes” in Appendix IV to this prospectus
“Price Determination Agreement”	the 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 about Tuesday, 7 July 2020 (Hong Kong time), on which the Offer Price is determined, or such later time as the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and we may agree, but in any event no later than Friday, 10 July 2020
“province”	each being a province or, where the context requires, a provincial-level autonomous region or municipality under the direct supervision of the central governmental of the PRC
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of the Board
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing as described under the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Corporate Structure” of this prospectus
“RMB” or “Renminbi”	the lawful currency of the PRC
“Rp” or “Rupiah”	the lawful currency of Indonesia
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局) which was integrated into SAMR pursuant to the Circular of the State Council on Establishment of Institutions (國務院關於機構設置的通知) (Guo Fa 2018 No. 6) issued by the State Council on 22 March 2018

---

## DEFINITIONS

---

“SAMR”	State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局)
“Sanctioned Country(ies)”	countries and regions regarding which governments such as the United States or Australia, or governmental organizations, such as the European Union or the United Nations, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries and regions or against targeted industry sectors, groups of companies or persons, and/or organizations within such countries and regions
“Sanctioned Person(s)”	certain person(s) and identity(ies) listed on OFAC’s Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the United States, European Union, the United Nations or Australia
“SAT”	State Administration of Taxation of the PRC (國家稅務總局)
“Second Record Date”	14 July 2020
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of the Company, with a nominal value of £0.00025 each
“Shareholder(s)”	holder(s) of the Shares
“Sole Sponsor” or “Dongxing Securities”	Dongxing Securities (Hong Kong) Company Limited, a licensed corporation under the SFO permitted to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities (as defined under the SFO)
“State Council”	State Council of the PRC (中華人民共和國國務院)
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“Substantial Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, unless the context otherwise requires, refers to Tewin Capital and Mr. Yu



---

## DEFINITIONS

---

“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-backs, as amended, supplemented or otherwise modified from time to time
“Tewin Capital”	Tewin Capital Holding Limited, a company incorporated in BVI with limited liability on 7 September 2006 and is wholly owned by Mr. Yu, an executive Director, and one of our Substantial Shareholders
“Tonzest Capital”	Tonzest Capital Holding Limited, a company incorporated in BVI with limited liability on 7 September 2006 and is wholly owned by Mr. Tang, an executive Director
“Track Record Period”	the three years ended 31 December 2017, 2018 and 2019
“Underwriter(s)”	the Hong Kong Underwriter(s) and the International Underwriter(s)
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. dollars”, “US\$” or “USD”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time and the rules and regulations promulgated thereunder
“VAT”	value-added tax
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“ <b>White Form eIPO</b> ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at <b>www.eipo.com.hk</b>
“ <b>White Form eIPO</b> Service Provider”	Computershare Hong Kong Investor Services Limited
“ <b>YELLOW</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS

---

## DEFINITIONS

---

“Zhongke Environment”	Guangzhou Zhongke Huanneng Technology Co., Ltd.* (廣州中科環能科技有限公司), a company established in the PRC on 17 May 2001 with limited liability and an investment vehicle established by GIEC CAS, being one of the founding shareholders of Zhongke Regeneration
“Zhongke Green Food”	Guangdong Zhongke Tianyuan Green Food Company Limited* (廣東中科天元綠色食品有限公司), a company established in the PRC on 10 June 2014 with limited liability which is owned as to 40%, 40%, 10%, 5% and 5% by Mr. Yu, Mr. Tang, Mr. Jiang, Zhongke Regeneration and an Independent Third Party respectively
“Zhongke Regeneration”	Guangdong Zhongke Tianyuan Regeneration Resources Engineering Co., Ltd.* (廣東中科天元再生資源工程有限公司), a company established in the PRC on 27 June 2002 with limited liability, being a former shareholder of Boluo Tianyuan, which is owned as to 48% by Mr. Tang and 52% by Guangdong Tianwei Investment Company Limited* (廣東天為投資有限公司), which is in turn owned as to 90% by Mr. Yu
“Zhongke Tianyuan”	Guangdong Zhongke Tianyuan New Energy Science and Technology Co. Ltd.* (廣東中科天元新能源科技有限公司), a company established in the PRC on 2 September 2006 with limited liability, being a wholly-owned subsidiary of our Company
“%”	per cent.
“£”, “pound sterling” or “pence”	the legal currency of the United Kingdom

*The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese or another language marked with an asterisk “\*” included in this prospectus is for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.*

*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.*

---

## GLOSSARY

---

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

“anhydrous ethanol”	ethanol with water content of less than 0.5%
“ASME”	American Society of Mechanical Engineers
“by-product recycling system”	a series of equipment to reuse by-product or material produced during the ethanol production process
“CE”	a certification that indicates compliance with health, safety, and environmental protection standards for products sold within the European Economic Area
“cellulosic ethanol”	ethanol (ethyl alcohol) produced from cellulose
“denaturation”	the process of adding chemicals (denaturants) to make ethanol poisonous and not suitable for human consumption
“distillation and dehydration system”	a series of equipment used for distillation and dehydration process which is an industrial purification technique of ethanol by boiling and condensation which utilizes the differences of volatilities of components in a mixture
“E10 fuel”	ethanol gasoline at 10% blending rate
“Ethanol”	a chemical compound with the chemical formula $C_2H_6O$
“Ethanol fuel”	anhydrous ethanol used as biofuel additive
“fermentation system”	a series of equipment used for fermentation process which is a key chemical step for the production of ethanol. During the step, yeast is added into the feedstock to trigger the fermentation process after completion of which nearly 90%–95% of the glucose is converted to ethanol
“gasoline”	a mixture of volatile, flammable liquid hydrocarbons derived from oil and used as fuel for internal-combustion engines
“Generation 1.0”	the technology of producing ethanol from staple grain such as corn, wheat, rice feedstock, etc
“Generation 1.5”	the technology of producing ethanol from non-food grain such as cassava, sugarcane, sweet potato, sweet sorghum, etc

---

## GLOSSARY

---

“Generation 2.0”	the technology of producing ethanol from fibrous parts of the plants such as corn cobb, corn stalk, forage sorghum, wood chips, etc
“glucose”	a kind of sugar mainly made by plants and most algae during photosynthesis from water and carbon dioxide, using energy from sunlight.
“grinder system”	a series of equipment used for grinding process which is one of the process for ethanol production, during which starch or grain is grinded in a hammermill or roller mill
“NEA”	National Energy Administration
“R&D”	Research and Development
“Renewable Energy”	Energy that is collected from renewable resources, such as sunlight, wind, rain, geothermal heat, and biological sources
“waste treatment system”	a series of equipment used to treat waste from ethanol manufacturing

---

## FORWARD-LOOKING STATEMENTS

---

This prospectus contains certain forward-looking statements and information relating to our Group that are based on the belief of our management as well as assumptions made by and information currently available to our management. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategy, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words and expressions such as “aim”, “expect”, “believe”, “plan”, “consider”, “intend”, “estimate”, “predict”, “project”, “seek”, “anticipate”, “continue”, “may”, “will”, “should”, “would” and “could” or similar words, expressions or statements or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our ability to implement our business plans and strategies successfully;
- future developments, trends and conditions in the industry and markets in which we operate;
- our ability to control or reduce costs;
- our capital expenditure and operational plans;
- the actions and developments of our competitors;
- capital market developments;
- our dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business;
- general political and economic and business conditions in the markets in which we operate;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- various business opportunities that we may pursue;
- risks identified under the section headed “Risk Factors” in this prospectus; and
- other factors beyond our control.

---

## FORWARD-LOOKING STATEMENTS

---

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed under the section headed “Risk Factors” and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements, which reflect our management’s view only as of the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur.

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. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

---

## RISK FACTORS

---

*Potential investors should carefully consider the risk factors described below together with all other information contained in this prospectus before deciding whether or not to invest in the Offer Shares. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of the Offer Shares could decline due to any of these risks, and you could lose all or part of your investment. This prospectus contains certain forward-looking statements regarding our plans, objectives, expectations and intentions that involve risks and uncertainties. Our actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this prospectus.*

The risks related to our business and operations and the Global Offering can be categorised into four broad areas, namely the (i) risks relating to our business and industry; (ii) risks relating to conducting business in the PRC; (iii) risks relating to the Global Offering and our Shares; and (iv) risk relating to the statements made in this prospectus and from other sources.

### **RISKS RELATING TO OUR BUSINESS AND INDUSTRY**

**All of our contracts with customers are on a project basis. If we fail to secure new contracts on a continual basis, our operating results may be materially and adversely affected, and we may be unable to secure projects or maintain our growth or profitability at historical rate in the future**

Our relationships with our customers are mainly contract-based with reference to particular project(s). We provide ethanol production system technology integrated services to our customers on a project basis, which is not recurring in nature. As we do not have any long-term contractual arrangements with our customers, we must seek to source and enter into new contracts from time to time. Apart from providing quotation directly to our customers, we also secure contracts through open tendering and invitational tendering. Our tender success rate fluctuated during the Track Record Period. During the three years ended 31 December 2019, our success rate for open tendering was 50.0%, 0% and 25%, respectively, while our success rate for invitational tendering was 33.3%, 40.0% and 0% for the three years ended 31 December 2019, respectively. There is no assurance that we will continue to secure new contracts or maintain or increase our current level of business activities with existing or prospective customers in the future. It is generally very difficult to predict whether or when we will secure new contracts, as it may depend on a number of factors, such as the actual business needs of the potential customers, market conditions, financing arrangements and government policy. Moreover, as the ethanol production systems provided by us generally possess a relatively long life-span, save for some ad-hoc upgrade works to enhance the efficiency and functionality of the systems requested by our customers, they generally do not have repetitive needs for upgrading or replacing the entire set of the ethanol production systems within a short period of time and therefore it is more difficult for us to continue to enter into successive contracts with our existing customers. If we are unable to identify new customers and secure new contracts on a continual basis, our business and results of operations may be materially and adversely affected.

Furthermore, we cannot assure you that we will be able to maintain or improve business relationships with our existing customers and any of them may terminate their respective business relationships with us at any time. Any material difficulty in securing new projects from our customers, termination or significant reduction in the number or contract value of the projects secured from them could cause our revenue and profits to decrease significantly.

---

## RISK FACTORS

---

**Any significant and unfavourable shifts in the political, economic and social conditions, or the legal and regulatory environment of the PRC may lead to reduction in demand for our services**

During the Track Record Period, most of our Group's customers were based in the PRC and majority of our Group's services were delivered in the PRC market. During the Track Record Period, revenue generated from customers in the PRC amounted to RMB254.4 million, RMB233.9 million and RMB379.9 million, representing 99.0%, 93.6% and 95.3% of our total revenue for the three years ended 31 December 2019, respectively. Although the PRC economy experienced growth in the past, the rate of growth has been slowing down recently and there is no guarantee that the PRC economy will continue to grow. If there is an economic downturn in the PRC, the demand for ethanol from downstream industries, including the alcoholic beverage industry, ethanol fuel industry and industrial chemical industry, may decrease, which may in turn lead to a decrease in demand for ethanol production systems from ethanol producers. On the other hand, according to National Energy Administration's policy related to the E10 Mandate announced in September 2017, the mandatory use of E10 fuel will be promoted to the entire country by 2020, which results in significant expansion of the ethanol fuel production capacity. However, there is no assurance that the PRC government will continue to maintain a favourable policy towards ethanol fuel in the future. If the PRC government decides to restrain the production of ethanol in order to control feedstock price or impose additional regulatory control to limit the entry of new players to the ethanol industry in the future, this may lead to a decrease in the demand for our ethanol production systems.

The PRC government continues to play a significant role in regulating industrial development and directing the development trend of various industries in the PRC and our Group's business has relied on the regulatory support from the PRC government. In the event that the PRC government changes its economic policies and divert the resources from the ethanol production industry to support the growth of other industries, or controls the use of corn stock in ethanol fuel production so as to safeguard food security, this may lead to a decrease in the demand for our ethanol production systems. According to CIC, before 2016, in order to ensure corn price and food security, the PRC government implemented the corn stock policy under which the PRC government limited the amount of corn used for ethanol fuel production due to the concern over food price and safety. As corn is one of the major raw materials for producing ethanol, the approval of ethanol production plant construction was strictly controlled. Due to the inactive market environment during the period from 2013 to 2015, the aggregate value of the contracts we secured during 2013 to 2015 was generally smaller as compared with the contracts secured during the Track Record Period. On the other hand, since the promulgation of the E10 Mandate by the NEA in September 2017, the ethanol fuel production volume in the PRC increased by 17.0% and 39.6% in 2017 and 2018, respectively. There is no assurance whether the PRC government will maintain the aforesaid favourable policy, or re-introduce any restrictive policy, such as the corn-stock policy, in the future. Any material change in the government policy on the industry may materially affect the demand for our services and our financial performance.



---

## RISK FACTORS

---

The demand for our services to a certain extent also depends on the perception of the public over ethanol fuel and their preference over the choice of fuel. There is no assurance on whether the public will change their perception over ethanol fuel and prefer to use traditional fuel instead of ethanol fuel. In addition, there is also no assurance on whether the PRC government will impose more stringent control on the ethanol production industry, such as by enforcing new laws or regulation to govern the entry of new players not enact additional laws or regulations to govern the ethanol production industry. Therefore, the aforesaid significant and unfavourable shifts in the political, economic and social conditions, or the legal and regulatory environment of the PRC could have a material adverse effect on the overall economic growth of the PRC, affect the effectiveness of or delay the implementation of the nationwide use of E10 fuel and lead to reduction in demand for our services and cause our projects to be postponed or cancelled, which in turn could have an adverse impact on our business, results of operations and financial condition.

### **Changes to the regulations on the oil price and gasoline price and extreme long-term low level of oil price could render our ethanol fuel production system less attractive**

According to CIC, (i) the National Development and Reform Commission has set the minimum trading price of oil as USD40.0/barrel as the basis to determine the gasoline price in the PRC; and (ii) according to NEA, the ethanol fuel price is approximately 0.9 times of the gasoline price in the PRC. Since oil price is one of the price determining factors of gasoline and contributes approximately one-third of its costs in the PRC, oil price is correlated to ethanol fuel price. These policies can protect the gasoline price and ethanol fuel price to maintain within a stable range against oil price fluctuations. According to CIC, although these policies have not been amended, suspended or terminated since their adoption, should there be any extreme economic downturn or political crisis in the PRC, or should the oil price remains at an extreme low level for a long period of time, these policies may be amended in material aspects, suspended or even terminated. Assuming that there is no other favourable factor to support the ethanol fuel price, if there are any material changes to the above policies, in particular, the minimum trading price to determine gasoline price in the PRC, long-term extreme low oil price will adversely affect the gasoline price in the PRC which in turn may adversely affect the ethanol fuel price, which would then affect the business of our ethanol fuel production system and our financial performance.

For the hypothetical analysis of the impact of ethanol fuel price on our Group, please refer to the paragraph headed “Financial Information — Key Factors Affecting our Results of Operation — Hypothetical analysis of the impact of ethanol fuel price on our Group” in this prospectus.

### **We may experience delays or defaults in realizing accounts receivable and progress payments from our customers and such delays or defaults may lead to net cash outflow from our operating activities**

For our service projects, project owners generally make progress payments to us with reference to the percentage of work completed at specific milestone. In accordance with the contracts entered into between us and our customers, once the service project reaches a certain stage as specified in the relevant contract, we will be paid a portion of the contract value on a progressive basis. The milestone stage on which our customers pay us generally include (i) the signing of the contract, (ii) before delivery of the equipment to the project site of our customer, (iii) after completion of installation of the equipment and issuance of project completion report and (iv) the expiry of the defect liability period, which is generally 12 months from the date of project completion report issued by our customer. Depending on the needs of each project, we may agree with our customers to pay us progress payments between each milestone. From time to time, we may be required to commit cash and other resources to the projects prior to receiving payments from each milestone from project owners to cover certain expenditures on the projects as they incur.

---

## RISK FACTORS

---

We cannot assure you that our customers will honour their contractual obligations pursuant to the terms and conditions of the contracts and make full and timely payments for our services rendered to them. Delays in progress payments by our customers may significantly increase our working capital needs. If a customer defaults or delays in making its payments, becomes insolvent or is otherwise unable or unwilling to settle its outstanding payment in a timely manner or at all, it could also affect our liquidity and reduce the capital resources that are otherwise available for other uses. We recorded net cash used in operating activities of RMB14.0 million for the year ended 31 December 2017. For further details, please refer to the paragraph headed “Financial information — Liquidity and capital resources — Cash flows from operating activities” in this prospectus. Net operating cash outflow could impair our ability to make necessary capital expenditures and constrain our operational flexibility as well as adversely affect our ability to meet our liquidity requirements.

We may file a claim for compensation of the loss that we incur pursuant to our contracts but settlement of disputes generally takes significant time, capital and other resources, and the outcome may be uncertain. There can be no assurance that the progress payments will be remitted by our customers to us on a timely basis, or at all, or that we will be able to efficiently manage the level of doubtful debts arising from such delay in payment. In view of this, our liquidity may be constrained, our level of bad debts may soar, thereby adversely affecting our financial condition and results of operations.

### **We experienced poor recoverability of our receivables**

We may encounter difficulties in collecting progress payments from our customers. Though we generally do not grant a credit period to our customers and the due dates of our trade receivables are the dates on which the respective invoices were issued, there is no assurance that our customers will timely complete the acceptance checks and settle the progress payments on a timely basis. Our allowance for impairment of trade and bills receivables amounted to RMB96.8 million, RMB18.2 million and RMB11.1 million as at 31 December 2017, 2018 and 2019, respectively. Impairment losses of RMB4.9 million and RMB0.8 million were recognised for the years ended 31 December 2017 and 2019, respectively and net reversal of impairment losses of RMB0.3 million were recognised for the year ended 31 December 2018. We cannot guarantee the recoverability of our receivables or predict the movement of our impairment of trade and bills receivables. If we fail to recover our receivables, this may have an adverse impact on our working capital needs and may adversely affect our financial positions in the future.

### **We are exposed to credit risks from our customers and the recoverability of our contract assets is subject to uncertainties**

Contract assets represent our rights to receive payments for contract works completed and not yet billed. Such rights are conditional on our future performance in achieving specific contract milestone. However, we cannot assure you that we will be able to bill all the contract assets based on specific milestone. Our allowance for impairment of contract assets amounted to RMB5.3 million, RMB3.3 million and RMB6.0 million as at 31 December 2017, 2018 and 2019, respectively. Impairment losses of RMB1.3 million, RMB0.6 million and RMB2.8 million were recognised for the years ended 31 December 2017, 2018 and 2019, respectively. During the lifecycle of a project, a customer’s financial condition can impact its ability to make payment on a timely basis. Default by customers in making payments to us on projects for which we have already incurred significant costs and expenditures can affect the recoverability of our contract assets, which may materially and adversely affect our results of operations, liquidity and financial performance.

---

## RISK FACTORS

---

**We are exposed to fair value changes for financial liabilities at fair value through profit or loss and valuation uncertainty due to the use of unobservable inputs that require judgement and assumptions which are inherently uncertain**

Some of our financial liabilities are measured at fair value. For financial reporting purposes, fair value measurements of these financial liabilities are categorized into level 1, 2 or 3, based on, among other things, the degree to which the inputs to the fair value measurements are “observable”. The fair value of financial liabilities classified in levels 1 and 2 is determined based on observable prices and inputs, while the determination of the fair value of level 3 financial liabilities is based on valuation techniques and various assumptions of inputs that are unobservable which inherently involve a certain degree of uncertainty.

During the Track Record Period, our level 3 financial liabilities consisted of convertible notes, details of which are set out in the section headed “History, reorganisation & corporate structure — Pre-HKIPO investments” in this prospectus. As at 31 December 2019, the fair value of the convertible notes amounted to RMB11.8 million. Our management determines the fair value of our convertible notes using weighted scenario approach that incorporated unobservable inputs of discount rates and probability of obtaining approval from the Stock Exchange for the Listing. Please refer to note 3.5 to the Accountant’s Report as included in Appendix I to this Prospectus for more information about the fair value measurement of our level 3 convertible notes. Changes in these unobservable inputs will affect the estimated fair value of our financial liabilities, which leads to uncertainty in accounting estimation. Factors beyond our control may influence and cause adverse changes to the estimates we use and thereby affect the fair value of these financial liabilities. These factors include, but not limited to, general economic condition, changes in market interest rates and stability of capital markets. Any of these factors, as well as others, could cause our estimates to vary from actual results and cause the fair value of our financial liabilities to fluctuate substantially.

The valuation techniques that we use may involve a significant degree of management judgement and are inherently uncertain, and may result in material adjustment, which in turn may materially and adversely affect our results of operations.

**If our intangible assets are impaired, our results of operations and financial position may be adversely affected**

As of 31 December 2019, we had intangible assets of RMB18.3 million, which mainly comprised the capitalised development costs for our patents. Development cost not yet ready for use and intangible assets that have an indefinite useful life are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. We did not incur any impairment losses on intangible assets during the Track Record Period. If we incur any impairment losses of intangible assets in the future, our results of operations and financial position may be adversely affected.

---

## RISK FACTORS

---

### **The amount of performance guarantee we are required to provide may expose us to credit risk**

During the Track Record Period, we had been awarded with a contract, namely Project 136, with a contract value (exclusive of VAT) of RMB330.8 million, under which we were contractually required to provide an up-front payment of RMB78.0 million for guaranteeing our performance under the contract. As at 31 December 2019, we had deposits receivables of RMB78.0 million. Delays in the release of performance guarantee from our customer after we fulfil our contractual obligation may increase our working capital needs or cash flow pressure. If our customers experience financial distress or are unable to release the performance guarantee amount to us in a timely manner or at all, our financial condition, liquidity and results of operations could be materially and adversely affected.

### **We operate in a competitive industry and we may not be able to maintain an edge over our competitors**

According to the CIC Report, we ranked the first in terms of revenue with a market share of approximately 10.8% in the ethanol production system industry in the PRC in 2019. There are other providers of ethanol production system in the market whom may possess more experience, expertise, technical knowhow and financial ability to capitalise on pricing strategies and other services to gain an edge over competition. Please refer to the section headed “Industry Overview” in this prospectus for details on the competitive landscape of the industry. If there is any changes or worsening of the economic conditions in the markets in which our customers operate, or in the event that our competitors offer a more competitive project price to our customers, or engage in a more aggressive pricing strategy in order to increase their market share, or are capable of delivering project execution with superior performance, our business and financial condition could be adversely affected and we may need to consider exploring or expanding into new markets depending on the market conditions and prevailing circumstances.

There is no assurance that the competitiveness of our competitors will not improve or that we will be successful in expanding our market share against our competitors or expanding into new markets. Our competitors may be able to respond more quickly to evolving customer preferences, industry trends or changing market conditions. In such circumstances, we would have to invest additional time and financial resources to promote our services to our existing and potential new customers or expand into new markets. Hence, this could adversely affect our business, financial condition and operating results.

### **Projected revenue amounts reported in our backlog could fail to result in actual revenue or translate into profits and, therefore are not indicative of our future results of operations**

Contract backlog figures represent our estimate of the total contract value of work which remained to be completed pursuant to the terms of our service contracts which have become effective. Please refer to the paragraph headed “Business — Our projects — Backlog” in this prospectus for more details. Backlog is not a measure defined by generally accepted accounting principles and backlog may not be indicative of future operating results. Our methodology for determining backlog may not be comparable to the methodologies used by other companies in determining their backlog. The contract value of a project or other transaction represents the amount as of the relevant date we expect to receive assuming our performance is in accordance with the terms of the contract. As at 30 April 2020, the aggregate contract value (exclusive of VAT) of our service contracts in our backlog was RMB535.1 million. From 1 January 2020 and up to 30 April 2020, we have entered into 11 service contracts with an aggregate contract value of RMB86.4 million. However, such backlog figure is based on the assumption that the relevant contracts will be performed in full in accordance with their terms and schedule. Our service

---

## RISK FACTORS

---

contract may be subject to project cancellations or change of order or schedule by the counterparty or other force majeure which may affect the project progress. Such cancellations or change of order or schedule of any one or more sizeable contracts or force majeure may have a substantial and immediate effect on our backlog, and could reduce the amount of our backlog and revenue and profits that we can actually generate and pose pressure on our working capital.

We cannot assure you that our contracts will not be subject to any material modifications, terminations or cancellations by our clients, each of which could have an adverse effect on our backlog and our business and results of operations. There can also be no assurance that we can perform our contracts in full in accordance with their terms without any delay or defect due to reasons beyond our control. Additionally, we cannot guarantee that the revenue projected in our order book will be realised in a timely fashion, or at all, or that, even if the revenue is realized, it will result in profit.

**We procure raw materials and equipment from third party suppliers and we may not be able to secure a stable supply of raw materials and equipment with acceptable quality or on acceptable prices which would adversely affect our operations and financial condition**

As we are mainly engaged in the provision of ethanol production system technology integrated services, we are required to procure the appropriate raw materials and equipment which form part of the construction of the projects. The success of our business therefore depends on our ability to obtain sufficient quantities of quality raw materials and equipment (such as steel plates, steel pipes and standard components) at commercially acceptable prices and terms and in a timely manner. Costs of raw materials and equipment constituted the largest proportion of our total costs of sales and amounted to RMB132.6 million, RMB140.2 million and RMB229.2 million for the years ended 31 December 2017, 2018 and 2019, respectively, representing 73.7%, 79.0% and 79.3% of our total cost of sales for the same periods.

We maintain a regularly updated list of qualified suppliers from which we procure our raw materials and equipment. Nevertheless, qualified suppliers may not always be readily available to supply when our needs for procurement arise. During the Track Record Period, we did not enter into any long-term agreements with our suppliers and we negotiated prices with our suppliers on a project-by-project basis. If we are unable to source the relevant raw materials and equipment, we may be unable to deliver the integrated services to our customers and we may be required to source such raw materials and equipment on a delayed basis or at a higher price than anticipated. If we are not able to find any alternative source in time or at all, our business, reputation and results of operations may be adversely affected. In addition, we may not be able to monitor the raw materials quality of the suppliers. If the raw materials quality does not meet with our quality standards, the quality of our integrated services may be affected, which could in return harm our reputation and potentially expose us to litigation and damage claims.

**We engage labour subcontractors to assist in the execution of our ethanol production system technology integrated service projects**

During the Track Record Period, we usually engaged labour subcontractors to perform certain manual and ancillary works on project-by-project basis in order to save the salary and management expenses of regularly retaining a large pool of self-employed labour. Further information on the details of the above arrangement are set forth in the paragraph headed “Business — Suppliers — Labour subcontractors” in this prospectus. During the Track Record Period, our subcontracting costs amounted to RMB36.1 million, RMB28.2 million and RMB52.3 million, representing 20.1%, 15.9% and 18.1% of our total cost of sales, respectively.

---

## RISK FACTORS

---

We maintain a regularly updated list of qualified labour subcontractors and enter into agreements with them on a project-by-project basis. However, qualified labour subcontractors may not always be readily available when our needs for undertaking manual and ancillary works arise. If we were unable to engage and retain qualified labour subcontractors, or they are not able to provide the services in time, our ability to complete the ethanol production system technology integrated service projects could be impaired. If the labour subcontractor fails to provide services as required under the contract for any reason, we may be required to source the labour services on a delayed basis or elsewhere, or at a price higher than anticipated, which could impact our profitability.

Apart from any significant increase in the subcontracting costs that may adversely affect our profitability, we may also not be able to monitor the performance or control the quality of these labour subcontractors as directly and efficiently as with our own staff. We may be exposed to other legal liabilities if we are not able to monitor the performance of our labour subcontractors, or if they violate any laws, rules or regulations in relation to health and safety matters. We are also exposed to risks associated with non-performance, delayed performance or sub-standard performance of our labour subcontractors or its employees which may result in a delay in the delivery of our works. We may also incur additional costs due to delay in schedule or if there is any defect in the works performed by the labour subcontractors. These events may impact upon our profitability, financial performance and reputation, as well as result in litigation or damages claims. Further, even if we are entitled to be indemnified by our labour subcontractors in respect of losses suffered as a result of their acts or negligence, our reputation may be negatively affected and our chance to be fully indemnified from such losses will also be dependent upon their financial resources. If we are unable to recover such losses, our business, results of operations and financial condition could be adversely affected.

**We make estimation of our project costs and any failure to estimate the project costs accurately and/or delay in completion of any service project could lead to cost overruns or even result in losses**

During the three years ended 31 December 2019, the majority of our contracts was fixed price contracts. Under these contracts, we agree to provide our ethanol production system technology integrated services to our customer at a fixed price.

There are, however, many factors which may affect and determine whether we are able to secure the service projects at a competitive price with a reasonable profit margin. Our management determines the contract price pursuant to their industry experience and with reference to a number of factors, such as the availability and costs of raw materials, project schedule, subcontracting costs, labour costs, geographical location, condition of the project site, as well as the complexity and scale of the project. Almost all of these factors are outside our control and we may need to absorb any unexpected increase in project costs unless we are able to negotiate for price adjustment with our customers. If we fail to estimate our project costs accurately at the outset or if there is any unforeseen factor leading to any increase in cost which cannot be transferred to our customers pursuant to the relevant contract terms, we may be subject to cost overruns and will result in low profit margin or even a loss for a project.

We cannot assure you that we will not encounter cost overruns or delays in our current and future service projects. If such cost overruns or delays occur, our costs may exceed our budget, which could reduce or diminish our profit that may be generated from our projects, and could materially and adversely affect our business and financial conditions and operating results.

---

## RISK FACTORS

---

### **We are subject to risks associated with volatility in the prices of products, raw materials and equipment, as well as fluctuations in subcontracting costs**

For our ethanol production system technology integrated services, we typically procure raw materials and equipment from third-party suppliers and subcontract certain manual and ancillary works, to third-party labour subcontractors. We generally do not maintain long-term contracts with our suppliers and labour subcontractors. We typically enter into contracts with our suppliers and labour subcontractors on a project-by-project basis in view of the requirements and specifications of individual projects. Such contracts usually last, at most, only as long as the life of the individual project. Increases in the prices of raw materials and equipment as well as the subcontracting costs may materially and adversely affect our profitability and results of operations. At certain price levels of raw materials and equipment as well as subcontracting costs, the continued undertaking of certain projects may become less profitable or even unprofitable.

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

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

During the Track Record Period, we had rendered services to customers located in Russia and Myanmar. Russia, in particular, has been subject to a variety of sanctions measures since its actions in Crimea were deemed to be illegal by many governments and governmental organisations, including additional sanctions measures adopted by the United States in 2018. Further, the region of Crimea, which is located in between Russia and Ukraine, is subject to comprehensive international sanctions, and while we have not conducted any business transactions in Crimea during the Track Record Period, we had business in Russia in 2018 and 2019. The aggregate revenue generated from our business activities relating to Russia and Myanmar in 2018 and 2019 were RMB16.0 million and RMB0.8 million, representing 6.4% and 0.2% of our revenue for the years ended 31 December 2018 and 2019, respectively. Russia and Myanmar were subject to targeted sanctions during the Track Record Period. For details of our business operations in the Sanctioned Countries, please refer to the paragraph headed “Business — Business activities in Sanctioned Countries” in this prospectus.

We cannot predict the interpretation or implementation of government policy at the United States’ federal, state or local levels or the interpretation or implementation of any policy by the European Union, the United Nations or Australia, or by the authorities of other applicable jurisdictions with respect to any current or future activities by us or our affiliates in these countries or with wider third countries. Our business and reputation could be adversely affected if the authorities of the United States, the European Union, the United Nations, Australia, or any other jurisdictions were to determine that any of our activities constitutes violations of the sanctions they impose. In addition, because sanctions programmes may evolve over time, new requirements or restrictions could come into effect which may increase scrutiny on our business activities or result in one or more of our business activities being deemed to have violated the sanctions. We cannot assure you that investors who are subject to the jurisdictions of the United States, the European Union, the United Nations, Australia and/or other jurisdictions will be willing to invest in us, or that they will not divest their investment, which may have an adverse impact on

---

## RISK FACTORS

---

the market price of our Shares. In addition, in the event that any of our customers becomes targeted by International Sanctions in the future, we may have to discontinue our business with such customers due to potential International Sanctions risks. In such events, our financial results may be materially and adversely affected.

### **We are subject to risks associated with conducting business overseas**

During the Track Record Period, we had provided services to customers located in overseas countries, such as Canada, Russia, Indonesia and other countries. For the three years ended 31 December 2019, our revenue generated in overseas countries amounted to RMB2.7 million, RMB16.0 million and RMB18.7 million, representing 1.0%, 6.4% and 4.7% of our revenue, respectively. Our overseas revenue will expose us to various risks associated with conducting business in foreign countries and territories, which may include, among other things:

- an increase in competition from foreign players or failure to anticipate changes to the competitive landscape in overseas markets due to lack of familiarity with the local business environment;
- the infringement of our intellectual property rights in foreign jurisdictions;
- political risks, including civil unrest, acts of terrorism, acts of war, regional and global political or military tensions and strained or altered foreign relations, which may lead to interruptions in our business operations;
- economic, financial and market instability and credit risks;
- difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex domestic and international laws, treaties and regulations;
- economic sanctions, trade restrictions, discrimination, protectionism or unfavourable policies against companies from China;
- foreign currency exchange controls and fluctuations;
- cultural and language difficulties; and
- lack of a well developed or independent legal system in certain foreign countries in which we conduct our business, which may create difficulties in the enforcement of legal rights.

Any of the above factors could lead to, among other things, business disruptions and loss of sales, which could have a material and adverse effect on our business, results of operations and overall growth strategies.



---

## RISK FACTORS

---

### **We may be unsuccessful in researching and developing new technologies**

We maintain our in-house research and development team to develop new technologies or new features of current technologies. 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 IV to this prospectus for more details of our patented technological applications. The success of our business to a certain extent is dependent upon our ability to continuously develop, in a timely manner, new technological applications through research and development and introduce new solution designs to cater our customers’ requirements. We may be required to invest extra time and resources to develop new technological applications for solution designs in order to satisfy changing requirements of our customers.

For the years ended 31 December 2017, 2018 and 2019, our total research and development expenditure, including capitalised and expensed costs, amounted to RMB2.8 million, RMB6.7 million and RMB7.4 million, respectively. However, the development of new or improved technologies or production processes may be time consuming and costly. We cannot assure you that our research and development projects will lead to any breakthroughs or that the results of such research and development projects will satisfy customers’ demand or result in any viable commercial production. If we are unsuccessful in researching and developing new technologies or if we are unable to translate our research and development efforts into commercial production, we may not be able to recover our research and development expenses.

Moreover, our competitors may improve and develop technologies or products that gain wider market acceptance, or are superior to ours in terms of technological capabilities and quality. If we fail to respond by improving existing or launching new technologies or solution designs in a timely and effective manner, we may not be able to retain our existing customers, enhance our competitiveness or maintain our market position.

### **Any unauthorised use of our intellectual property rights by competitors or third parties, and the expenses incurred in protecting such intellectual property rights, may adversely affect our business and reputation**

The success of our business to a certain extent is dependent upon our ability to continuously develop new technological applications through research and development and introduce new solution designs to cater our customers’ requirements. As at the Latest Practicable Date, our Group is the owner of 32 patents. For details of these patents, 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 — Patents” in Appendix IV to this prospectus.

Unauthorised use of our intellectual property by third parties may adversely affect our business. For example, competitors and other third parties may infringe our patents by using an identical patented technology with ours or by creating technologies that are similar to our patented technologies. Preventing such unauthorised use of intellectual property is inherently difficult. If we are unable to prevent such unauthorised use, this could reduce or eliminate the competitive advantages of our proprietary technology, which could adversely affect our results of operation.

---

## RISK FACTORS

---

We generally rely on patent laws of the PRC to protect our intellectual property rights. However, the validity, enforceability and scope of protection of intellectual property could be uncertain. In the future, if suspected infringement arises, litigation may be necessary to enforce our Group's intellectual property rights and to protect our intellectual property. Future litigation could result in substantial costs and diversion of resources.

### **Failure to maintain an effective quality control system may have an adverse effect on our business**

Capability to provide high quality services to our customers is crucial to our reputation and the sustainability of the business of our Group. Thus, the effectiveness of our quality control system is our utmost priority to our customers. This requires us to adopt a stringent quality control system which involves us placing a certain amount of capital and human resources to ensure that every step of the business process is being strictly adhered to. Please refer to the section headed "Business — Quality control" in this prospectus for details of our quality control. If we are unable to maintain our effective quality control system, it may result in a decrease in demand for our services which would diminish our competitiveness in the ethanol production system market. Furthermore, we may risk providing products and services that are faulty, unsafe or ineffective and cause us to be liable to various liability claims or other forms of litigation and as such, our reputation, our business performance, financial condition and prospects may be adversely affected.

### **Our continued success requires us to hire and retain key management and technical personnel**

The growth of our business operation is dependent upon the continued service of our senior management team. The industry experience, expertise and contributions of our executive Directors and other members of our senior management whose names are set out in the section headed "Directors, Senior Management and Employees" of this prospectus are essential to our continuing success. If we were to lose any of our Group's key management members or were unable to train, recruit or retain personnel with equivalent qualifications at any time, the management and growth of our business could be adversely affected.

Our future success is dependent upon our ability to train, recruit and retain high quality personnel, including executive officers, business development personnel, project managers and key qualified personnel, who have the necessary and required experience and expertise to conduct our business. Particularly, our success is largely attributable to the qualified and experienced project managers, research and development and other business personnel in the ethanol production system sectors that we have been able to train, attract and retain in the past. We may lose these personnel to our competitors who are able to offer them with a more competitive packages, or we may have to significantly increase our related staff salary in order to retain them.

Competition for competent personnel in general is intense in the PRC where we operate our business. We cannot assure you that we will be able to maintain an adequate skilled personnel necessary for us to execute our business or to perform other corporate activities, nor can we guarantee that staff costs will not increase as a result of a shortage in the supply of skilled personnel. If we fail to train, recruit or retain personnel with suitable managerial, technical or marketing expertise or maintain an adequate personnel on a continuous basis, our business and operation could be adversely affected and our future growth and expansions may be inhibited.

---

## RISK FACTORS

---

### **We may not be successful in the implementation of our business plans**

We have set out our future expansion plans in the section headed “Future Plans and Use of Proceeds” in this prospectus. The implementation of our expansion plans are subject to uncertainties and risks. There is no assurance that we will succeed in implementing our expansion plans or executing our growth strategies due to a number of factors beyond our control, including changes in rules and regulations applicable to us and general market demands for our products, or that our objectives will be fully or partially or effectively accomplished. If we are unable to implement our expansion plans and our business strategies successfully or effectively, our business, profitability and financial conditions in the future may be materially and adversely affected.

There is no assurance that we will be successful in the implementation of our business plans. If we fail to project the time, labour and costs required for implementing our business plans accurately, our business and results of operation may be adversely affected.

### **We require various approvals, licenses and qualification certificates to operate our business and failure to renew any approvals, licenses or qualification certificates that are crucial to our operations could adversely affect our business**

In accordance with the laws and regulations of the PRC, we are required to maintain various approvals, licenses and qualification certificates in order to operate our business. As of the Latest Practicable Date, as advised by our PRC Legal Advisers, we have obtained all relevant approvals, licenses and qualification certificates required for our operation of the business that we are currently engaged in. However, most of these approvals, licenses and qualification certificates are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal. Please refer to the paragraph headed “Business — Licenses, certificates and permits” in this prospectus for details of the approvals, licenses and qualification certificates we are required to obtain to operate our business. We cannot assure you that we will be able to renew all of these approvals, licenses and qualification certificates and qualification certificates that are crucial to our operations when they expire. If we cannot obtain and maintain all approvals, licenses and qualification certificates required by us to operate our business, our business could be interrupted or the continued operation of our business may incur fines and penalties, which could adversely affect our business, results of operations and financial condition.

### **We are subject to litigation risks**

In the ordinary course of our business, claims involving project owners, suppliers and labour subcontractors may be brought against us or by us. Claims may be brought against us for alleged defective or incomplete work, liabilities for defective products, personal injuries and deaths, damage to or destruction of property, breaches of warranty, late completion of projects, termination of contracts or delayed payments to our suppliers or subcontractors. The claims and charges may involve actual damages and contractually-agreed-upon liquidated sums. If we were found to be liable on any of the claims, we would have to incur a loss against earnings to the extent a reserve had not been established for the matter in our financial statements. Claims brought by us against project owners may include claims for additional costs incurred in excess of current contractual provisions arising out of project delays and changes in the initial scope of work. Both claims brought against us and by us, if not resolved through negotiation, are often subject to lengthy and expensive litigation or arbitration proceedings. Charges brought against us have a material adverse impact on our financial condition, results of operations and cash flow. Moreover, legal proceedings resulting in judgments or findings against us may harm our reputation and damage our prospects for future contract awards and business.

---

## RISK FACTORS

---

### **We enjoy certain preferential tax treatments from the government of the PRC. Expiration of, or changes to, these preferential tax treatments could have an adverse effect on our operating results**

Zhongke Tianyuan obtained a “High and New Technology Enterprise” certificate in December 2016 and renewed in December 2019 with a validity period of three years, from competent authorities in accordance with the relevant regulations. According to the approval from its local taxation authority, Zhongke Tianyuan is entitled to a preferential EIT rate of 15% as a High and New Technology Enterprise.

However, if Zhongke Tianyuan fails to renew the “High and New Technology Enterprise” certificate when it expires or our currently available tax benefits become unavailable as a result of adjustment or other relevant income tax laws and regulations, and we are not entitled to any preferential EIT rate thereunder, the EIT rate of Zhongke Tianyuan could increase, and such increase in the EIT rate could have an adverse effect on our business, results of operations and financial condition.

### **Failure to comply with relevant laws and regulations relating to foreign exchanges regulations could lead to imposition of penalties or other liabilities on our Group**

We had made dividend distributions to offshore entity in the past without complying with the relevant laws and regulations of the PRC in relation to foreign exchanges control. For details relating to such non-compliance incident, please refer to the paragraph headed “Business — Non-compliance” in this prospectus.

Pursuant to Article 29 of the Law of the People’s Republic of China on Administrative Penalty (中華人民共和國行政處罰法) and as advised by our PRC Legal Advisers, where an illegal act is not discovered within two years of its commitment, administrative penalty shall no longer be imposed. The said period of time shall be counted from the date the illegal act is committed. If the illegal act is ongoing or continuous, the period shall be counted from the date when the illegal act ends. Zhongke Tianyuan had distributed dividends on 13 March 2018 and 10 January 2019 in the aggregate amount of RMB1,123,988 to our Company without complying with the relevant laws and regulations of the PRC on foreign exchange control. As advised by our PRC Legal Advisers, the dividend payment on 13 March 2018 and 10 January 2019 should be deemed as an continuous illegal act and 10 January 2019 is still within two years prior to the Latest Practicable Date, the amount of penalty that may be imposed on Zhongke Tianyuan for such overseas dividend distribution made on or after 13 March 2018 will be an amount not more than 100% of the amount of such dividend distribution, i.e. RMB1,123,988. Based on the above, we believe that such non-compliance incident has no material impact on our operation and financial position. However, we cannot assure that new interpretation of laws and regulations will not make us, Mr. Yu, Mr. Tang, Mr. Jiang, Ms. Xu Huijuan (our joint company secretary) or Mr. Zhou Hongcai (our deputy general manager) subject to additional penalties by the relevant government authorities for our past non-compliance. Such new interpretation of laws and regulations and the additional penalties imposed on us, if any, may adversely affect our business, financial condition, results of operations and prospects.

---

## RISK FACTORS

---

### RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

#### **Changes to the PRC regulatory regime for the ethanol industry may have an adverse impact on our results of operations**

Our operations are subject to a range of PRC laws, regulations, policies, standards and requirements in relation to, among other things, taxation, labour standards, occupational health and safety and environmental protection. The implementation of the PRC laws and regulations involves a degree of uncertainty. We cannot predict the future development of the PRC legal system, including any promulgation of new laws, change to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws, and the effect it may have on us. Any changes to these laws, regulations, policies, standards and requirements or to the interpretation or enforcement thereof may increase our operating costs and thus adversely affect our results of operations.

There is no assurance that we will be able to comply with any changes to any of these laws, regulations, policies, standards and requirements applicable to the ethanol industry, or at all. Further, any such new PRC laws, regulations, policies, standards and requirements or any such change in existing laws, regulations, policies, standards and requirements may also constrain and disrupt our future plans and adversely affect our profitability.

#### **The outbreak of any severe communicable disease, if uncontrolled, could adversely affect our results of operations**

The outbreak of any severe communicable disease (such as Influenza A (H1N1), H5N1 avian flu or severe acute respiratory syndrome or the Ebola virus), if uncontrolled, could have an adverse effect on our operations and the overall business sentiments and environment in the PRC, which in turn could have an adverse impact on the domestic consumption and, possibly, the overall gross domestic product growth of the PRC. In particular, recently there has been an outbreak of the coronavirus disease (COVID-19) which was first emerged in Wuhan city, Hubei province, China in late 2019 and which subsequently expanded within the PRC and globally. The PRC government had subsequently imposed a lockdown of Wuhan city in an effort to quarantine the city, followed up with other measures including travel restrictions and temporary close of enterprises' offices in other cities in the PRC. Given that our operations and major customers are located in the PRC and in the event there is an exacerbation on the spread of COVID-19 in the PRC, the normal operation and financial performance of our business could be materially disrupted if our employees are infected with COVID-19 or being quarantined or are restricted to travel, or if our major customers are forced to suspend their business operations or delay the implementation of our projects as a result of any exacerbation of the COVID-19 pandemic in the PRC.

There is no assurance whether there will be outbreak of other diseases in the future. In the event that the PRC government imposes more stringent measures to prevent the spread of those diseases in the future, such as total restriction on working and transportation for a prolonged period of time, or if our employees are affected by any severe communicable diseases outbreak, it could adversely affect the procurement or transportation of raw materials, disrupt our production at our processing plant and project implementation, and adversely affect our results of operations. The spread of any severe communicable disease in the PRC may also affect the operations of our customers, which could lead to a decrease in the demand for our services. As a whole, any outbreak of pandemics may cause our Group's business to suffer in ways that our Group cannot anticipate and may have a material and adverse effect on our Group's business, results of operations and financial performance.

---

## RISK FACTORS

---

### **Fluctuations in the value of the Renminbi could have an adverse effect on your investment**

The income and expenses of our PRC subsidiaries have been and are expected to continue to be primarily denominated in Renminbi and it is exposed to the risks associated with the fluctuation in the currency exchange rate of Renminbi. Should Renminbi appreciate against other currencies, the value of the proceeds from the Global Offering and any future financings, which are to be converted from Hong Kong dollars or other currencies into Renminbi, would be reduced and might accordingly hinder our business development due to the reduced amount of funds raised. On the other hand, in the event of devaluation of Renminbi, the dividend payments of our Company, which are to be paid in Hong Kong dollars after conversion of the distributable profit denominated in Renminbi, would be reduced. Hence, substantial fluctuation in the currency exchange rate of Renminbi may have a material adverse effect on our business, operations and financial position and the value of your investment in our Shares.

### **Renminbi is not freely convertible and the PRC government laws and regulations may impact the availability of funds to pay dividends**

Renminbi is not a freely convertible currency and the conversion of Renminbi into any other currency is regulated by the PRC government. In general, foreign investment enterprises are permitted to convert Renminbi to foreign currencies for current account transactions (including, for example, distribution of profits and payment of dividends to foreign investors) through designated foreign exchange banks following prescribed procedural requirements. On the other hand, control over conversion of Renminbi to foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities) is more stringent and such conversion is subject to a number of limitations.

Our Company is a holding company incorporated in Jersey and operates our business through our PRC subsidiaries. Therefore, the availability of funds for us to pay dividends to our Shareholders and to service any offshore indebtedness may be affected by dividends received from our PRC operating subsidiaries, which is subject to limitations with respect to dividend payments. Should our PRC subsidiaries be unable to pay dividends due to government policies or regulations, our Company's ability to pay dividends to our Shareholders and service any offshore indebtedness may be adversely affected.

### **Dividends payable by us to our foreign investors and gain on the sale of our Shares by our foreign investors may become subject to withholding income tax under PRC tax laws**

Under the EIT Law and its implementation rules issued by the State Council, PRC withholding income tax at the rate of 10% is applicable to dividends payable by a PRC resident enterprise to investors (excluding individual natural persons) that are "non-resident enterprises" (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but where the relevant income is not effectively connected with the establishment or place of business) to the extent that such dividends have their sources within the PRC, unless it is entitled to a reduction of such withholding tax under applicable tax treaties. Similarly, any gain realised on the transfer of shares of a PRC resident enterprise by such investors is also subject to 10% (or a lower treaty rate) PRC income tax if such gain is regarded as income derived from sources within the PRC. Ambiguities exist with respect to the interpretation of the provisions of the EIT Law and its implementation rules relating to identification of PRC-sourced income. If we were considered to be a PRC "resident enterprise" under the EIT Law, the dividends we pay with respect to our Shares, or the gain our foreign Shareholders (excluding individual natural persons) may realise from the sale of our Shares, may be treated as income derived from sources

---

## RISK FACTORS

---

within the PRC and be subject to PRC income tax. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our foreign Shareholders, or if they are required to pay PRC income tax on the transfer of our Shares, the value of their investment in our Shares may be materially and adversely affected.

### **Trade wars between the United States and the PRC and restriction on conducting business with PRC enterprises might affect our business development and in turn our results of operations and financial performance**

During the Track Record Period, some of our customers were located in the overseas markets. Our revenue generated from customers in overseas countries amounted to RMB2.7 million, RMB16.0 million and RMB18.7 million, representing 1.0%, 6.4% and 4.7% of our total revenue during the Track Record Period, respectively. Recently, the trade relation between the United States and the PRC has intensified and the government of the United States has made orders restricting certain enterprises in the United States from conducting businesses with PRC companies. According to CIC, the tariffs that the U.S. has imposed on Chinese goods have very limited effects on the ethanol production industry. China's ethanol export volume accounts for less than 2% of the total ethanol production volume as ethanol production costs in China are higher than that in the U.S. and Brazil. The major downstream products of ethanol are Baijiu and ethanol fuel which are mostly consumed in the domestic market. Our Directors consider that the trade war did not and will not have material adverse impact on our Group's business operation and financial performance. Nevertheless, there is no assurance on whether the consumption of the downstream products of ethanol in the PRC will shift from domestic market to overseas markets and to U.S. in particular. If there is such a shift to overseas market such as the United States and the United States extends the scope of business restriction to cover ethanol products from the PRC, this may in turn affect the demand for ethanol production equipment in the PRC, and this might affect our business, results of operations and financial performance.

### **RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES**

#### **There is no assurance on the liquidity or price stability of our Shares**

Our Shares are listed and have been admitted to trading on AIM since 23 May 2011. We notified the LSE of the proposed Delisting and our Shareholders passed a resolution to approve the Delisting at the annual general meeting held on 16 April 2020. Conditional upon the Listing, the Delisting will be effective on the Listing Date. Historical prices of our Shares traded on AIM may not be indicative of the performance of our Shares after the Listing.

There may not be an active trading market for our Shares and their trading price could also fluctuate substantially. The Offer Price may not be indicative of the price at which our Shares will trade following the completion of the Global Offering. In addition, we cannot assure you that an active trading market for our Shares, if it does develop, will be sustained following the completion of the Global Offering, or that the market price of our Shares will not fall below the Offer Price.

---

## RISK FACTORS

---

The trading price of our Shares could also be subject to significant volatility in response to, among other factors, the following:

- changes in global and local economic conditions;
- changes in foreign currency exchange rates;
- fluctuations in our operating results;
- announcements of new investments, strategic alliances or acquisitions;
- modifications to our financial estimates or our competitors by securities analysts;
- addition or departure of our Directors and senior management;
- new policies relating to the ethanol industry in China; and
- general market conditions or other developments affecting us or our industry.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies listed on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of our Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

**The trading price of our Shares may be subject to downward pressure if our existing Shareholders dispose of their Shares upon Listing**

Our Shares are currently listed and traded on AIM, and the trading of our Shares on AIM will be cancelled and transferred to the Stock Exchange upon the Listing. We cannot assure you that our existing Shareholders will not dispose of any Shares immediately or shortly after the Listing. In the event that there are sales of substantial amount of our Shares by our existing Shareholders, or the perception that these sales may occur, after the Listing, the price of our Shares may fluctuate and decline significantly, and you may incur losses on your investment.



---

## RISK FACTORS

---

### **Investors could have difficulty in enforcing judgments in the PRC**

Substantially all of our assets are located in the PRC, and most of our Directors and senior management reside in the PRC. As a result, it could be difficult for investors to effect service of process upon our Directors and executive officers. The PRC government recognises and enforces judgments of foreign courts based on treaties that relate to the recognition and enforcement of foreign judgments and the principle of reciprocity with foreign countries. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other countries. Therefore, it could be difficult for investors to enforce against our Company or our Directors in the PRC any judgments obtained from courts of a country that has not executed such treaty with the PRC or has not implemented the reciprocity principle.

### **We may not declare dividends on our Shares in the future**

A declaration of dividends is proposed by our Board and the amount of any dividends will depend on various factors, including, without limitation, our results of operations, financial conditions, future prospects and other factors which our Board may determine are important. For more information, please refer to the paragraph headed “Financial information — Dividend” in this prospectus. We cannot guarantee when, if and in what form dividends will be paid in the future.

### **The interests of our Substantial Shareholders may differ from those of our other Shareholders, and such Shareholders may be disadvantaged by the actions of our Substantial Shareholders**

Upon completion of the Global Offering (without taking into account any Shares which may be allotted and issued upon the exercise of the options which have been granted under the Pre-IPO Share Option Schemes), Tewin Capital and Mr. Yu, being our Substantial Shareholders, will in aggregate own 17.97% of our total issued shares. Our Substantial Shareholders may be able to exert certain influence over the operations and business strategies of our Group, and may have the ability to require our Group to effect corporate actions according to their own desires. At times, the interests of our Substantial Shareholders may not be consistent with the interests of our other Shareholders. In the event that any potential conflict of interest materialises, Mr. Yu, who is our executive Director as well as our Substantial Shareholder, will abstain from voting at the relevant meetings in the Board in accordance with the Listing Rules and the Articles of Association. However, there can be no assurance that our operation will not be adversely affected shall such conflict of interest arise.

### **Future sales or perceived sales of substantial amount of our Shares in the public market could have an adverse effect on the prevailing market price of our Shares and our ability to raise capital in the future**

The market price of our Shares could decline as a result of future sales or issuances of substantial amount of our Shares or other securities relating to our Shares in the public market, or the perception that such sales or issuances could occur. Future sales, or perceived sales, of substantial amount of our Shares could also adversely affect our ability to raise capital in the future at a time and at a price that we deem appropriate.

---

## RISK FACTORS

---

### **Shareholders' interests in the share capital of our Company may be diluted in the future**

We may in the future expand our capabilities and business through acquisition, joint venture and strategic partnership with parties who can add value to our business. We may require additional equity funding after the Global Offering and the equity interest of our Shareholders will be diluted should our Company issue new Shares to finance future acquisitions, joint ventures, strategic partnerships and alliances.

Any exercise of the options under the Pre-IPO Share Option Schemes and the related allotment and issue of Shares would also result in the reduction in the percentage ownership of our Shareholders. There may also be a dilution in the earnings per Share and net asset value per Share as a result of the increase in the number of issued Shares outstanding after the allotment and issue of such additional Shares. Under the applicable accounting standards, the costs of granting additional options under the Pre-IPO Share Option Schemes will be charged to our income statement over the vesting period by reference to the fair value at the date at which the options are granted. As a result, our profitability may be adversely affected.

### **Our Shareholders may experience difficulties in protecting their interests because we are a Jersey company**

We are a Jersey company and our corporate affairs are governed by the Jersey Companies Law, the Memorandum and the Articles of Association and other laws of Jersey. The laws of Jersey relating to the protection of the interests of minority Shareholders may differ from those under statutes and judicial precedents in existence in Hong Kong and other jurisdictions. Such differences may mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. Please refer to the section headed "Summary of the Constitution of the Company and Jersey Companies Law" in Appendix III to this prospectus for further details.

### **Investors should not rely on any information in the press articles or other media regarding our Group or the Global Offering not contained in this prospectus**

There may be certain press coverage in certain news publications regarding our Group and the Global Offering which include certain financial information, financial projections and other information about our Group that do not appear in this prospectus. We wish to emphasise to potential investors that we do not accept any responsibility for the accuracy or completeness of any information disseminated in the articles or media and that such information was not sourced from or authorised by our Group.

We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the information and underlying assumptions. To the extent that any of such information is inconsistent with, or conflicts with, the information contained in this prospectus, we disclaim it. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

---

## RISK FACTORS

---

### **RISK RELATING TO THE STATEMENTS MADE IN THIS PROSPECTUS AND FROM OTHER SOURCES**

#### **Facts and statistics in this prospectus relating to the industry in which our Group operates may not be fully reliable**

Certain facts and statistics in this prospectus that do not relate directly to our operations, including those relating to the ethanol industry in China, have been derived or extracted from various publications of governmental agencies and Independent Third Parties. However, the facts and statistics in this prospectus may not be reliable in terms of their completeness, accuracy and fairness given such information has not been independently verified by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective directors, officers, affiliates, advisers or representatives, or any other parties involved in the Global Offering, and such information may not be consistent with other publicly available information.

Our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective directors, officers, affiliates, advisers or representatives, or any other parties involved in the Global Offering make no representation as to the completeness or accuracy of those information and there is no assurance that such information contained in this prospectus is prepared to the same standard or level of accuracy and comparable with similar kind of information available in other publications or jurisdictions. Therefore, the facts and statistics in this prospectus shall not be unduly relied upon.

---

**WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH  
THE REQUIREMENTS UNDER THE LISTING RULES AND  
THE COMPANIES (WUMP) ORDINANCE**

---

**MANAGEMENT PRESENCE IN HONG KONG**

**Requirements under the Listing Rules**

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

**Background and basis of the waiver**

Our Company was incorporated in Jersey. Currently, all of our executive Directors are ordinary residents in the PRC. Our core business and operations are primarily located, managed and conducted in the PRC, and our assets are located in the PRC. Our business, management and operations have been under the supervision of our executive Directors, Mr. Yu, Mr. Tang and certain senior management members residing in the PRC. This arrangement has proven to be effective. With the support of existing senior management members, our Company does not have, and in the foreseeable future, will not have, the need to appoint additional executive Director(s) who would be ordinarily resident(s) in Hong Kong.

Furthermore, if additional executive Director(s) who reside(s) in Hong Kong is/are appointed, since he/she will not be physically present in the PRC for substantial periods of time, he/she will not be able to fully understand the daily business operations of our Group or fully appreciate the circumstances surrounding or affecting the business operations and development of our Group from time to time. As such, such executive Director(s) may not be able to perform his/her duty on a fully informed basis, or make appropriate business decisions or judgments that are most beneficial to the business operations and development of our Group. The appointment of additional executive Director(s) for the sole purpose of establishing a management presence in Hong Kong would not only increase our administrative expenses, but would also reduce the effectiveness of our senior management team in making decisions for our Group.

Our Board is of the view that it would be impractical and not commercially feasible for our Company to appoint one or more Hong Kong residents as executive Director(s) merely for the purpose of complying with Rule 8.12 of the Listing Rules.

We have therefore applied for and the Stock Exchange has granted us, a waiver from strict compliance with Rule 8.12 of the Listing Rules based on the following conditions:

- (a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who would act as our Company's principal channel of communication with the Stock Exchange and ensure that our Group complies with the Listing Rules at all times. These two authorised representatives are Mr. Yu, our executive Director, and Mr. Sin Chi Yuen Edward ("Mr. Sin"), a joint company secretary of our Company. Mr. Sin is ordinarily resident in Hong Kong. Each of the authorised representatives is available to meet with the Stock Exchange within a reasonable time frame upon request of the Stock Exchange and will be readily contactable by telephone, facsimile and email (if applicable) and is authorised to communicate on behalf of our Company with the Stock Exchange;

---

**WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH  
THE REQUIREMENTS UNDER THE LISTING RULES AND  
THE COMPANIES (WUMP) ORDINANCE**

---

- (b) each of the authorised representatives has means to contact all members of our Board and our senior management team promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. To enhance communications between the Stock Exchange, the authorised representatives and our Board, our Company has implemented a policy that (i) each Director has to provide their respective office phone numbers, mobile phone numbers, residential phone numbers, fax numbers and email addresses (if applicable) to the authorised representatives; and (ii) in the event that a Director expects to travel and be out of office, he has to provide the phone number of the place of his accommodation to the authorised representatives;
- (c) all Directors have provided their mobile phone numbers, residential phone numbers, office phone numbers, fax numbers and email addresses to the Stock Exchange to ensure that they can readily be contactable when necessary to deal promptly with enquiries from the Stock Exchange; and
- (d) all Directors have confirmed that they possess valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and meet the Stock Exchange upon reasonable notice.

In addition, in compliance with Rule 3A.19 of the Listing Rules, we have appointed Dongxing Securities on 10 June 2019 as the compliance adviser of our Company as the alternate channel of communications with the Stock Exchange for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date. Dongxing Securities has agreed to provide professional advice on matters relating to compliance with the Listing Rules and (if applicable) other obligations for companies listed in Hong Kong. Dongxing Securities has also agreed, in addition to the authorised representatives, to act as an additional channel of communication with the Stock Exchange.

## **DEALING IN SHARES PRIOR TO LISTING**

### **Requirements under the Listing Rules**

Pursuant to Rule 9.09(b) of the Listing Rules, there must be no dealing in the securities of a new listing applicant for which listing is sought by any core connected person (as defined under the Listing Rules) of the issuer from the date which is four clear Business Days before the listing hearing date until listing is granted.

### **Background and basis of the waiver**

As a listed company on AIM prior to Delisting and Listing, save for our existing core connected persons, our Company has no control over the investment decision of any person, nor is it in a position to be fully aware of his/her/its dealings in our Shares. Our Company therefore does not contemplate that it is within our control to satisfy the strict requirement under Rule 9.09(b) of the Listing Rules.

---

## WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES AND THE COMPANIES (WUMP) ORDINANCE

---

We have therefore applied for, and the Stock Exchange has granted us, a waiver from strict compliance with Rule 9.09(b) of the Listing Rules in respect of any dealings by any person (other than our existing core connected persons) from four clear Business Days before the expected hearing date until the Listing is granted (the “**Relevant Period**”), subject to the following conditions:

- (a) our Company shall procure that none of our existing core connected persons (including our Substantial Shareholders, our Directors and the chief executive of our Company and their respective close associates) deals in our Shares during the Relevant Period;
- (b) our Company shall notify the Stock Exchange of any breach of such restriction on dealing in our Shares by any of our core connected persons during the Relevant Period;
- (c) our Company shall release inside information on AIM and to the Stock Exchange to the public as required by relevant laws, in accordance with English laws and Hong Kong laws, rules and regulations applicable to our Company so that anyone who may deal in our Shares as a result of this waiver will not be in possession of non-public inside information; and
- (d) for any person who, as a result of dealing in the securities of our Company during the Relevant Period, becomes a Substantial Shareholder (the “**Potential New Substantial Shareholder**”), we shall:
  - (i) procure that such Potential New Substantial Shareholder who is currently not a Director or a member of the senior management of our Group would not become a Director or a member of the senior management of our Group after Listing; and
  - (ii) confirm that our Company and the management of our Group have not had control over the investment decisions of such Potential New Substantial Shareholder or its his/her close associates.

### JOINT COMPANY SECRETARIES

#### Requirements under the Listing Rules

Pursuant to Rule 8.17 of the Listing Rules, an issuer must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules, which prescribes that such company secretary shall be an individual who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

#### Background and basis of the waiver

Ms. Xu Huijuan (“**Ms. Xu**”) has been our Board secretary since May 2011. Ms. Xu’s qualifications do not meet the qualification requirements as a company secretary of a listed issuer as stipulated under note 1 to Rule 3.28 of the Listing Rules. As a result, we are not able to comply with Rule 8.17 of the Listing Rules by engaging Ms. Xu as our company secretary.

---

**WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH  
THE REQUIREMENTS UNDER THE LISTING RULES AND  
THE COMPANIES (WUMP) ORDINANCE**

---

For details of the experience and qualifications of Ms. Xu, please refer to the section headed “Directors, Senior Management and Employees” of this prospectus. By virtue of Ms. Xu’s experience and familiarity with our Company, we are of the view that Ms. Xu is capable of discharging her duties and is a suitable person to act as a joint company secretary of the Company although Ms. Xu does not possess the formal qualifications required of a company secretary under note 1 to Rule 3.28 of the Listing Rules.

We have also appointed Mr. Sin as a joint company secretary of our Company on 10 May 2019 to provide assistance to Ms. Xu in the discharge of her duties as a company secretary for three years from the Listing Date. Mr. Sin is an associate member of Institute of Chartered Secretaries and Administrators and therefore meets the qualification requirements under note 1 to Rule 3.28 of the Listing Rules.

Accordingly, we have applied for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Ms. Xu can be appointed as our joint company secretary of our Company subject to the following conditions that:

- (1) Mr. Sin, as a joint company secretary of our Company, will work closely with, and provide assistance to, Ms. Xu in the discharge of her duties as a company secretary and in gaining the relevant experience as required under Rule 3.28 of the Listing Rules;
- (2) the waiver will be revoked immediately if Mr. Sin ceases to provide assistance to Ms. Xu as our joint company secretary for the three-year period after the Listing Date;
- (3) Ms. Xu will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance her knowledge of the Listing Rules during the three-year period from the Listing Date;
- (4) we will further ensure that Ms. Xu has access to the relevant training and support that would enhance her understanding of the Listing Rules and the duties of a company secretary of an issuer listed on the Stock Exchange;
- (5) at the end of the three-year period, the qualifications and experience of Ms. Xu and the need for on-going assistance of Mr. Sin will be further evaluated by our Company; and
- (6) we will liaise with the Stock Exchange to enable it to assess whether Ms. Xu, having benefited from the assistance of Mr. Sin for three years, will have acquired the skills necessary to carry out the duties of company secretary and the relevant experience within the meaning of note 2 of Rule 3.28 of the Listing Rules so that a further waiver will not be necessary, if however such requirements cannot be satisfied, we will engage a suitable candidate who will comply with the requirements under Rule 3.28 of the Listing Rules.

---

## WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES AND THE COMPANIES (WUMP) ORDINANCE

---

### PRE-IPO SHARE OPTION SCHEMES

#### Requirements under the Listing Rules

Pursuant to Rule 17.02(1)(b) of the Listing Rules, our Company is required to disclose in this prospectus full details of all outstanding pre-IPO share options and their potential dilution effect on the shareholdings upon Listing as well as the impact on the earnings per Share arising from the exercise of such outstanding pre-IPO share options in respect of the Pre-IPO Share Option Schemes. We are also required to disclose particulars of any capital of any member of our Group which is under option, or agreed conditionally or unconditionally to be put under option, including the consideration for which the options were or will be granted and the price and duration of the options, and the names and addresses of the grantees under Paragraph 27 of Appendix 1A of the Listing Rules.

#### Requirements under the Companies (WUMP) Ordinance

According to Section 342(1)(b) and Paragraph 10 of Part I of the Third Schedule to the Companies (WUMP) Ordinance, our Company is required to disclose in this prospectus the number, description and amount of any Shares which any person has, or is entitled to be given, an option to subscribe for, together with the particulars of the option, namely (a) the period during which it is exercisable; (b) the price to be paid for Shares subscribed for under it; (c) the consideration (if any) given or to be given for it or for the right to it; and (d) the names and addresses of the persons to whom it or the right to it was given or, if given to existing Shareholders as such, the relevant Shares.

#### Background and basis of the waiver and exemption

We granted options pursuant to the Pre-IPO Share Option Schemes to 90 persons (the “**Grantees**”) to subscribe for an aggregate of 39,300,508 Shares. 30 Grantees are Directors, senior management of our Group, connected persons of our Company who have been granted options to subscribe for Share, employees of our Group who have been granted options to subscribe for 220,000 Shares or more and a director of the consultant of our Group, Nicholas Martin Brooks (for further information, please refer to the paragraph headed “Financial Information — Related parties transactions — Amount due to directors”) (the “**Disclosed Grantees**”). Among the Disclosed Grantees, two of them are executive Directors, one of them is an independent non-executive Director, five of them are members of the senior management of our Group, 21 of them are employees of our Group who have been granted options to subscribe for 220,000 Shares or more and one of them is a director of the consultant of our Group. The rest of the 60 Grantees are not Disclosed Grantees (the “**Other Grantees**”), i.e. they are not a Director, member of the senior management of our Group, connected person of our Company, employee of our Group who has been granted options to subscribe for 220,000 Shares or more or director of the consultant of our Group. It would be unduly burdensome for us to strictly comply with the relevant requirements under the Listing Rules and the Companies (WUMP) Ordinance.



---

**WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH  
THE REQUIREMENTS UNDER THE LISTING RULES AND  
THE COMPANIES (WUMP) ORDINANCE**

---

Accordingly, we have applied for, and the Stock Exchange has granted us from strict compliance with the disclosure requirements under Rule 17.02(1)(b) and Paragraph 27 of Appendix 1A to the Listing Rules on the following basis:

- (a) the disclosure of key information of the options granted to the Disclosed Grantees, as described in “D. Pre-IPO Share Option Schemes — The Pre-IPO Share Option Schemes” in Appendix IV to this prospectus should provide potential investors with sufficient information to make a relevant assessment of our Company in their investment decision-making process. Given that 90 Grantees are involved, strict compliance with the applicable disclosure requirements under the Listing Rules to disclose the names, addresses and entitlements of all the Grantees on an individual basis in the Prospectus will require a substantial volume of additional disclosure in this prospectus which will be costly and unduly burdensome on our Company in light of a significant increase in cost and time for information compilation, prospectus preparation and prospectus printing;
- (b) none of the Other Grantees are Directors, members of the senior management of our Group or connected persons of our Company, employees of our Group who have been granted options to subscribe for 220,000 Shares or more or director of the consultant of our Group. These Other Grantees, being employees of our Group, have been granted options under the Pre-IPO Share Option Schemes to subscribe for an aggregate of 8,071,690 Shares, and the aggregate number of our Shares to be subscribed for pursuant to the exercise of these options was not material in the circumstances of our Company and the grant and exercise in full of the options granted under the Pre-IPO Share Option Schemes will not cause any material adverse change in the financial position of our Company;
- (c) a waiver from the Stock Exchange from strict compliance with the applicable disclosure requirements under the Listing Rules will not hinder our Company in providing an informed assessment of our Company’s activities, assets and liabilities, financial position, management and prospects to our potential investors of our Company. Material information in relation to the Pre-IPO Share Option Schemes has been disclosed in this prospectus for investors’ information, including details of the holdings of the Disclosed Grantees (i.e. our executive Directors, independent non-executive Director, senior management of our Group, employees of our Group who have been granted options to subscribe for 220,000 Shares or more and the director of the consultant of our Group). Moreover, the list of all the Grantees (including the Disclosed Grantees and Other Grantees), containing all details will be made available for public inspection. Therefore, the granting of the waiver would not prejudice the interests of the investing public in any manner.

---

**WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH  
THE REQUIREMENTS UNDER THE LISTING RULES AND  
THE COMPANIES (WUMP) ORDINANCE**

---

We have also applied for, and the SFC has granted us a certificate of exemption from strict compliance with the disclosure requirements Paragraph 10(d) of Part I of the Third Schedule to the Companies (WUMP) Ordinance on the following basis:

- (a) the disclosure of key information of the options granted to the Disclosed Grantees, as described in “D. Pre-IPO Share Option Schemes — The Pre-IPO Share Option Schemes” in Appendix IV to this prospectus should provide potential investors with sufficient information to make a relevant assessment of our Company in their investment decision-making process. Given that 90 Grantees are involved, strict compliance with the applicable disclosure requirements under the Companies (WUMP) Ordinance to disclose the names, addresses and entitlements of all the Grantees on an individual basis in this prospectus will require a substantial volume of additional disclosure in this prospectus which will be costly and unduly burdensome on our Company in light of a significant increase in cost and time for information compilation, prospectus preparation and prospectus printing;
- (b) none of the Other Grantees are Directors, members of the senior management of our Group, connected persons of our Company, employees of our Group who have been granted options to subscribe for 220,000 Shares or more or director of the consultant of our Group. These Other Grantees, being employees of our Group, have been granted options under the Pre-IPO Share Option Schemes to subscribe for an aggregate of 8,071,690 Shares and the aggregate number of our Shares to be subscribed for pursuant to the exercise of these options was not material in the circumstances of our Company and the grant and exercise in full of the options granted under the Pre-IPO Share Option Schemes will not cause any material adverse change in the financial position of our Company;
- (c) a certificate of exemption from the SFC from strict compliance with disclosure requirements under the Companies (WUMP) Ordinance will not hinder our Company in providing an informed assessment of our Company’s activities, assets and liabilities, financial position, management and prospects to the potential investors of our Company. Material information in relation to the Pre-IPO Share Option Schemes has been disclosed in this prospectus for investors’ information, including details of the holdings of the Disclosed Grantees (i.e. our executive Directors, independent non-executive Director, senior management of our Group, employees of our Group who have been granted options to subscribe for 220,000 Shares or more and the director of the consultant of our Group). Moreover, the list of all the Grantees (including the Other Grantees), containing all details will be made available for public inspection. Therefore, the granting of the exemption would not prejudice the interests of the investing public in any manner.

---

**WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH  
THE REQUIREMENTS UNDER THE LISTING RULES AND  
THE COMPANIES (WUMP) ORDINANCE**

---

The Stock Exchange has granted a waiver under the Listing Rules to our Company on the following conditions:

- (a) on individual basis, full details of all the options granted by our Company under the Pre-IPO Share Option Schemes to each of our Directors, senior management of our Group, connected persons of the Company who have been granted options to subscribe for Share and other grantees who have been granted options to subscribe for 220,000 Shares or more, including all the particulars required under Rule 17.02(1)(b) of the Listing Rules, Paragraph 27 of Appendix 1A to the Listing Rules be disclosed in this prospectus;
- (b) in respect of the options granted by our Company to the Grantees other than those mentioned in subparagraph (a) above, the following details be fully disclosed in this prospectus:
  - (i) the aggregate number of the Grantees;
  - (ii) the aggregate number of Shares subject to such options;
  - (iii) the consideration paid for the grant of such options;
  - (iv) the exercise period of the options; and
  - (v) the exercise price for the options;
- (c) the dilution effect and impact on earnings per Share upon full exercise of the options granted under the Pre-IPO Share Option Schemes be disclosed in this prospectus;
- (d) the aggregate number of Shares subject to the outstanding options granted by our Company under the Pre-IPO Share Option Schemes and the percentage of our Company's issued share capital immediately after completion of the Global Offering (without taking into account any Shares which may be allotted and issued upon the exercise of the options which have been granted under the Pre-IPO Share Option Schemes) of which such number represents be disclosed in this prospectus;
- (e) a summary of the Pre-IPO Share Option Schemes be disclosed in this prospectus;
- (f) the list of all the Grantees (including the Disclosed Grantees and Other Grantees), containing all details as required under Rule 17.02(1)(b) and Paragraph 27 of Appendix 1A to the Listing Rules be made available for public inspection;
- (g) the grant of a certificate of exemption from strict compliance with the relevant requirements under the Companies (WUMP) Ordinance by the SFC;
- (h) the particular of this waiver will be disclosed in this prospectus; and
- (i) this prospectus will be issued on or before 30 June 2020.

---

**WAIVERS AND EXEMPTION FROM STRICT COMPLIANCE WITH  
THE REQUIREMENTS UNDER THE LISTING RULES AND  
THE COMPANIES (WUMP) ORDINANCE**

---

The SFC has granted a certificate of exemption under section 342A of the Companies (WUMP) Ordinance to our Company on the following conditions:

- (a) on individual basis, full details of all the options granted by our Company under the Pre-IPO Share Option Schemes to each of our Directors, senior management of our Group, connected persons of our Company who have been granted options to subscribe for Share and other grantees who have been granted options to subscribe for 220,000 Shares or more, including all the particulars required under Paragraph 10 of Part I of the Third Schedule to the Companies (WUMP) Ordinance, be disclosed in this prospectus;
- (b) in respect of the options granted by our Company to the Grantees other than those mentioned in subparagraph (a) above, the following details be fully disclosed in this prospectus:
  - (i) the aggregate number of the Grantees;
  - (ii) the number of Shares subject to such options;
  - (iii) the consideration paid for the grant of such options;
  - (iv) the exercise period of the options; and
  - (v) the exercise price for the options;
- (c) the list of all the Grantees (including the Disclosed Grantees and Other Grantees), containing all details as required under Paragraph 10 of Part I of the Third Schedule to the Companies (WUMP) Ordinance be made available for public inspection;
- (d) the particulars of this exemption will be disclosed in this prospectus; and
- (e) this prospectus will be issued on or before 30 June 2020.

Further details of the Pre-IPO Share Option Schemes are set out in “D. Pre-IPO Share Option Schemes — The Pre-IPO Share Option Schemes” in Appendix IV to and “History, reorganisation and corporate structure — Pre-IPO Share Option Schemes” of this prospectus.

---

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

---

### **DIRECTORS' RESPONSIBILITY STATEMENT**

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

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

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

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

The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement and is subject to us and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) agreeing on the Offer Price. The International Placing is expected to be fully underwritten by the International Underwriters subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

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

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

The Offer Shares are being offered at the Offer Price which will be determined by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on or around the Price Determination Date.

---

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

---

If the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on or before 5:00 p.m. on 10 July 2020 or such later date or time as may be agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us, the Global Offering will not become unconditional and will lapse.

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

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

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purposes 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 authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

### **APPLICATION FOR LISTING OF THE SHARES ON THE HONG KONG STOCK EXCHANGE**

We have applied to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of the options under the Pre-IPO Share Option Schemes).

Our Shares in issue are currently admitted to trading on AIM. On 16 April 2020, a general meeting was held by our Shareholders to approve, among other things, the Delisting, which is conditional upon the Listing. It is expected that our Shares in issue will cease to be admitted to trading on AIM with effect from the first day of dealing in our Shares on the Stock Exchange.

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

---

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

---

### **COMMENCEMENT OF DEALINGS IN THE SHARES**

Dealings in our Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 a.m. on Wednesday, 15 July 2020. Our Shares will be traded in board lot of 4,000 Shares each. The stock code of our Shares will be 1156.

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

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

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

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

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in, or the exercise of any rights attaching to, the Shares. We emphasize that none of 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 or party involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding, disposing of, dealing in, or exercise of any rights attaching to, the Shares.

### **REGISTER OF MEMBERS AND STAMP DUTY**

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

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

---

## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

---

### EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in pound sterling, Renminbi and Hong Kong dollars. No representation is made or none should be construed as being made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rate indicated or at all on such date or any other date.

Unless otherwise specified, amounts denominated in Hong Kong dollars has been translated, for illustration purposes only, into pound sterling and Renminbi dollars, and vice versa, in this prospectus at the following rates:

HK\$1 to RMB0.915

HK\$1 to £0.104

### ROUNDING

Certain amounts and percentages 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.

### WEBSITE

The contents of any website mentioned in this prospectus do not form part of this prospectus.



---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

### DIRECTORS

Name	Address	Nationality
<b>Executive Directors</b>		
Mr. Yu Weijun (余偉俊) . . . . .	Room 702, No. 128 Dai Yuan No. 81 Xian Lie Zhong Road Yuexiu District, Guangzhou, PRC	Chinese
Mr. Tang Zhaoxing (唐兆興) . . . . .	Room 202, No. 20 Liyang Street, Tianhe District, Guangzhou, PRC	Chinese
<b>Independent non-executive Directors</b>		
Mr. Richard Antony Bennett . . .	26 Bristol Road Brighton BN2 1AP United Kingdom	British
Mr. Chan Shing Fat Heron (陳盛發) . . . . .	Flat 1, 10/F. Wing Fat House YLTL 106, Ma Miu Road Yuen Long, New Territories Hong Kong	British
Mr. Chan Siu Shan Sam (陳少山) . . . . .	Flat D, 1/F. Ho On Mansion 109 Austin Road Tsim Sha Tsui, Kowloon Hong Kong	Chinese

Please refer to the section headed “Directors, Senior Management and Employees” in this prospectus for more information regarding the biography of our Directors.

---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

### PARTIES INVOLVED IN THE GLOBAL OFFERING

<b>Sole Sponsor</b>	Dongxing Securities (Hong Kong) Company Limited Room 6805-06A, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong
<b>Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers</b>	SPDB International Capital Limited 33/F, SPD Bank Tower One Hennessy 1 Hennessy Road Hong Kong  DL Securities (HK) Limited Flat 01 28/F Vertical Square 28 Heung Yip Road Wong Chuk Hang, Hong Kong
<b>Joint Bookrunners and Joint Lead Managers</b>	Soochow Securities International Brokerage Limited Level 17 Three Pacific Place 1 Queen's Road East, Hong Kong  Founder Securities (Hong Kong) Limited Suites 1710-1719 Jardine House 1 Connaught Place Central, Hong Kong
<b>Joint Lead Managers</b>	Realord Asia Pacific Securities Limited Suite 2402 24/F Jardine House 1 Connaught Place, Central Hong Kong  Standard Perpetual Securities Limited Room 2104 K. Wah Centre, 191 Java Road North Point, Hong Kong  AWSG International Securities Limited Room 804B 8/F, K. Wah Centre 191 Java Road North Point, Hong Kong

---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

Seazen Resources Securities Limited  
Unit 4503-07, 45/F  
The Center, 99 Queen's Road Central  
Central, Hong Kong

### **Legal Advisers to the Company**

*As to Hong Kong law*  
Kwok Yih & Chan  
Suites 2103-05  
21st Floor, 9 Queen's Road Central  
Hong Kong

*As to PRC law*  
Zhong Lun Law Firm (Guangzhou)  
23th Floor  
R&F Center, No.10 Huaxia Road  
Zhujiang New Town, Tianhe District  
Guangzhou, China

*As to Jersey law*  
Ogier  
11th Floor, Central Tower  
28 Queen's Road Central  
Hong Kong

*As to English law*  
Almond + Co  
Peter House  
Oxford Street  
Manchester  
M1 5AN  
United Kingdom

*As to International Sanctions law*  
Hogan Lovells  
11/F, One Pacific Place  
88 Queensway  
Hong Kong

---

## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

---

<b>Legal Advisers to the Sole Sponsor and the Underwriters</b>	<p><i>As to Hong Kong law</i> King &amp; Wood Mallesons 13/F Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong</p> <p><i>As to PRC law</i> Grandall Law Firm (Shenzhen) 24, 31 &amp; 41F, Shenzhen Special Zone Press Tower 6008 Shennan Blvd. Shenzhen, China 518034</p>
<b>Auditor and Reporting Accountant</b>	<p>PricewaterhouseCoopers Certified Public Accountants and Registered Public Interest Entity Auditor 22/F, Prince's Building Central Hong Kong</p>
<b>Industry Consultant</b>	<p>China Insights Consultancy Limited 10/F, Block B, Jing'an International Center 88 Puji Road, Jing'an District Shanghai China</p>
<b>Compliance Adviser</b>	<p>Dongxing Securities (Hong Kong) Company Limited Room 6805-06A, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong</p>
<b>Receiving Bank</b>	<p>Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong</p>

---

## CORPORATE INFORMATION

---

<b>Registered Office</b>	13 Castle Street St Helier, Jersey Channel Islands JE1 1ES
<b>Headquarter and Principal Place of Business in the PRC</b>	8/F, Zone B, Energy Saving and Environmental Protection Building of GIEC No. 2, Nengyuan Road, Tianhe District Guangzhou PRC
<b>Principal Place of Business in Hong Kong</b>	Unit 2406, 24/F. Strand 50 50 Bonham Strand Sheung Wan Hong Kong
<b>Company's Websites</b>	<a href="http://www.chinanewenergy.co.uk">www.chinanewenergy.co.uk</a> <a href="http://www.zkty.com.cn">www.zkty.com.cn</a>  <i>(The contents on these websites do not form part of this prospectus)</i>
<b>Joint Company Secretaries</b>	Mr. Sin Chi Yuen Edward (單智遠) (ACIS) (ACS) Flat E, 9/F., Block 20 Chi Fu Fa Yuen Pokfulam, Hong Kong  Ms. Xu Huijuan (徐惠娟) No. 2 Nengyuan Road Tianhe District Guangzhou, PRC
<b>Authorized Representatives</b>	Mr. Yu Weijun (余偉俊) Room 702, No. 128 Dai Yuan, No. 81 Xian Lie Zhong Road, Yuexiu District, Guangzhou, PRC  Mr. Sin Chi Yuen Edward (單智遠) Flat E, 9/F., Block 20 Chi Fu Fa Yuen Pokfulam, Hong Kong

---

## CORPORATE INFORMATION

---

<b>Audit Committee</b>	Mr. Chan Siu Shan Sam (陳少山) ( <i>Chairman</i> ) Mr. Richard Antony Bennett Mr. Chan Shing Fat Heron (陳盛發)
<b>Remuneration Committee</b>	Mr. Chan Shing Fat Heron (陳盛發) ( <i>Chairman</i> ) Mr. Richard Antony Bennett Mr. Yu Weijun (余偉俊)
<b>Nomination Committee</b>	Mr. Yu Weijun (余偉俊) ( <i>Chairman</i> ) Mr. Richard Antony Bennett Mr. Chan Shing Fat Heron (陳盛發)
<b>Risk Management Committee</b>	Mr. Yu Weijun (余偉俊) ( <i>Chairman</i> ) Mr. Richard Antony Bennett Mr. Chan Siu Shan Sam (陳少山)
<b>Principal Share Registrar and Transfer Office</b>	Computershare Investor Services (Jersey) Limited Queensway House, Hilgrove Street St Helier, Jersey Channel Islands JE1 1ES
<b>Hong Kong Branch Share Registrar</b>	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
<b>Principal Bankers</b>	DBS Bank (Hong Kong) Limited 16th Floor, The Center 99 Queen's Road Central Central, Hong Kong  Bank of China (UK) Limited 1 Lothbury London EC2R 7DB United Kingdom  Bank of China Limited 2 Qingnian Road, Luokun, Huangpo District, Guangzhou, Guangdong, China, 511348

---

## INDUSTRY OVERVIEW

---

*Unless otherwise indicated, the information presented in this section is derived from the CIC Report prepared by CIC, which was commissioned by us and is prepared primarily as a market research tool intended to reflect estimates of market conditions based on publicly available resources. References to CIC should not be considered as its opinion as to the value of any security or the advisability of investing in our Group. Our Directors believe that the sources of information and statistics are appropriate sources for such information and statistics. Our Directors 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 in any material respect. The information prepared by CIC and set out in this Industry Overview has not been independently verified by our Group, our Substantial Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party (other than CIC) involved in the Global Offering or their respective directors, officers, employees, advisers and agents, and no representation is given as to its accuracy and completeness (other than CIC). Accordingly, such information should not be unduly relied upon.*

### SOURCE OF INFORMATION

We have commissioned CIC, an independent third party, to both conduct an analysis of and to produce a report on the ethanol production system market in China. The report we commissioned, or namely the CIC Report, has been prepared by CIC independent of our influence. We paid CIC a fee of RMB680,000 for the preparation of the report, which we consider to be in line with market rates. CIC is a professional industry consulting company established in 2013 and committed to facilitate the investment and financing process. CIC's services include industry consulting, commercial due diligence, strategic consulting, etc.

### CIC REPORT

CIC conducts both primary and secondary research using a variety of resources. Primary research involves interviewing key industry experts and leading industry participants. Secondary research involves analyzing data from various publicly available data sources, such as the International Monetary Fund, National Bureau of Statistics of China, the United Nations, industry associations, etc.

The market projections in the commissioned report are based on 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 in China's ethanol production system market throughout the forecast period, including continuous development of the ethanol production technology, expansion of the ethanol fuel production capacity, governments' supportive policies and regulations, etc.; (iii) the negative impact caused by COVID-19 outbreak in 2020 on the industry is expected to be limited, taking into account the impact of the COVID-19 outbreak and estimated market growth for 2020 in a conservative manner based on the industry and economic recovery in China from the second quarter of 2020; and (iv) there is no extreme *force majeure* or unforeseen industry regulations in which the market may be affected in either a dramatic or fundamental way.

All statistics are reliable and based on information available as of the date of this report. Other information sources, including from the government, industry associations, or market participants, may have provided some of the information on which the analysis or its data is based. CIC came to the conclusions in CIC report based on multi-methodologies to ensure data validation and integrity assessment.

---

## INDUSTRY OVERVIEW

---

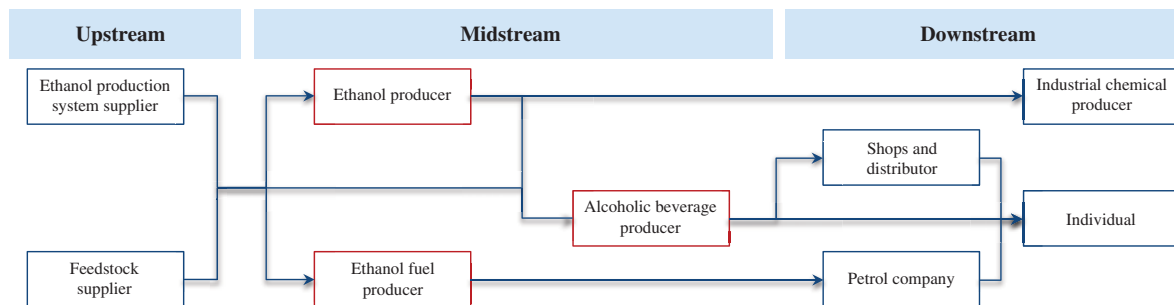
All the information pertaining to the Company has been sourced from the Company's own audited report or through management interviews. Information regarding the Company has not been independently verified by CIC.

Except as otherwise noted, all the data and forecasts in this section are derived from the CIC Report. Our Directors confirm that, after taking reasonable care, there was no adverse change in any of the market information since the release date of the CIC Report, changes which may qualify, contradict, or have an impact on the information as disclosed in this section.

### OVERVIEW OF THE ETHANOL MARKET

#### Value Chain of the Ethanol Market

The value chain of the ethanol market includes feedstock and ethanol production system suppliers, ethanol producers, and downstream users.



**Upstream:** Upstream participants mainly include feedstock suppliers and ethanol production system suppliers. Suppliers of ethanol production systems provide the necessary equipment and technical support for ethanol producers.

**Midstream:** Ethanol producers own ethanol production systems to transform glucose extracted from feedstock into ethanol. There were approximately 150 ethanol producers in China by the end of 2019. After a quick expansion period before 2012, the number of participants gradually declined due to the closure of outdated factories. Beverage and food producers source edible ethanol from third parties or produce on their own. Currently, the production of ethanol fuel is dominated by a few state-owned ethanol producers as well as sizeable enterprises supported by the government. The mandate of E10 is expected to greatly drive the demand of ethanol fuel in the PRC in the future.

**Downstream:** Customers purchase ethanol as a raw material for the further manufacturing procedure or consume on their own. Ethanol is widely used in many downstream industries, including the alcoholic beverage industry, ethanol fuel industry and industrial chemical industry.



---

## INDUSTRY OVERVIEW

---

<b>Alcoholic beverage industry</b>	Ethanol used in the alcoholic beverage industry accounted for 37.3% of the total ethanol market in 2019. Baijiu, the most popular Chinese traditional spirit, is the major final product in the alcoholic beverage industry.
<b>Ethanol fuel industry</b>	Ethanol fuel refers to anhydrous ethanol used as biofuel additive. After denaturation, ethanol fuel can be mixed with gasoline in a certain ratio to produce ethanol gasoline for vehicles. Ethanol fuel accounted for 47.4% of the total ethanol market in 2019.
<b>Industrial chemical industry</b>	Ethanol is also an important raw material in various industrial applications, including pharmaceutical manufacturing, cosmetics and toiletries, detergents and cleaning products, etc. Ethanol used in the industrial chemical industry accounted for 15.3% of the total ethanol market in 2019.

### Market Size of the Ethanol Market in China

The sales volume of the ethanol market was relatively stable in the last five years and reached 8.8 million tonnes in 2019. In September 2017, NEA announced the E10 Mandate that was designed to expand the mandatory use of E10 fuel from 12 trial provinces to the entire country by 2020. As at 30 April 2020, E10 fuel has been used in 26 provincial-level administrative regions, of which six regions have adopted the mandatory use of E10 fuel for vehicles in the whole region; five regions have adopted the mandatory use of E10 fuel for vehicles in selected cities; and optional use in the remaining regions. The sales volume of ethanol fuel is expected to increase from 4.2 million tonnes in 2020 to 7.4 million tonnes in 2024, representing a CAGR at 15.2% from 2020 to 2024. Driven by the promotion of the ethanol fuel market, the sales volume of the entire ethanol market is expected to grow from 8.6 million tonnes in 2020 to approximately 12.2 million tonnes in 2024, representing a CAGR of 9.1% from 2020 to 2024.

## OVERVIEW OF THE ETHANOL PRODUCTION SYSTEM INDUSTRY

### Development History of the Ethanol Production Technology

Ethanol production technology is classified into Generation 1.0, Generation 1.5, and Generation 2.0, according to the different feedstock used and process methods. Cellulosic ethanol is viewed as the next stage of development for the renewable energy by the PRC government as the wastes can be recycled efficiently. For the Generation 2.0 ethanol production technology, enzymes are used to decompose complex cellulose into glucose in the pre-processing step. The Generation 1.0 and 1.5 ethanol production lines can be upgraded for Generation 2.0 ethanol production. However, Generation 2.0 ethanol production technology is only used in pilot projects and the scalable production using that technology has never been achieved due to the high production costs as a result of low ethanol conversion rate. The PRC government provides supports in the development and promotion of cellulosic ethanol by carrying out relating technology projects, establishing pilot bases and providing subsidies for cellulosic ethanol

---

## INDUSTRY OVERVIEW

---

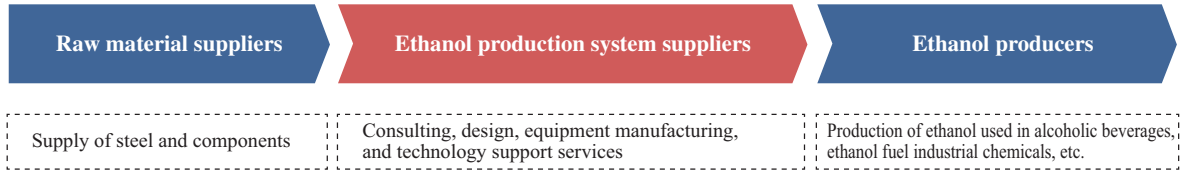
producers. However, there are technology bottlenecks in achieving scalable production and there is lack of ethanol production system service providers which are committed to conducting research for the breakthrough.

Technology	Generation 1.0 Staple grain ethanol	Generation 1.5 Non-food grain ethanol	Generation 2.0 Cellulosic ethanol
Feedstock	Corn, wheat, rice feedstock, etc.	Cassava, sugarcane, sweet sorghum, etc.	Corn cobb, corn stalk, wood chips, etc.
Advantages	Generation 1.0 is the most mature ethanol production technology, with relatively high ethanol yield rate, low production costs, and simple production process.	Generation 1.5 technology avoids problems of rising food price. This technology is sufficiently mature and has been widely adopted, especially in Brazil and Southeast Asia.	Cellulosic materials are abundant and widely distributed. The fibrous parts of plants are mostly inedible to animals and humans. This technology can make full use of agricultural wastes.
Disadvantages	The development of Generation 1.0 technology competes for arable land usually designated for crops for human consumption.	The feedstock of Generation 1.5 is mostly planted in tropical areas. This method cannot be widely promoted due to the geographical restrictions of feedstock.	The production technology of cellulosic ethanol is not mature and processing costs are too high for mass production.
Production costs	RMB4,000–5,000 per tonne.	RMB5,000–6,000 per tonne.	> RMB10,000 per tonne.

## INDUSTRY OVERVIEW

### Value Chain of the Ethanol Production System Industry

The value chain of the ethanol production system industry includes raw material suppliers, ethanol production system suppliers and ethanol producers.



**Raw material suppliers:** The major raw materials for ethanol production systems include steel plates and steel pipes. China’s steel supply is sufficient with steel output reaching 1.2 billion tonnes in 2019. Raw materials account for approximately 70%–75% of the ethanol production system manufacturing costs. Quality of the raw materials affect the corrosion resistance performance of equipment. Components of ethanol production equipment mainly include valves and instruments.

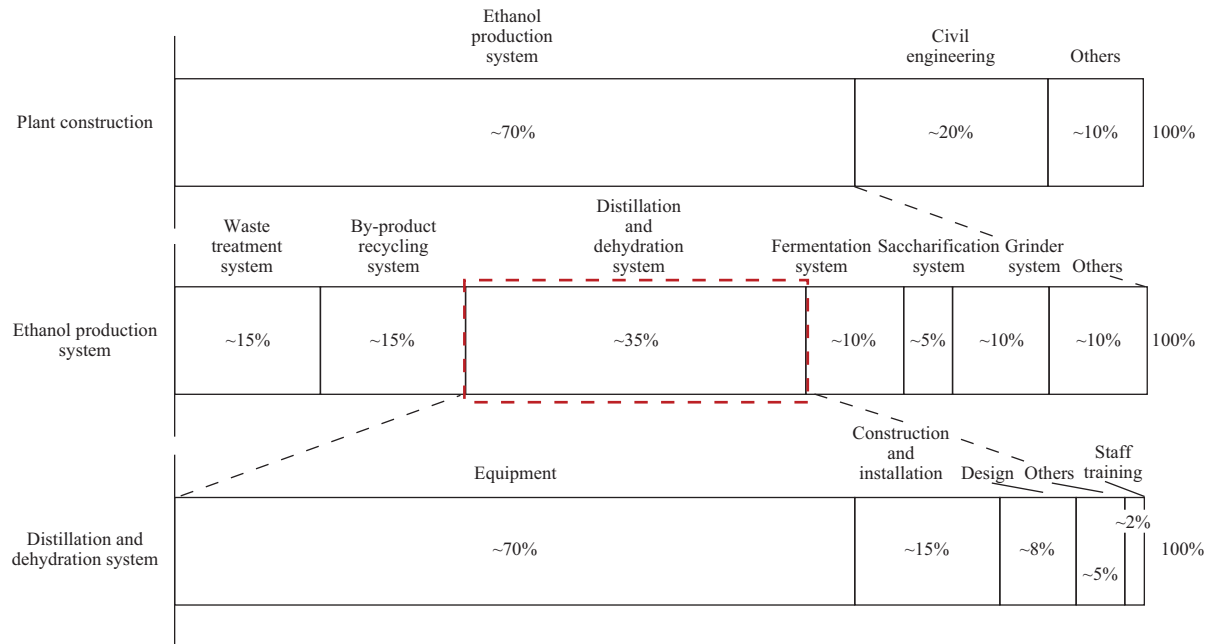
**Ethanol production system suppliers:** Ethanol production system suppliers offer equipment and technology support for customers. The ethanol production systems determine the production efficiency, energy use efficiency and product quality. The establishment of ethanol production systems includes design, equipment manufacturing and procurement, installation, etc. Ethanol production systems mainly include grinder systems, saccharification systems, fermentation systems, distillation and dehydration systems, by-product recycling systems, and waste treatment systems. The main difference between core system and non-core system provider is that core system providers possess advanced technology skills, strong project management abilities and industry knowledge. Only a few companies in the ethanol production system industry, which have wide business scope, large business scale, and strong research abilities, are capable of providing comprehensive core system solution services.

<b>Supplier type</b>	<b>Description</b>
Supplier of core system	Suppliers of core system provide the distillation and dehydration system. The distillation and dehydration system is the most important and complex part, which need to be designed and manufactured by specialized companies with corresponding licenses. The business scope of core system suppliers include the services of system design, equipment manufacturing and procurement, installation and follow up services.
Supplier of non-core systems	Suppliers of non-core systems provide ethanol production systems except for the distillation and dehydration system. Non-core systems can be manufactured without detailed and tailored design. Non-core system suppliers manufacture equipment which can be used for the production of many chemical products and they do not specialize in the manufacturing of ethanol production systems.

## INDUSTRY OVERVIEW

**Ethanol producers:** The ethanol products include alcoholic beverage, ethanol fuel and industrial chemical. Ethanol is widely used in beverages, automotive fuels, industrial products, personal care products, and medical products. Currently, most ethanol producers have problems of high energy consumption, severe environment pollution and low production efficiency. The ethanol production industry in China is experiencing manufacturing upgrades and product structure transformation.

### Expenditure Breakdown of Ethanol Plant Construction Projects



Source: China Insights Consultancy

**Newly-built ethanol plant:** The expenditure of an ethanol plant construction project includes civil engineering, ethanol production systems and others. Civil engineering project is usually outsourced by project owners to professional companies with related licenses. The setup of an integrated ethanol production system is the most costly part.

**Ethanol production system:** Ethanol production systems include several sub-systems such as grinder systems, fermentation systems, distillation and dehydration systems, by-product recycling systems, and waste treatment systems. Due to the high technical requirements for pressure vessels, the distillation and dehydration system is the most important and complex part and is usually outsourced to companies which have related licenses and specialize in the manufacturing of ethanol production systems. In a newly-built ethanol production project for distillation and dehydration system establishment, the equipment expenditure accounts for around 70% of the total project cost.

Only a few companies in the ethanol production system industry, which have wide business scope, large business scale, and strong research capabilities, are capable of providing comprehensive core system solution services.

---

## INDUSTRY OVERVIEW

---

### Market Size of the Ethanol Production System Industry and Market Drivers

The market size of ethanol production systems increased from RMB1,118.1 million in 2012 to RMB3,525.9 million in 2019, representing a CAGR of 17.8%. However, prior to 2016, the production volume and market size of the ethanol production systems remained at a low level. The 13th Five-Year Plan for Renewable Energy Development implemented in 2016 proposed to expand ethanol fuel production capacity in consideration of environment protection and improving energy consumption structure. In 2017, the NEA stated that the mandatory use of ethanol fuel will be promoted nationwide by 2020. To seize market opportunity raised by government supportive policies, many ethanol producers either invested in new ethanol fuel plant construction or upgraded ethanol production systems in 2017 and 2018. Consequently, ethanol fuel contributes the largest proportion to new ethanol production capacity in these two years. Moreover, the PRC government eliminated the corn stock policy in 2016, in order to address the excessive corn stock problem. Consequently, local governments in the northeast China also made efforts in inviting investment in the ethanol production industry by providing subsidies for corn-based ethanol producers, in order to take advantages of high corn production capacity and revitalize the industrial base in the northeast China. In 2018, the growth rate of the ethanol production system market slowed down. For the sake of controlling the quality of ethanol production factories and strengthening the governance of ethanol fuel, the Chinese government ordered not to approve applications of small-sized ethanol production plant construction in 2018. In contrast, large-scale projects continue to commence due to the foreseeable prospect of the industry.

According to CIC, the E10 Mandate announced in September 2017 that was designed to expand the mandatory use of E10 fuel from 12 trial provinces to the entire country by 2020 is the government policy that has a material impact on our business. As at 30 April 2020, E10 fuel has been used in 26 provincial-level administrative regions, of which six regions have adopted the mandatory use of E10 fuel for vehicles in the whole region; five regions have adopted the mandatory use of E10 fuel for vehicles in selected cities; and optional use in the remaining regions. Since the implementation of such E10 mandate, the sales volume of ethanol fuel in the PRC recorded a significant increase from 2.7 million tonnes in 2017 to 3.3 million tonnes in 2018, representing a growth of 22.2%, and further increased to 4.2 million tonnes in 2019, representing a growth of 27.3%. Our revenue generated from the ethanol production system for ethanol fuel has also increased from RMB145.3 million in 2018 to RMB347.2 million in 2019, representing a growth of approximately 139.0%.

According to CIC, environmental protection is a key long-term development strategy in the PRC and the PRC government's support for the development of new energy is one of its key strategies in environmental protection. Compared with gasoline, E10 fuel is a more environmental friendly fuel which is less poisonous and less corrosive; and hence reduces the corrosion of the car engine. Moreover, the application of E10 fuel is able to reduce the emission of hazardous gas. For instance, E10 fuel can reduce carbon monoxide, hydrocarbon emission and oxynitride emissions significantly compared to gasoline. The PRC's commitment to promote environmental protection has been demonstrated by its declaration in November 2015 at the Paris Conference on Climate Change that: (i) China will peak carbon dioxide emissions in around 2030 and strive to achieve the above commitment as soon as possible; (ii) China's carbon dioxide emissions will decrease from 4.5 metric tonnes in 2005 to 1.8 metric tonnes in 2030, representing a decrease of approximately 60%; and (iii) proportion of non-fossil energy of primary energy consumption in 2030 will be approximately doubled as compared to that in 2010. The promotion of E10 fuel was listed by the NEA in "the Key Task List for Energy Regulation in 2020", which will continue to stimulate the future development of China's ethanol fuel industry. Driven by the promotion of the E10 fuel market, the sales volume of the entire ethanol market is expected to grow from 8.6 million

---

## INDUSTRY OVERVIEW

---

tonnes in 2020 to approximately 12.2 million tonnes in 2024, representing a CAGR of 9.1% from 2020 to 2024. Given that environmental protection is a key long-term development strategy in the PRC and the PRC government's support for the development of new energy is one of its key strategies in environmental protection, CIC and our Directors are of the view that should there be any changes in the near future to the government policy, in particular the E10 Mandate, such changes would be supportive and favourable to the promotion of the environmental-friendly ethanol fuel.

In 2019, Shanxi, Zhejiang and Guangdong provinces have launched pilot programs while Shanxi, Shandong, Hebei, Zhejiang provinces have officially announced that they will begin to implement E10 fuel in 2020. Shanghai, Hubei, and Hunan provinces are projected to unveil policies to adopt E10 fuel province-wide by 2020. In June 2019, Hebei province doubled the number of cities offering E10 fuel. The Hebei province is projected to offer E10 fuel province-wide by 2020. Although E10 fuel nationwide mandate cannot be met in 2020, the promotion of ethanol fuel is on-going and is projected to continue in the next few years. Moreover, the improvement of ethanol production technology will stimulate the promotion of ethanol fuel. Driven by the gradual promotion of ethanol fuel and improvement of technology, the ethanol production system market is expected to continue growing in the next five years.

It is expected that the expansion of ethanol fuel production capacity will continue in the next five years with the increase in downstream consumption volume and the government's explicitly supportive policies. China is highly dependent on energy import, with imported petroleum accounting for more than 70% of petroleum consumed. China will adhere to the development of renewable energy and the promotion of ethanol fuel. In 2018, State Council of the PRC (中華人民共和國國務院) executive meeting approved the Overall Layout Plan of the National Biofuel Ethanol Industry and promote the use of ethanol fuel in another 14 provinces in addition to the original 12 trial provinces. It is forecasted that ethanol fuel consumption will increase from 4.2 million tonnes in 2020 to 7.4 million tonnes in 2024 representing a CAGR of 15.2%. By the end of 2019, ethanol fuel production capacity was only around 4 million tonnes per year. In consideration of the market expectation for ethanol fuel consumption demand in 2024, the total newly-built ethanol production capacity will exceed 5 million tonnes in the next five years. This tremendous growth in ethanol fuel production capacity in China will significantly boost the development of the ethanol production system industry.

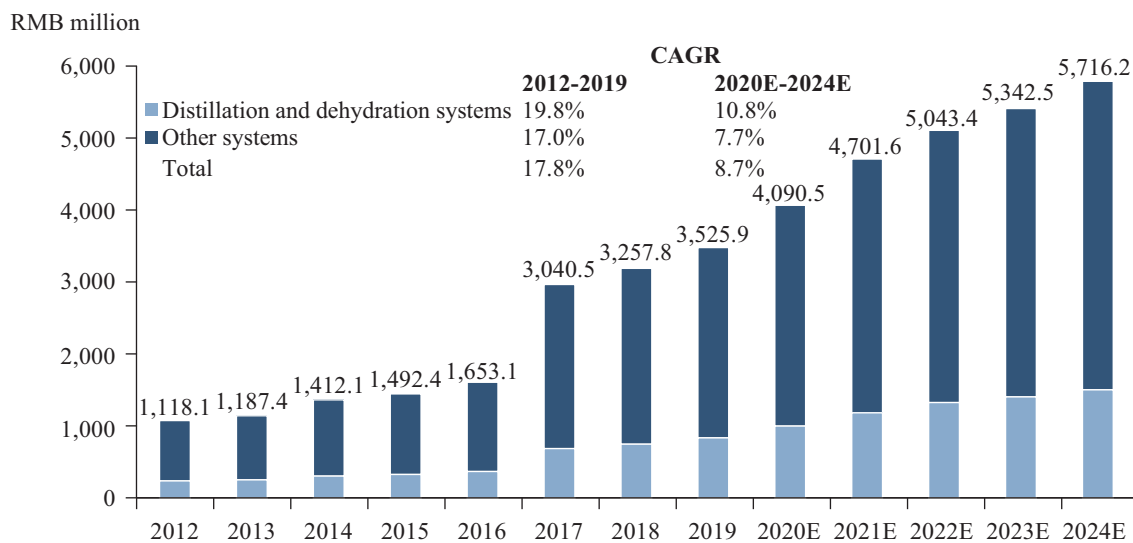
Imports of ethanol fuel were banned until as recently as 2015, and China rarely produced surplus volumes to export. The U.S. is one of the major denatured ethanol (mainly used as ethanol fuel) producers in the world. On 2 April 2018, China levied an additional 15% tariff on U.S.-origin denatured ethanol, raising the tariff from 30% to 45%. On 6 July 2018 China imposed an additional 25% tariff on imports of U.S. denatured ethanol in response to the U.S. 301 Investigation, raising the effective tariff to 70%. The additional tariffs firmly closed the arbitrage window of opportunity for U.S. exports to China. As a result, the import volume of denatured ethanol will be further limited. Since China's domestic consumption of ethanol fuel is in continuous increase, the production capacity of ethanol fuel is expected to further increase in the next few years.

## INDUSTRY OVERVIEW

Moreover, most ethanol producers in the alcoholic beverage industry are employing outdated equipment that generates high resources consumption, low production efficiency and severe environmental pollution problems. The building of “ecological civilization” is listed as one of the top ten goals of the 13th Five-Year Plan. Driven by the policies mentioned above, ethanol producers have to replace outdated equipment by investing in more advanced production systems that generate high production efficiency and low pollutant discharge. In addition, the PRC government ordered for the close down of small scale ethanol plants with an annual output of less than 30,000 tonnes for the promotion of centralized mass production. Advanced ethanol production systems and technology upgrade services are needed to support the new large ethanol plants. The necessity for upgrades of manufacturing facilities, replacement of production systems and mass-production trends drive demand for advanced ethanol production systems in the alcoholic beverage industry in the PRC.

The total project investment value in ethanol production which includes feasibility research, land purchase, plant construction, civil engineering, staff training, etc. is forecasted to increase from RMB6,995.6 million in 2020 to RMB9,987.7 million in 2024, representing a CAGR of 9.3%. From 2020 to 2024, the sales revenue of ethanol production system is projected to increase from RMB4,090.5 million to RMB5,716.2 million representing a CAGR of 8.7%, driven by the expansion of ethanol fuel production capacity and equipment upgrades in the ethanol production industry. Production capacity of ethanol used for the alcoholic beverage can be converted to ethanol fuel production capacity by adding features of customised distillation and dehydration systems which enable the capability for removal water from alcoholic beverage and yield anhydrous ethanol. Therefore, it is expected that the growth rate of the distillation and dehydration system market will exceed the growth rate of the overall ethanol production system market. Considering the coronavirus outbreak in early 2020, as well as the implementation of the government policy delaying the growth period, the market size for the distillation and dehydration system industry in terms of sales revenue is projected to increase from RMB1,329.4 million in 2020 to RMB2,000.7 million in 2024, representing a CAGR of 10.8%.

### Market size of the ethanol production system industry in terms of revenue, China, 2012-2024E

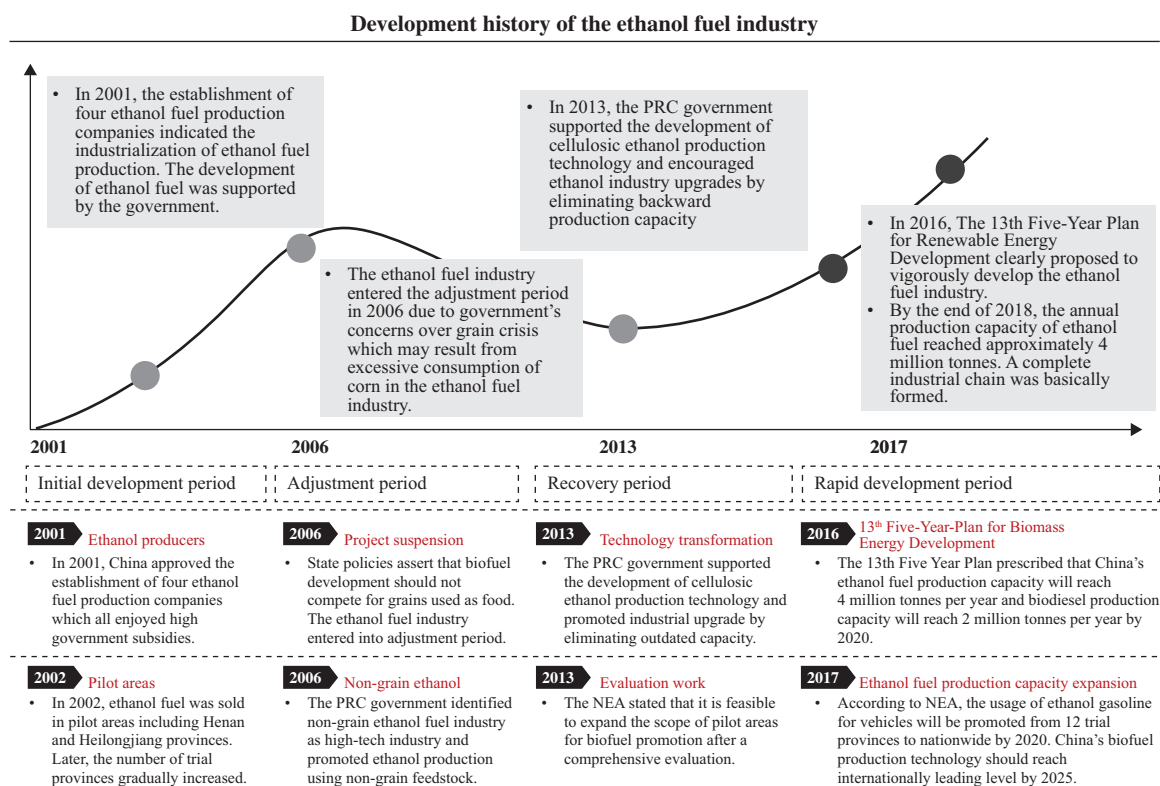


Note: the market size projection has taken into consideration the affect of coronavirus outbreak and the delay of growth caused by slower implementation of relevant policies.

Source: China Insights Consultancy

## Future Development Trends

### 1. More ethanol fuel producers



The production of ethanol fuel is dominated by a few state-owned enterprises as well as sizeable enterprises supported by the government. During 2006 to 2016, the approval of ethanol production plant construction was strictly controlled which discouraged the construction of ethanol production plant. Between 2013 and 2016, the ethanol production system industry has started to enter into a recovery period and recorded steady growth, however, the approval of ethanol production plant construction was still strictly controlled which limited the growth of the industry. Up until 2017, the ethanol production system industry has experienced a rapid growth. The utilization rate of new ethanol fuel production capacity remains relatively low in 2017 and 2018 respectively. In 2018, State Council of the PRC (中華人民共和國國務院) executive meeting decided to promote the usage of ethanol fuel in another 14 provinces in addition to the original 12 trial provinces. In 2018, Heilongjiang province launched a public bidding for the construction of new ethanol fuel plant. Along with the promotion of ethanol fuel, it is expected that there will be more licensed ethanol fuel producers and significant improvement in overall utilization.

### 2. Industry integration

Suppliers of ethanol production systems will expand their existing services in the future to provide customers with a more comprehensive engineering solution. Due to ethanol producers' growing interest in improving production technology, players in the ethanol production system industry will provide customers with more value-added services in the future, such as equipment upgrades, technical transformation, personnel training, etc.



---

## INDUSTRY OVERVIEW

---

### 3. *Advanced engineering solutions*

In the early stage of the ethanol industry, most ethanol producers used equipment with high energy consumption and low productivity. The average conversion rate of ethanol from corn in the United States is as high as 40%, while the average conversion rate in China is only around 31%. With national policies on energy reduction and manufacturing upgrades, ethanol production system suppliers now tend to provide more advanced engineering solutions which can reduce energy consumption and improve economic efficiency to their customers.

### 4. *Market expansion*

Due to the limitations regarding the origin and transportation conditions of raw materials, ethanol production enterprises are mostly concentrated in areas with high grain output. Henan and Jilin provinces account for more than 50% of the PRC's ethanol fuel production capacity. In 2018, the government decided to promote the usage of ethanol fuel in another 14 provinces in addition to the original 12 trial provinces. Generally, the storage and transportation cycle of ethanol gasoline is only 4-5 days, and the market radius is about 600-700 kilometers. In 2013, ethanol fuel production capacity is concentrated in Jilin, Heilongjiang, and Henan provinces. Along with the promotion of ethanol gasoline, ethanol fuel production areas expanded to Guangdong, Shandong, and Hebei provinces, etc. Ethanol production system suppliers are gradually expanding their customer base and geographical coverage to adapt to the changes. At the same time, domestic ethanol production system suppliers are also promoting their services globally in order to expand their international influence, especially in Southeast Asia. Southeast Asia has abundant resources of non-cereal products which are the raw materials of bioenergy. Many players in the ethanol production system industry tend to expand their business to Southeast Asia.

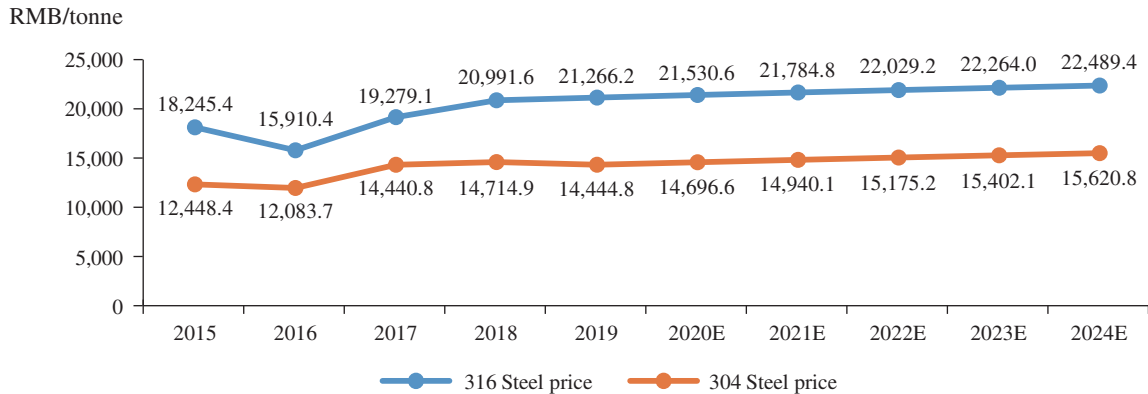
### **Raw Materials of the Ethanol Production System Industry in China**

Stainless steel is the main raw material of ethanol production systems, accounting for around 70%–75% of the system manufacturing costs. Grade 304 stainless steel is generally regarded as the most common austenitic stainless steel. Compared to grade 304 stainless steel, grade 316 stainless steel contains more molybdenum and is more resistant to corrosion. Most ethanol production systems are made of grade 304 stainless steel which is more affordable.

Due to the contraction of the manufacturing and real estate industry in 2014, the steel demand decreased significantly. From 2015 to 2016, the prices of grade 316 and 304 stainless steel decreased by 12.8% and 2.9% respectively. In 2017, stainless steel prices rebounded as a result of the economic recovery and overcapacity elimination. Steel is mainly used in the construction industry and machinery industry. The steel demand from these two industries kept steady growth and the overcapacity elimination in the steel industry has been almost completed in 2018. Based on the steel supply and demand situation in China's steel market, the price of grade 316 and 304 stainless steel is expected to grow steadily in the next five years and reach RMB22,489.4 per tonne and RMB15,620.8 per tonne in 2024 respectively.

## INDUSTRY OVERVIEW

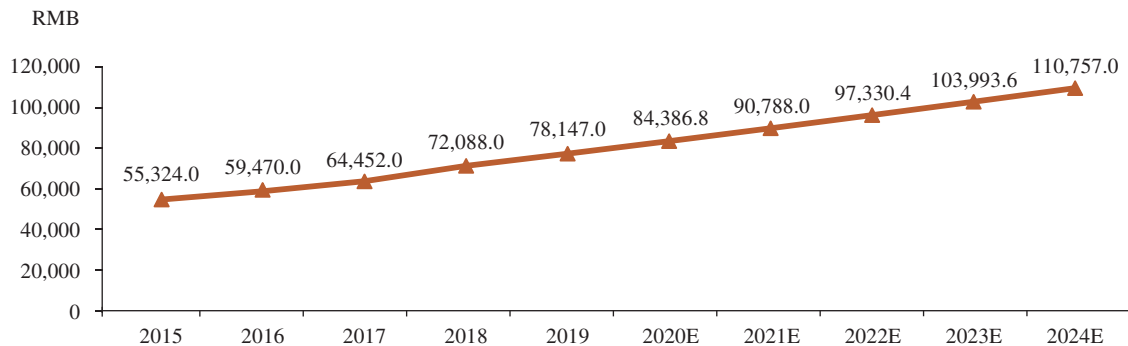
**Average price of major raw materials, China, 2015–2024E**



Source: China Iron and Steel Industry Association, National Bureau of Statistics of China

Along with the development of China’s economy, the average yearly salary in the manufacturing industry increased from RMB55,324.0 in 2015 to RMB78,147.0 in 2019, representing a CAGR of 9.0%. China is faced with problems of aging population and low birth rate. Considering the decrease in labour force and China’s economic growth, the average yearly salary in the manufacturing industry is expected to continue growing and reach RMB110,757.0 in 2024.

**Average yearly salary in the manufacturing industry, China, 2015–2024E**



Source: National Bureau of Statistics of China, China Insights Consultancy

---

## INDUSTRY OVERVIEW

---

### COMPETITIVE LANDSCAPE OF THE ETHANOL PRODUCTION SYSTEM INDUSTRY IN CHINA

The ethanol production system market is highly fragmented because the whole ethanol production line consists of a number of equipment and sub-systems. Some companies in the industry focus on the manufacturing of one or few equipment or non-core systems, which can also be widely applied in other chemical and light machinery industry, such as concentration facilities, pressure vessels, dehydration facilities, plumps, lifting equipment, etc., while other companies focus on providing core systems with technology optimized for ethanol production, namely distillation and dehydration system. Therefore, there are hundreds of players in the ethanol production system market, but there are less than 10 participants which are specialized in this market and have the ability of providing core systems. The Company mainly provides core systems to downstream customers. The domestic revenue of the Company reached approximately RMB379.9 million in 2019, which ranked first in the ethanol production system market in China, accounting for approximately 10.8% of the total market size. Top five suppliers of ethanol production system in terms of revenue in 2019 had combined revenue of approximately RMB879.9 million, accounting for 25.0% of China's market size in 2019.

The Company, as the largest supplier of ethanol production systems in terms of revenue in 2019, has strong competitive strengths in the domestic market, in areas of advanced technology skills. In the global market, the Company has the price advantage compared to companies in other countries, especially U.S. and Brazil where the labour cost is relatively higher.

#### Rankings and market shares for top five suppliers in the ethanol production system market, China, 2019

Rank	Company	Description	Approximate revenue (RMB million)	Approximate market share
1	The Company	A leading ethanol production system provider, mainly providing core systems	379.9	10.8%
2	Company A	A leading provider of core system in ethanol production system industry and non-core systems in chemical and light machinery industry	230.0	6.5%
3	Company B	A manufacturer specialized in producing concentrating equipment, mainly providing non-core system	140.0	4.0%
4	Company C	An integrated supplier for sugar refinery and alcohol sewage treatment systems, mainly providing non-core system and core system for smaller production lines	90.0	2.6%

## INDUSTRY OVERVIEW

Rank	Company	Description	Approximate revenue  (RMB million)	Approximate market share
5	Company D	A regional manufacturer of ethanol equipment and pressure vessels, mainly providing non-core system and core system for smaller production lines	40.0	1.1%
	Subtotal:		879.9	25.0%
	Others:		2,646.0	75.0%
	Total:		3,525.9	100.0%

### Key Success Factors for the Ethanol Production System Market in China

#### 1. *Advanced technology and high R&D capability*

Advanced technology and high R&D capability are the key success factor for ethanol production system suppliers. The competition among ethanol producers are intensive, which leads to these producers need to maintain cost efficiency and advanced production system in order to stay in the market. With the PRC government's promotion for upgrades of manufacturing facilities, ethanol producers will make more investment in advanced ethanol production systems and technology upgrade. With strong R&D capability, a company can make technological breakthroughs and manufacture new generations of ethanol production systems, which allows a company to maintain competitive advantages.

#### 2. *Access to key ethanol fuel producers*

In China, ethanol fuel production is strictly regulated by the government. Currently, the production of ethanol fuel is dominated by a few state-owned ethanol producers as well as sizeable producers supported by the government. Due to its dominance over the market share in the ethanol fuel market, such key ethanol fuel producers have great demands in bulk purchase of ethanol production equipments relating to the ethanol production system. Therefore, the long-term cooperation and relationship with such key producers will ensures the ethanol production system suppliers to achieve relatively high level of the profitability, continuity and stability of its business.

#### 3. *Strong project management ability*

For the management of ethanol production system projects, core system suppliers need to strictly adhere the project timeline and achieve each stage of milestones via strong coordination skills to ensure product quality, control risks, etc. An ethanol production system project usually takes a long time to complete and involves many different services such as pre-design, equipment manufacturing and procurement, installation and final testing. Therefore, strong project management is essential for the successful completion of ethanol production system projects. Moreover, with strong project management, core system suppliers can control project costs effectively, which enables the generation of greater profit and maintains competitive advantages over its competitors.

### **Threats and Challenges for the Ethanol Production System Market in China**

#### ***1. Uncertainties in the promotion of ethanol fuel***

According to NEA's policy related to the E10 Mandate announced in September 2017, the mandatory use of ethanol fuel will be promoted to the entire country by 2020, which results in significant expansion of the ethanol fuel production capacity. It is expected that the excessive corn stock problem will be solved in the next few years. The nationwide usage of ethanol fuel might increase the feedstock price in the future, which could cause changes in government's policy.

#### ***2. Fluctuations of feedstock price***

In China, over 70% of ethanol is still produced by using corn as feedstock. Multiple factors, including weather, the international environment and national policies, affect the price of corn in the market. As feedstock accounts for the largest proportion of ethanol production costs, the fluctuations in feedstock price has significant negative effects on the profit margins of ethanol producers. Ethanol producers will cut down budgets for new ethanol production systems if a reasonable return cannot be achieved.

#### ***3. Difficulties in technology innovation***

Advanced biofuels using cellulose as feedstock have been touted as the next step beyond the corn-based ethanol. But cellulosic ethanol is harder to make than grain ethanol because it uses the inedible and irregular parts of the plants, meaning it was tough for machines to chew up the wet, heavy material. The difficulties in cellulosic ethanol production technology form a challenge faced by ethanol production system suppliers.

### **Entry Barriers to the Ethanol Production System Market in China**

#### ***1. High working capital requirement***

There is a substantial initial investment of approximately RMB100 million to RMB200 million to start the business for manufacturing equipment, factories, and recruiting talent. To enter the industry, manufacturing plant including land, building and machineries for pre-processing of key components are needed. Staff with specific knowledge and R&D capability is also required. Furthermore, a certain credit period is always required by customers, which calls for the endowment of most sub-system suppliers. The payback period for such investment is relatively long. As a result, the capital requirement becomes the primary entry barrier in the ethanol production system industry. Also, in order to remain competitive, companies need to keep up-to-date with the latest technology on ethanol production, which requires frequent investments in R&D. Apart from the credit period granted to its customer, during the course of operation, ethanol production system manufacturers usually have to commit their internal resources on top of the fund received from the customers for payment of various project cost, including the cost of purchase of raw material and equipment and the procurement of labour subcontractors, they generally experience a net cash outflow during the execution of project. When a manufacturer is willing to take on multiple projects, the cash flow will be negatively affected if the working capital is insufficient. As a result, sufficient capital investment is crucial for an ethanol production system manufacturer to meet the needs of working capital during the course of operation.

---

## INDUSTRY OVERVIEW

---

### *2. Technological requirement*

There are also special requirements for participants in the ethanol production system market, including pollutant emission limits and water saving requirements. Furthermore, the core components of ethanol production system is distillation and dehydration system, including the heat exchanger, tower equipment, storage equipment and reaction still, are catalogued as pressure vessels, which requires specific manufacturing licenses. The technology of ethanol distillation and dehydration system is complex and it is not easy to master in the short-term. The well-established companies are able to provide products of high quality, which can satisfy the needs of consumers. New entrants with insufficient technology accumulation and limited experience will find it difficult to produce products that meet the strict industry criteria in a short period.

### *3. R&D capability and industry knowhow*

In order to capture the latest technology trends and react quickly to changes in design solutions, strong R&D capability is required for market participants. Moreover, as a high level of customization is usually demanded, R&D teams must continuously adjust designed solutions while receiving further instructions from customers. Any misunderstanding during the process could cause repeat work and financial losses. Thus, high R&D capability is required for ethanol production system suppliers in order to provide customised and high-quality services. Such R&D capability are obtained from years of accumulated industry experience, talent acquisition, retention efforts, and ultimately a well-developed knowledge and research base.

## **IMPACT OF COVID-19**

The COVID-19 outbreak, which was first emerged in Wuhan, Hubei Province, in the end of 2019 and continues to expand in China and globally, has brought impacts to China's macro economy and certain industries such as tourism, public transportation and catering. However, the COVID-19 outbreak is expected to bring limited impacts to the PRC ethanol industry in the long run due to the following reasons: (i) there was an extension of the Lunar New Year holiday, however according to the notices announced by the State Council and the local governments in the PRC, the economy activities including the ethanol production system industry was gradually resumed normal operations in March 2020; (ii) the provision of raw materials and equipment remains readily available in the PRC, and no material disruption or logistical difficulties being experienced; and (iii) the demands of ethanol and ethanol production systems remains stable, and no material impact on the prices of products in the PRC. In February 2020, ethanol production system providers have generally resumed normal operations and the Ministry of Industry and Information Technology provided support to ethanol producers to ensure their normal operations. Although the demand for ethanol products has experienced a short term drop due to the COVID-19 pandemic, as of mid-May 2020, the demand for ethanol products has basically resumed to the level before the outbreak of COVID-19. In addition, as at the Latest Practicable Date, there was no material change to the E10 Mandate announced in September 2017 related to the nationwide ethanol mandate. Further the construction of an ethanol production system generally takes around six months to one year to complete, the short term drop in the demand for ethanol products and the temporary suspension of operation of ethanol production system providers would have no material impact on the market demand and the prices of their products in the PRC in long run due to the COVID-19 pandemic. The promotion of ethanol fuel is on-going with the adoption of E10 fuel nationwide mandate despite the outbreak of the COVID-19 epidemic that might affects the progress, however driven by the gradual

---

## INDUSTRY OVERVIEW

---

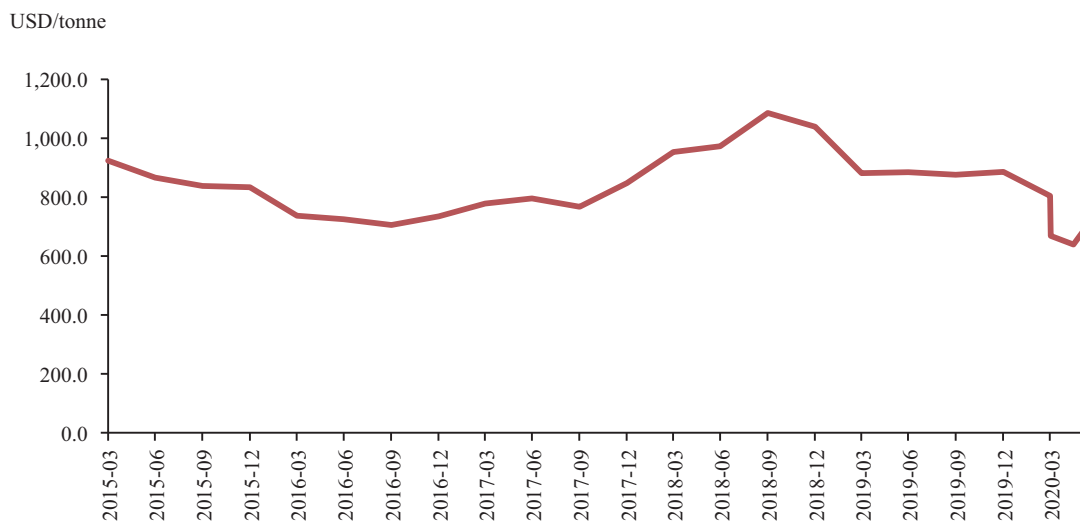
promotion of ethanol fuel and improvement of technology, the ethanol production system market is expected to continue growing until 2025. In consideration with the abovementioned key factors, it is expected COVID-19 outbreak will only cause certain short-term economic slowdown across the PRC. The Ministry of Finance has successively issued a number of policies to help companies reduce taxes and fees since February 2020. It is expected that taxes and fees will be reduced by about RMB1.8 trillion for enterprises throughout the year in 2020. In terms of maintaining reasonable and sufficient liquidity, the central bank reduced the reserve rate for three times in 2020, releasing a total of RMB1.75 trillion of long-term liquidity. Active fiscal and monetary policies have stimulated the recovery of domestic demand and helped companies stabilize production activities. Assuming the COVID-19 outbreak is effectively controlled, it is expected the demand for ethanol and ethanol production systems in the PRC will not be materially affected.

### Impact of oil price fluctuation

#### *Extreme oil price drop in early 2020:*

In early 2020, since OPEC and Russia could not reach an agreement in respect of the reduction of oil output volume and due to the outbreak of COVID-19, the oil price has experienced an extreme drop in April 2020. The outbreak of COVID-19 has also affected the domestic economic activities, which decreased the demand for gasoline in the PRC. As a result, there was an excessive inventory of gasoline in the PRC, which in turn, led to a substantial decrease in gasoline price in April and May 2020. Triggered by such price drop, the ethanol fuel price in the PRC has also decreased from approximately USD880.0/tonne in January 2020 to approximately USD630.0/tonne in mid-May 2020.

**Ethanol fuel trading price in the PRC, March 2015-May 2020**

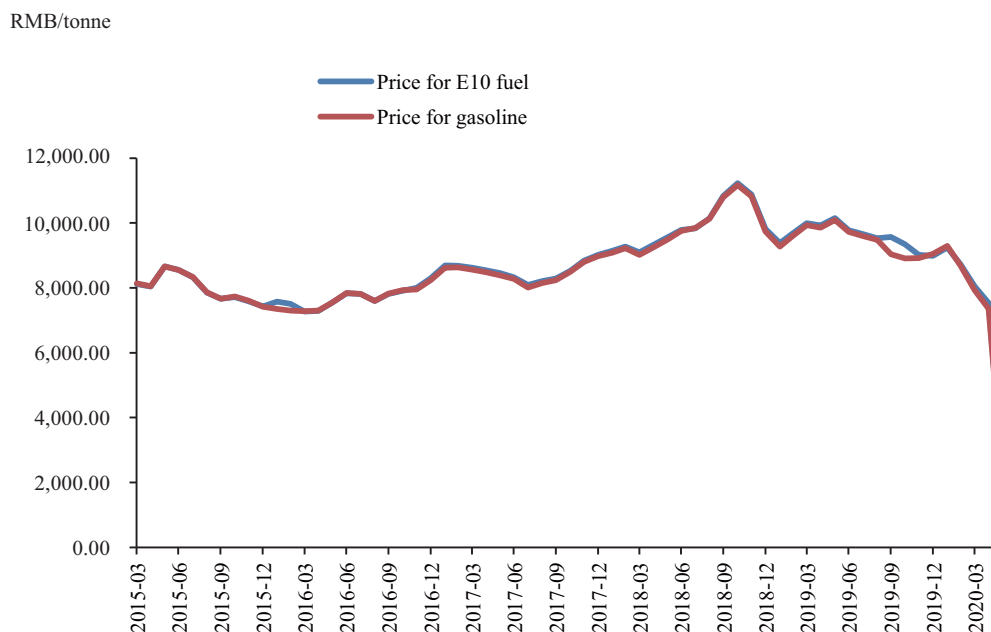


---

## INDUSTRY OVERVIEW

---

### Retail price for E10 fuel and gasoline, the PRC, March 2015-May 2020



Based on the publicly available information, OPEC and the allies led by Russia have reached an agreement on 12 April 2020 to cut their oil output to prop up oil prices with fellow oil nations; and the oil price in May 2020 has already resumed to the level of USD35/barrel before the extreme drop in April 2020. With the reduction of excessive inventory of gasoline and the resumption of the domestic economic activities in the PRC, the gasoline price has bounced in early June 2020 as well. According to CIC, the ethanol fuel price in the PRC has already hit its bottom-line level at approximately USD630.0/tonne in mid-May 2020 and has bounced to approximately USD680.0/tonne in early June 2020.

#### *Negative factors that may affect the industry and ethanol fuel price:*

In May 2020, oil price has resumed to the level of USD35.0/barrel before the extreme drop in April 2020 while gasoline price and ethanol fuel price have also rebounded in early 2020. According to CIC, the drop in oil price, gasoline price and ethanol fuel price in early 2020 was one-off and short-term and their prices will continue to bounce back. In addition, the regulations on oil price and gasoline price can protect the gasoline price and ethanol fuel price to maintain within a stable range against oil price fluctuations. Although these regulations have not been amended, suspended or terminated since their adoption, there may be negative factors that will affect the industry and ethanol fuel price.

Should there be any extreme economic downturn or political crisis in the PRC, or should the oil price remains at an extreme low level for a long period of time, these regulations may be amended in material aspects, suspended or even terminated. Assuming that there is no other favourable factor to support the ethanol fuel price, if there are any material changes to the above regulations, such as the adjustment or abolition of the minimum trading oil price of USD40.0/barrel to determine gasoline price in the PRC or the proportion of approximately 0.9 between ethanol fuel price and gasoline price, long-term extreme low oil price will adversely affect the gasoline price in the PRC which in turn may adversely affect the ethanol fuel price, which would then affect the business of our ethanol fuel production system and our financial performance.



---

## INDUSTRY OVERVIEW

---

In addition, should there be any changes to the supportive favourable policies, in particular the E10 Mandate or the outbreak of grain crisis, our business of ethanol fuel production system and our financial performance will be adversely affected.

For details of the above negative factors, please refer to the paragraphs headed “Any significant and unfavourable shifts in the political, economic and social conditions, or the legal and regulatory environment of the PRC may lead to reduction in demand for our services” and “Changes to the regulations on the oil price and gasoline price and extreme long-term low level of oil price could render our ethanol fuel production system less attractive” in the section headed “Risk Factors — Risk Relating to our Business and Industry” in this prospectus.

### ***Price and market demand of ethanol fuel:***

According to CIC, ethanol fuel is a complimentary, rather than a substitute, of gasoline. E10 fuel is a combination of 90% of gasoline and 10% of ethanol fuel. As the majority of E10 fuel is gasoline, the historical price fluctuation in E10 fuel has demonstrated a similar trend of that of gasoline. Although oil price and gasoline price are, to a certain extent, correlated to ethanol fuel price, according to CIC, given that (i) oil price is only one of the price determining factors of gasoline and contributes approximately one-third of its costs in the PRC; (ii) in order to maintain the gasoline price at a stable range, the National Development and Reform Commission has set the minimum trading price of oil as USD40/barrel as the basis to determine the gasoline price in the PRC; (iii) according to NEA, the ethanol fuel price is approximately 0.9 times of gasoline price in the PRC; and (iv) the demand for ethanol fuel is mainly driven by the implementation of favourable government policy, which will in turn support the ethanol fuel price, the ethanol fuel price in the PRC can be maintained at a more stable range than that of gasoline and its price fluctuation are limited in the PRC. Accordingly, extreme oil price drop would not have any material impact on the ethanol fuel price in the PRC.

According to CIC, there is no direct correlation between the oil price and the ethanol fuel demand. Oil price fluctuation has no material direct impact on the ethanol fuel demand. In 2019, despite that the oil price dropped from around USD72.0/barrel in 2018 to USD64.0/barrel in 2019, the sales volume of ethanol fuel in the PRC has increased from 3.3 million tonnes in 2018 to 4.2 million tonnes in 2019. The demand for ethanol fuel has been mainly driven by the implementation of favourable government policy, instead of the oil price fluctuation. Since the announcement of the E10 Mandate in September 2017 that was designed to expand the mandatory use of E10 fuel from 12 trial provinces to the entire country by 2020, the sales volume of ethanol fuel recorded a significant increase from 2.7 million tonnes in 2017 to 3.3 million tonnes in 2018, representing a growth of 22.2%, and further increase to 4.2 million tonnes in 2019, representing a growth of 27.3%. According to CIC, the ethanol fuel demand will be continued to be driven by the E10 Mandate.

---

## INDUSTRY OVERVIEW

---

### *Hypothetical analysis of the impact of persistent drop in and long-term low level of ethanol fuel price on our Group:*

The following hypothetical analysis about the impact of ethanol fuel price on our Group is made based on the following assumptions:

- the minimum oil trading price of USD40.0/barrel set by the National Development and Reform Commission has been abolished and in turn, there will be no more price stabilisation to ethanol fuel;
- there has been a persistent drop in long term low-level of ethanol fuel price;
- other factors that may affect gasoline price and ethanol fuel price remain unchanged;
- the profit margin of ethanol fuel production in the recent year generally ranges from 10% to 25%;
- ethanol fuel producers with profit margins 10% to 25% are evenly distributed; and the hypothetical change in ethanol fuel price is made reference to such profit margin range;
- production cost of ethanol fuel remains unchanged;
- ethanol fuel producer can only sell ethanol fuel at market price;
- ethanol fuel producers will continue to produce ethanol fuel so long as the ethanol fuel production is profitable and hence there will be no impact on the net profit of our ethanol production system segment;
- no change to the key terms and profit margins of the contracts of ethanol fuel production systems;
- our Group has completed all backlog projects of ethanol fuel production system but has not been awarded any new contract of ethanol fuel production system;
- ethanol fuel price drop will only affect the ethanol fuel production system segment of our Group;

## INDUSTRY OVERVIEW

- other expenses incurred by our Group remain unchanged; and
- preferential EIT rate of 15% has been taken into account when determining the impact on our net profit.

Hypothetical change in ethanol fuel price (Note 1)	Hypothetical impact on our ethanol fuel production system segment (Note 2)	Hypothetical change in our net profit during the Track Record Period		
		For the year ended 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
-15.0%	-33.3%	(18,803)	(13,129)	(27,304)
-20.0%	-66.7%	(37,607)	(26,259)	(54,607)
-25.0%	-100.0% (Note 3)	(56,410)	(39,388)	(81,911)

Notes:

1. During the Track Record Period, the average ethanol fuel price was approximately USD800.0/tonne, USD1,000.0/tonne and USD900.0/tonne, respectively.
2. Since the profit margins of the ethanol fuel producers generally range from 10% to 25%, any decrease in ethanol fuel price beyond 10% will start to impact on certain ethanol fuel producers becoming unable to maintain a positive profit margin which in turn will impact the demand of our ethanol fuel production system service. Assuming these ethanol fuel producers are evenly distributed, for illustrative purpose, a decrease of 15%, 20% and 25% in the ethanol fuel price (i.e. beyond 10% decrease, there are three intervals with every 5% decrease) will render approximately 33.3%, 66.7% and 100.0% of ethanol fuel producers unable to maintain positive profit margin, respectively. Accordingly, the demand of our service, as well as our net profit (calculated as the gross profit net of the preferential EIT rate of 15%) of our ethanol fuel production system segment will decrease by the same percentage provided other factors remain unchanged.
3. In case where the ethanol fuel price decreases by more than 25%, hypothetically, the ethanol fuel production will become no longer profitable for those ethanol fuel producers even with the highest profit margin of 25% and in such extreme hypothetical case, all ethanol fuel producers will terminate all investment in the construction or upgrade in ethanol fuel production system and our Group cannot generate any net profit from our ethanol fuel production system segment.
4. During the early 2020, there was no persistent drop in ethanol fuel price and the ethanol fuel price has already rebounded from USD630.0/tonne in mid-May 2020 to USD680.0/tonne in early June 2020. Since there was no persistent drop in ethanol fuel price nor long-term low level of ethanol fuel price, the above hypothetical case has not happened to our Group. For details of our Group's latest development, please refer to the paragraph headed "Recent Development" in the "Summary" section of this prospectus. According to CIC, based on the historical movement of ethanol fuel price, ethanol fuel price generally rebounded within six to 12 months, therefore, even ethanol fuel production becomes non-profitable, the ethanol fuel producers will observe the oil price for six to 12 months before they will consider to cease their production, and in case these ethanol fuel producers cease their production, the net profit of our ethanol fuel production system segment will be decreased in the same proportion accordingly.

The above hypothetical analysis, based on the abovementioned assumptions and without taking into account any impact on the industry of any supportive government policies, is for illustrative purpose only and does not reflect the actual situation, the historical nor future operations and financial performance of our Group.

---

## INDUSTRY OVERVIEW

---

### ***Impact on our Group:***

Although the ethanol fuel price has decreased from approximately USD880.0/tonne to approximately USD630.0/tonne in mid-May 2020, according to CIC, as (i) the demand for ethanol fuel is driven by the implementation of favourable government policy; and (ii) more than ten cities have been selected to adopt the mandatory use of E10 fuel during the first four months of 2020, the production volume of ethanol fuel has recorded an increase of approximately 20% from January 2020 to April 2020. Hence, the extreme drop in oil price in April 2020 has limited impact on the demand for and market price of ethanol fuel as well as the ethanol fuel market in the PRC as a whole; and in turn would have limited impact on the demand for and market price of our ethanol production systems for ethanol fuel.

In June 2020, we proposed to join the tendering shown on the public domain of one of our existing customers for the construction of ethanol fuel production system upgrade project. According to the Ministry of Industry and Information Technology, the production volume of ethanol has increased in February 2020, compared to that in January 2020.

### ***Directors' and Sole Sponsor's view:***

CIC and our Directors are of the view, and the Sole Sponsor concurred, that the drop in oil price, gasoline price and ethanol fuel price in early 2020 was one-off and short-term and their prices will continue to bounce back. Our Directors confirmed, and the Sole Sponsor concurred, that (i) the key terms and profit margins of the contracts entered into after the Track Record Period are substantially the same as those entered into during the Track Record Period; and based on the above, (ii) the oil price fluctuation has no material adverse impact on the operation and financial performance of our Group as a whole.

---

## REGULATORY OVERVIEW

---

### OVERVIEW

The following sets forth a summary of the most significant rules and regulations that affect our business activities in the PRC.

### REGULATIONS ON NEW ENERGY INDUSTRY

#### Industry Support

The government of the PRC has recognized the importance of renewable energy, and is making efforts to promote the development of the technology and the utilization of the energy. On 10 October 2010, the State Council promulgated the Decision on Acceleration of Forming and Developing the Strategic New Emerging Industries (《關於加快培育和發展戰略性新興產業的決定》), which points out that the new emerging industries are important to revitalize the future economy and promote social development. The state will increase financial supports and set up special funds to encourage this kind of industry, in order to achieve the technical innovation of resource recycling technology and promote the industrial development. The state will also apply financial incentives policies comprehensively, such as risk compensation policies, and force financial institutions to provide support for the development of strategic emerging industries when needed.

On 7 June 2014, the General Office of the State Council released the Plan of Action for the Energy Development Strategy (year 2014-2020) (《國務院辦公廳關於印發能源發展戰略行動計劃(2014-2020年)》), which highlights that the energy is the major and necessary force for the prosperity of our society, and the government of the PRC will transform their way of energy development, adjust energy structures and reform their energy system, by using the clean low-carbon energy. A goal has been set that the consumption of non-fossil energy has to account for 15% of the total energy consumption, by 2020. Shortly, this goal also has been stipulated in the 13th Five-Year Development Plan for Renewable Energy (《可再生能源發展「十三五」規劃》), which was issued by the NDRC on 10 December 2016. The Plan emphasizes that the state will speed up the establishment of a clean, low-carbon, safe and efficient modern energy system, and promote the sustainable and healthy development of renewable energy industry.

On 29 February 2016, the National Energy Administration issued the Instruction on Establishing the Goal of the Development and the Utilization of Renewable Energy (《國家能源局關於建立可再生能源開發利用目標引導制度的指導意見》), which puts forward to establish a new system for the development and the utilization of renewable energy, by enhancing the awareness, establishing a specific goal, making a scientific plan, clearing the responsibilities and obligations, setting up a monitoring and evaluation system, working step by step to guide the development and utilization of renewable energy, etc.

National Energy Administration, the MOF and the other 12 administrative agencies promulgated Implementation Plan for Expanding the Production of Biofuel Ethanol and Promoting the Use of Ethanol Gasoline for Vehicles (《關於擴大生物燃料乙醇生產和推廣使用車用乙醇汽油的實施方案》) (the “**Implementation Plan**”) on 13 September 2017. According to the Implementation Plan, the bioenergy industry is a strategic emerging industry in China. By 2020, the use of ethanol gasoline for vehicles will be promoted nationwide. The market-oriented operation mechanism will be established initially. And the fuel ethanol industry will reach the international advanced level. By 2025, the target of scale-production of cellulosic ethanol will be achieved. The bio-liquid fuel technology, equipment and production will reach the international leading level.

---

## REGULATORY OVERVIEW

---

Laws of the PRC also play an important role in promoting the development of new energy industry. Pursuant to the Renewable Energy Law of the PRC (《中華人民共和國可再生能源法》) (the “**Renewable Energy Law**”) promulgated by the Standing Committee of the National People’s Congress of the PRC (the “**SCNPC**”) on 28 February 2005, amended on 26 December 2009 and became effective on 1 April 2010, the state shall give priority to the development and utilization of renewable energy in energy development, and promote the establishment and development of the renewable energy market by setting an overall target for the development and utilization of renewable energy and adopting corresponding measures. Furthermore, the state shall encourage economic subjects of different ownership to participate in the development and utilization of renewable energy, and shall protect the legitimate rights and interests of those who develop and utilize renewable energy.

Pursuant to the Law of the PRC on Promotion of Cleaner Production (《中華人民共和國清潔生產促進法》) promulgated by the SCNPC on 29 June 2002, and revised on 29 February 2012 and became effective on 1 July 2012, cleaner production means, by continuously using improved designs, cleaner energy and raw materials, advanced techniques and equipments, improved management and making comprehensive use of the resources, etc., to reduce pollution at its source, increase the utilization of resources, reduce or prevent the generation and discharge of pollutants during production, servicing and usage of the products, so as to alleviate or eliminate the harm towards human health and the environment. Additionally, the state encourages scientific research, technological development and international cooperation in the field of cleaner production, the imparting of knowledge regarding cleaner production and promoting cleaner production technologies.

Pursuant to the Energy Conservation Law of the PRC (《中華人民共和國節約能源法》) promulgated by the SCNPC on 1 November 1997, and last revised and became effective on 26 October 2018, the state shall implement industrial policies that are conducive to energy conservation and environmental protection, limit the development of industries that are high in energy consumption and pollution discharge, and develop industries that are energy-saving and environmentally friendly. Moreover, the development and utilization of new energy resources and renewable energy resources shall be encouraged and supported by the state.

Pursuant to the Circular Economy Promotion Law of the PRC (《中華人民共和國循環經濟促進法》) promulgated by the SCNPC on 29 August 2008, and last amended and became effective on 26 October 2018, circular economy is the general term for the activities of decrement, recycling and resource recovery in production, circulation and consumption. The research, development and promotion of science and technology regarding circular economy, as well as the publicity, education and popularization of scientific knowledge and international cooperation on circular economy, shall be encouraged and supported by the state.

### **Financial Support**

On 29 November 2005, the NDRC promulgated the Guidance Catalogue for the Development of Renewable Energy Industry (《可再生能源產業發展指導目錄》), which promotes the development of bio-liquid fuel technology actively to encourage the production of liquid fuels that come from raw materials, including non-food crops and forest wood biomass.

Under the Renewable Energy Law, the state will provide funds to support scientific and technological researches about the development and the utilization of renewable energy. The National Finance Ministry will also set up renewable energy development funds to support the scientific and technological research, the standard setting and the model engineering of the renewable energy industry.

---

## REGULATORY OVERVIEW

---

Additionally, the financial institutions may provide preferential loans with financial interest subsidies, if the renewable energy project meets credit requirements and is in the Guidance Catalogue which was issued by the state to encourage the development of the new energy.

On 19 July 2017, the National Energy Administration issued the Guidelines on the Implementation of the 13th Five-Year Development Plan for Renewable Energy (《國家能源局關於可再生能源發展「十三五」規劃實施的指導意見》), which points out that the state shall take multiple measures to expand the source of subsidy funds, encourage local governments to raise funds through various channels, and request local governments to actively implement the national policies to support the development of renewable energy.

### Tax Preference

The Renewable Energy Law stipulates that the state should give tax concessions to projects listed in Guidance Catalogue. The Notice on Improving the Weighted Pre-tax Addition Deduction Policy for Research and Development Expenses (《關於完善研究開發費用稅前加計扣除政策的通知》), which was promulgated on 2 November 2015, and became effective on 1 January 2016, was revised by the Notice on Issues concerning the Relevant Policies for Weighted Pre-tax Deduction of the Entrusted Overseas Research and Development Expenses of Enterprises (《關於企業委託境外研究開發費用稅前加計扣除有關政策問題的通知》) which was promulgated on 25 June 2018. According to the the Notice on Increasing the Weighted Pre-tax Deduction Ratio of Research and Development Expenses (《關於提高研究開發費用稅前加計扣除比例的通知》) on 20 September 2018, tax preference will be increased during the period from 1 January 2018 to 31 December 2020. When the actual research-and-development expenditure of the enterprises has not been capitalized as intangible assets and is not included in the current profit and loss, the enterprises may deduct the cost at the rate of 75% before their tax payment. If intangible assets have formed, they will be amortized before tax at a ratio of 175% of the total intangible asset cost.

## REGULATIONS ON INTELLECTUAL PROPERTY

### Patent

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) (the “**Patent Law**”) promulgated on 12 March 1984, last amended on 27 December 2008 and became effective on 1 October 2009, and the Rules for the Implementation of Patent Law of the PRC (《中華人民共和國專利法實施細則》) amended on 9 January 2010 and became effective on 1 February 2010, after the grant of the patent right for inventions and utility models, except otherwise regulated under the Patent Law, no entity or individual may, without the authorization of the patent owner, exploit such patent, that is no manufacture, use, offer to sell, sell or import the patented product, or use the patented process and use, offer to sell, sell or import products directly obtained from such patented process, for production or business purpose. After the patent right is granted for a design, no unit or individual shall, without the authorization of the patent owner, exploit such patent, that is to manufacture, offer to sell, sell, or import any product containing such patented design for production or business purposes. Where infringement has been established, the infringer shall, in accordance with the relevant regulations, be ordered to cease the infringement activities, take corrective actions, and compensate for losses.

---

## REGULATORY OVERVIEW

---

### Domain Name

Pursuant to the Measures for the Administration of Internet Domain Names (《互聯網域名管理辦法》) promulgated by the Ministry of Industry and Information Technology (the “MIIT”) on 24 August 2017 and became effective on 1 November 2017, the Implementing Rules of China Internet Network Information Center on Domain Name Registration (《中國互聯網絡信息中心域名註冊實施細則》) promulgated on 28 May 2012 and became effective on 29 May 2012, and the Measures of the China Internet Network Information Center on Domain Name Dispute Resolution (《中國互聯網絡信息中心域名爭議解決辦法》) promulgated on 1 September 2014 and became effective on the same date, domain name registrations are handled through domain name service agencies established under relevant regulations, and the applicant becomes a domain name holder upon successful registration. Moreover, domain name disputes shall be submitted to an organization authorized by China Internet Network Information Center, for resolution.

Pursuant to the Notice from the MIIT on Regulating the Use of Domain Names in Internet Information Services (《工業和信息化部關於規範互聯網信息服務使用域名的通知》) promulgated on 27 November 2017 and became effective on 1 January 2018, Internet access service providers shall verify the identity of each Internet information service provider, and shall not provide services to any Internet information service provider who fails to provide real identity information.

### Copyright

Pursuant to the Copyright Law of the PRC (《中華人民共和國著作權法》) promulgated on 7 September 1990, last amended on 26 February 2010 and became effective on 1 April 2010, works of PRC citizens, legal persons or other organizations shall, regardless of whether they have been published, including written works; oral works; musical, dramatic, opera, dance, acrobatic and artistic works; visual arts, architectural works; photographic works; film works and works created using methods similar to film-making; graphical works and modeling works such as engineering design graphs, product design graphs, maps and schematic diagrams; computer software; and other works stipulated by laws and administrative regulations, be entitled to the copyright pursuant to this law. The rights a copyright owner has include but not limited to the following rights of the person and property rights: the right of publication, right of authorship, right of modification, right of integrity, right of reproduction, distribution right, rental right, right of information network dissemination, translation right and right of compilation.

### Trademark

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) promulgated on 23 August 1982, last amended on 23 April 2019 and became effective on 1 November 2019, and the Regulation on Implementation of Trademark Law of the PRC (《中華人民共和國商標法實施條例》) promulgated by the State Council on 3 August 2002 and amended on 29 April 2014, and became effective on 1 May 2014, any trademark which is registered with the approval of the Trademark Office is a registered trademark, including commodity trademark, service trademark, collective trademark, certification trademark, and the trademark registrant has the exclusive right to use a registered trademark and such right is protected by law. A registered trademark is valid for a period of ten years commencing from the date on which the registration is approved. Use of a trademark that is identical with or similar to a registered trademark, for the same kind of or similar commodities, without authorization of the trademark registrant, constitutes infringement of the exclusive right to use a registered trademark.



---

## REGULATORY OVERVIEW

---

### REGULATIONS ON LABOR AND SOCIAL WELFARE

#### Labor Contract

Pursuant to the Labor Law of the PRC (《中華人民共和國勞動法》) promulgated on 5 July 1994, last amended and newly became effective on 29 December 2018, enterprises and institutions shall negotiate and enter into employment contracts with their employees based on the principle of fairness. Enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in the PRC. Labor safety and sanitation facilities shall comply with state-fixed standards. In addition, Enterprises and institutions shall also pay for the social insurance premium for their employees.

Pursuant to the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), promulgated on 29 June 2007, amended on 28 December 2012 and became effective on 1 July 2013, labor contracts shall be concluded in writing, if labor relationships are to be or have been established between enterprises or institutions and laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall give workers extra salaries when employees work overtime. In addition, labor wages shall not be lower than local standards on minimum wages, and shall be paid to employees in a timely manner.

#### Social Insurance and Housing Funds

As required under the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) promulgated on 28 October 2010, last amended and became effective on 29 December 2018, the Regulation of Insurance for Labor Injury (《工傷保險條例》) implemented on 1 January 2004 and amended on 20 December 2010 and became effective on 1 January 2011, the Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》) implemented on 14 December 1994 and became effective on 1 January 1995, the Decisions on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued on 16 July 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on 14 December 1998, the Unemployment Insurance Measures (《失業保險條例》) promulgated on 22 January 1999, and the Regulations on the Management of Housing Funds (《住房公積金管理條例》) promulgated on 3 April 1999 and amended and became effective on 24 March 2019, enterprises in the PRC are obliged to provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance, medical insurance and housing provident funds. Employers are required to complete registrations with local social insurance authorities. Moreover, the employers must timely make full social insurance contributions. Enterprises are required to register with the competent administrative centers of housing fund and open bank accounts for housing funds for their employees. Employers are also required to timely pay full housing fund contributions for their employees.

---

## REGULATORY OVERVIEW

---

### REGULATIONS ON TAXES

#### Enterprise Income Tax

Pursuant to the EIT Law by the SCNPC on 16 March 2007, last amended on and became effective on 29 December 2018, and the Implementation Regulations for the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (the “**EIT Implementation Rules**”) promulgated by the State Council on 6 December 2007, amended and became effective on 23 April 2019, taxpayers are classified into resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with the laws of the PRC, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and the EIT Implementation Rules, a uniform corporate income tax rate of 25% is applicable. However, if non-resident enterprises have not formed permanent establishments or premises in the PRC, or if they have formed permanent establishment institutions or premises in the PRC but there is no actual relationship between the relevant income derived in the PRC and the established institutions or premises set up by them, the enterprise income tax is, in that case, set at the rate of 10% for their income sourced from inside the PRC.

Under the EIT Law and the EIT Implementation Rules, the EIT tax rate of a high and new technology enterprise is 15%. Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》), effected on 1 January 2008 and amended on 29 January 2016, the certificate of a high and new technology enterprise is valid for three years. An enterprise shall, after being accredited as a high-tech enterprise, fill out and submit the statements on annual conditions concerning the intellectual property rights, scientific and technical personnel, expenses on research and development and operating income for the previous year on the “website for the administration of accreditation of high-tech enterprises”.

#### Value-Added Tax

Pursuant to the Provisional Regulations on Value-Added Tax of the PRC (《中華人民共和國增值稅暫行條例》) promulgated by the State Council on 13 December 1993 and subsequently amended on 10 November 2008, 6 February 2016, and 19 November 2017 respectively, and its Implementation Rules (《中華人民共和國增值稅暫行條例實施細則》) promulgated by the MOF on 25 December 1993 and amended on 15 December 2008 and 28 October 2011 respectively, tax payers engaging in sale of goods, intangibles and real property, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay VAT.

Pursuant to the Pilot Plan for Levying Value-Added Tax in place of Business Tax (《營業稅改徵增值稅試點方案》) jointly promulgated by the MOF and the SAT on 16 November 2011, the PRC government has been gradually implementing a pilot program in certain provinces and municipalities, to levy a 6% VAT on revenue generated from certain kinds of services in lieu of the business tax, starting from 1 January 2012.

---

## REGULATORY OVERVIEW

---

Pursuant to the Announcement of the SAT on Promulgation of the Administrative Measures on Tax Exemption for Cross-border Acts Subject to VAT in the Pilot Scheme for Levying VAT in place of Business Tax (for Trial Implementation) (《營業稅改徵增值稅跨境應稅行為增值稅免稅管理辦法(試行)》) promulgated by the SAT on 6 May 2016, and became effective on 1 May 2016, and amended on 15 June 2018, if a domestic enterprise provides cross-border taxable services such as technology transfer, technical consulting, software service etc., the above mentioned cross-border taxable services if fully assumed abroad shall be exempt from the value-added tax.

The Notice on the Adjustment to VAT Rates (《關於調整增值稅稅率的通知》), promulgated by the MOF and the SAT on 4 April 2018 and became effective as of 1 May 2018, adjusted the applicative rate of VAT as follows: (1) The deduction rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively. (2) The deduction rate of 11% originally applicable to the taxpayers who purchase agricultural products is adjusted to 10%. (3) When taxpayers purchase agricultural products for production, sales, or consignment processing, to which the tax rate of 16% is applicable, the input tax amount shall be calculated at the deduction rate of 12%. (4) For the export goods to which a tax rate of 17% was originally applicable and the export rebate rate was 17%, the export rebate rate is adjusted to 16%. For the export goods and cross-border taxable activities to which a tax rate of 11% was originally applicable and the export rebate rate was 11%, the export rebate rate is adjusted to 10%. (5) For the goods or cross-border taxable activities specified in Paragraph 4 hereof that are exported or sold by foreign trade enterprises before 31 July 2018, if VAT has been levied at the rate not adjusted at the time of purchase, the export rebate rate not adjusted shall be applicable; if the VAT has been levied at the adjusted tax rate at the time of purchase, the adjusted export tax rebate rate shall be applicable. To the goods or cross-border taxable activities specified in Paragraph 4 hereof that are exported or sold by production enterprises before 31 July 2018, the export rebate rate not adjusted shall be applicable.

According to the Announcement of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs on Relevant Policies for Deepening the Value-Added Tax Reform (《財政部、稅務總局、海關總署關於深化增值稅改革有關政策的公告》), which was promulgated on 20 March 2019 and became effective on 1 April 2019, the VAT rate was further adjusted as follows: (1) VAT rates of 16% applicable to the VAT taxable sale or import of goods by a general VAT taxpayer shall be adjusted to 13%, and the tax rate of 10% applicable thereto shall be adjusted to 9%. (2) The deduction rate of 10% applicable to any taxpayer's purchase of agricultural products shall be adjusted to 9%. Where a taxpayer purchases the agricultural products used for the production or consigned processing of goods to which the tax rate of 13% applies, the amount of input tax shall be calculated at the deduction rate of 10%. (3) As for exported goods and labor services to which the tax rate of 16% applies and whose export tax refund rate is 16%, the export tax refund rate shall be adjusted to 13%. As for exported goods and cross-border taxable acts to which the tax rate of 10% applies and whose export tax refund rate is 10%, the export tax refund rate shall be adjusted to 9%.

### **Tax on Dividends**

Pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) signed on 21 August 2006, no more than 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the recipient is a company that holds at least 25% of the capital of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the recipient is a company that holds less than 25% of the capital of the PRC company.

---

## REGULATORY OVERVIEW

---

Pursuant to the Notice on Relevant Issues Concerning the Implementation of Dividend Clauses in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) promulgated by the SAT, and became effective on 20 February 2009, the transaction or arrangement whose main purpose is to obtain preferential tax status shall not constitute the grounds for applying the preferential provisions of the dividend clauses. If the taxpayer improperly enjoys the tax treaties treatment due to the transaction or arrangement above, the competent tax authority has the right to make adjustments. Pursuant to the Announcement of the SAT on Relevant Issues Concerning “Beneficiary Owner” in Tax Treaties (《國家稅務總局關於稅收協定中「受益所有人」有關問題的公告》) promulgated by the SAT on 3 February 2018 and effective on 1 April 2018, beneficiary owner means a person who has ownership and domination over the rights or property derived from income or income.

In addition, according to the Measures for the Administration of Non-resident Taxpayers’ Enjoyment of Treaty Benefits (《非居民納稅人享受協定待遇管理辦法》), promulgated by the SAT on 14 October 2019 and became effective on 1 January 2020, where a non-resident enterprise that receives dividends from a PRC resident enterprise wishes to enjoy the favorable tax benefits under the convention treatment, it may determine through self-assessment if it is eligible for treaty benefits, if may, it may be entitled to the convention treatment itself when filing tax returns or making a withholding declaration through a withholding agent files withholding returns, and collect and retain relevant materials to prove “Beneficiary Owner”, subject to the subsequent administration by the tax authorities.

### REGULATIONS ON FOREIGN INVESTMENT

Investments conducted by foreign investors in the PRC are subject to the Special Administrative Measures (Negative List) for Foreign Investment Access (《外商投資准入特別管理措施》(負面清單)) (the “**Negative List**”) which were jointly issued by the NDRC and the MOFCOM. The Negative List that is currently in force was amended in June 2019 and became effective on 30 July 2019. The Negative List sets out the industries in which foreign investments are restricted and prohibited. The industries that do not fall into the Negative List shall be deemed to be “permitted”.

Our principal businesses are precluded from the Negative List and is thus within a permitted industry for foreign investment.

### REGULATIONS ON FOREIGN-OWNED ENTERPRISES AND M&A OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

The establishment, operation and management of corporate entities in China are governed by the Company Law, which was promulgated by the SCNPC on 29 December 1993 and amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018 respectively, and became effective on 26 October 2018. Under the PRC Company Law, companies are generally classified into two categories, i.e., limited liability companies and joint stock limited companies. The PRC Company Law also applies to foreign-invested limited liability companies. According to the PRC Company Law, any stipulations by other PRC laws governing foreign investment shall prevail over the PRC Company Law.

---

## REGULATORY OVERVIEW

---

On 15 March 2019, the National People's Congress approved the Foreign Investment Law (《外商投資法》, the “**Foreign Investment Law**”), which came into effect on 1 January 2020 and replaced the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法》), the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法》) and the Wholly Foreign-Invested Enterprise Law (《外資企業法》), and became the legal foundation for foreign investment in the PRC. On 26 December 2019, the State Council issued the Regulations on Implementing the Foreign Investment Law (《外商投資法實施條例》, the “**Rules of the Foreign Investment Law**”), which came into effect on 1 January 2020 and replaced the Regulations on Implementing the Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業法實施條例》), Provisional Regulations on the Duration of Sino-Foreign Equity Joint Venture Enterprise Law (《中外合資經營企業合營期限暫行規定》), the Regulations on Implementing the Wholly Foreign-Invested Enterprise Law (《外資企業法實施細則》) and the Regulations on Implementing the Sino-Foreign Cooperative Joint Venture Enterprise Law (《中外合作經營企業法實施細則》), the State shall implement the management systems of pre-establishment national treatment and negative list for foreign investment. The pre-establishment national treatment refers to the treatment given to foreign investors and their investments during the investment access stage, which is not lower than that given to their domestic counterparts. The negative list refers to special administrative measures for the access of foreign investment in specific fields as stipulated by the State. The State shall give national treatment to foreign investment beyond the negative list. The organization form, institutional framework and standard of conduct of a foreign-funded enterprise shall be subject to the provisions of the PRC Company Law and the Partnership Enterprise Law of the PRC (《中華人民共和國合夥企業法》), and other laws. Foreign investors shall not invest in any field forbidden by the negative list for access of foreign investment. For any field restricted by the negative list, foreign investors shall conform to the investment conditions as required in the negative list, and fields not included in the negative list shall be managed under the principle that domestic investment and foreign investment shall be treated uniformly.

According to the Measures for Reporting of Information on Foreign Investment (《外商投資信息報告辦法》) (the “**Report Measures**”), jointly promulgated by the MOFCOM and the SAMR on 30 December 2019 and became effective on 1 January 2020, Where foreign investors make investments in China directly or indirectly, such foreign investors or foreign-invested enterprises shall submit their investment information to the competent commerce authorities in accordance with the Report Measures. A foreign investor or foreign-invested enterprise shall submit the investment information by such means as of initial report, report of changes, report of deregistration and annual report pursuant to the Report Measures. When submitting an annual report, a foreign-invested enterprise shall submit the information such as basic enterprise information, the information on investor and actual controller thereof, enterprise business operation, assets and liability, as well as the relevant industry license information, if any special administrative measure for foreign investment access is involved.

The Provisions on 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**”), was promulgated by six PRC ministries including the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the State Administration For Industry & Commerce (the “**SAIC**”), the China Securities Regulatory Commission (the “**CSRC**”), and State Administration of Foreign Exchange (the “**SAFE**”) on 8 August 2006, became effective on 8 September 2006, and was amended and became effective on 22 June 2009. The M&A Rules stipulate that a foreign investor is required to obtain necessary approvals when it: (1) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (2) subscribes for the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (3) establishes a foreign-invested

---

## REGULATORY OVERVIEW

---

enterprise through which it purchases the assets of any domestic enterprise and operates these assets; or (4) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further prescribed that a special purpose vehicle, formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals, shall be approved by the MOFCOM prior to its establishment and obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

Pursuant to the Manual of Guidance on Administration for Foreign Investment Access (《外商投資准入管理指引手冊》) issued by the MOFCOM and became effective on 18 December 2008, notwithstanding the fact that (1) the domestic shareholder is connected with the foreign investor or not; or (2) the foreign investor is the existing shareholder or the new investor, the M&A Rules shall not apply to the transfer of an equity interest in an incorporated foreign-invested enterprise from the domestic shareholder to the foreign investor.

### REGULATIONS ON DIVIDEND DISTRIBUTION

Under the PRC Company Law, the Foreign Investment Law and the Rules of the Foreign Investment Law, foreign investment enterprise may pay dividends only out of their accumulated after-tax profits, if any, in accordance with PRC accounting standards and regulations. In addition, foreign investment enterprises in the PRC are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds until these reserves have reached 50% of the registered capital of the enterprises. These enterprises shall not distribute any profits until any loss from prior fiscal years has been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year. Wholly foreign-owned companies may, at their discretion, allocate a portion of their after-tax profits for staff welfare and bonus funds.

### REGULATIONS ON FOREIGN EXCHANGE

Pursuant to the Foreign Exchange Administration Regulations of the PRC (《中華人民共和國外匯管理條例》) promulgated by the State Council on 29 January 1996, and last amended on 1 August 2008, and became effective on 5 August 2008 the RMB is generally freely convertible into other currencies for current account items, including the distribution of dividends, trade and service-related foreign exchange transactions. However, RMB should not be used for capital account items, such as direct investments, loans, repatriation of investments and investments in securities out of China, unless prior approval is obtained from the SAFE and prior registration with SAFE is made.

Pursuant to the Circular on Printing and Distributing the Administrative Provisions on Foreign Exchange in Domestic Direct Investment by Foreign Investors and Relevant Supporting Documents (《外國投資者境內直接投資外匯管理規定》) (the “SAFE Circular No. 21”) promulgated by the SAFE on 11 May 2013, and amended on 10 October 2018, the SAFE implements supervision and management of domestic direct investment registration, account opening and movement, fund collection and payment, settlement and sale of foreign exchange.

---

## REGULATORY OVERVIEW

---

Pursuant to the Notice of the SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) (the “**SAFE Circular No. 59**”) promulgated by the SAFE on 19 November 2012, and became effective on 17 December 2012, and last amended on 10 October 2018, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment. The SAFE Circular No. 59 also simplified the capital verification and confirmation formalities for foreign invested entities, the foreign capital and foreign exchange registration formalities required for the foreign investors to acquire equities from Chinese party, and further improved the administration on exchange settlement of foreign exchange capital of foreign invested entities.

Pursuant to the Circular on Relevant Issues concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents through Overseas Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular No. 37**”), promulgated by the SAFE and became effective on 4 July 2014, (1) a resident of the PRC (the “**PRC Resident**”) shall register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Overseas SPV**”), that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing; and (2) following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of the Overseas SPV’s PRC Resident shareholder(s), name of the Overseas SPV, term of operation, or any increase or reduction of the Overseas SPV’s registered capital, share transfer or swap, and merger or division. Pursuant to the SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the SAFE on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (the “**Circular 13**”), which was promulgated on 13 February 2015 and became effective on 1 June 2015, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment is directly reviewed and handled by banks in accordance with the Circular 13, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

### REGULATIONS ON SPECIAL EQUIPMENT SAFETY

Pursuant to the Special Equipment Safety Law of the PRC (《中華人民共和國特種設備安全法》), promulgated on 29 June 2013, and became effective on 1 January 2014, the state applies a licensing system to the production, including design, manufacture, installation, modification and maintenance of special equipment based on the principle of classified supervision and administration. Any entity that engages in production of special equipment without license and violates provisions hereof, shall be ordered to stop the production, have the illegally manufactured special equipment confiscated and shall be imposed with a fine of not less than RMB100,000 but not more than RMB500,000; the illegal income shall be confiscated, if any; installation, reform, maintenance already implemented shall be restored or re-installed, re-reformed or re-maintained by a licensed entity within a time limit.

---

## REGULATORY OVERVIEW

---

Pursuant to the Regulations on the Safety Supervision of Special Equipment (《特種設備安全監察條例》), promulgated on 11 March 2003, and revised on 24 January 2009, and became effective on 1 May 2009, an entity designing pressure vessels may not undertake pressure vessel designing activities until it is licensed by the department of special equipments safety supervision and administration under the State Council. An entity designing pressure vessels shall have the designing personnel and designing examination personnel fit for pressure vessel designing, have the sites and equipment fit for pressure vessel designing, and have a sound management system and responsibility system fit for pressure vessel designing.

### REGULATIONS ON INDUSTRIAL PRODUCTS

The Product Quality Law of the PRC (《中華人民共和國產品質量法》), which was promulgated on 22 February 1993, last amended and became effective on 29 December 2018, applies to all production and marketing activities within the territory of the PRC. Producers and sellers are responsible for the product quality according to the provisions of this law.

Responsibilities and obligations of producers for the products include: (i) be responsible for the quality of the products they produce; (ii) marks on the products or on the packages thereof shall be true to the fact; (iii) not to produce products expressly phased out by state laws or decrees; (iv) not to forge the place of origin, or forge or illegally use the name and address of another producer; (v) not to forge or illegally use product quality marks, such as authentication marks; (vi) not to mix impurities or imitations into the products, or substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the production; and (vii) to ensure that, for products that are fragile, inflammable, explosive, toxic, corrosive or radioactive, products that should be kept upright during storage and transportation, or other products with special requirements, the packaging thereof must meet the corresponding requirements, and carry warning marks or warning notes to highlight the way of handling that calls for attention.

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

Pursuant to the Administrative Regulations of the PRC on Production Licenses for 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, and became effective on 1 September 2005, the state shall implement a production licensing system for enterprises that produce hazardous chemicals and their packaging and containers. Any enterprise that has not obtained a production license for a product shall be prohibited from producing the relevant product.



---

## REGULATORY OVERVIEW

---

### REGULATIONS ON CONSTRUCTION ENTERPRISES

Pursuant to the Construction Law of the PRC (《中華人民共和國建築法》), promulgated on 1 November 1997, last amended and became effective on 23 April 2019, the contracting units of construction projects shall contract projects with quality certificates obtained in accordance with law and within the business scope permitted by their respective quality grades. Building construction enterprises shall not only be prohibited to contract projects beyond the business scope permitted by their respective quality grades or in the name of other building construction enterprises in any form, but also be prohibited to permit in any form other units or individuals in the use of their quality certificates and business licenses to contract projects in the name of their respective enterprises.

Pursuant to the Administrative Provisions on the Qualification of Construction Enterprises (《建築業企業資質管理規定》), promulgated on 22 January 2015, and became effective on 1 March 2015, and amended on 13 September 2016 and 22 December 2018, a construction enterprise shall apply for its qualification based on its conditions such as assets possessed by it, main personnel, achievement of construction projects completed, and technical equipment, and may only engage in construction activities within the scope of its qualification, after passing the qualification examination and obtaining the qualification certificate of construction enterprise.

Pursuant to the Administrative Regulations on the Quality Management of Construction Engineering (《建設工程質量管理條例》), promulgated and became effective on 30 January 2000, and amended on 7 October 2017 and 23 April 2019, the construction unit, survey unit, design unit, construction unit and project supervision unit are responsible for the quality of the construction project, the units above shall be liable for penalties if they are in breach of the responsibilities and obligations.

### REGULATIONS ON REGISTRATION FOR IMPORT AND EXPORT GOODS

Pursuant to the Customs Law of the PRC (《中華人民共和國海關法》) promulgated on 22 January 1987, and newly amended on 4 November 2017, and became effective on 5 November 2017, the Customs shall be responsible for supervising the import and export means of transport, goods, luggage, postal articles and other articles, levying customs duties and other taxes or fees, searching for smuggling, compiling customs statistics and handling other customs operations. Unless otherwise stipulated, the declaration of import and export goods may be done by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the Customs. The consignees and consignors for import or export of goods and the customs brokers engaged in customs declaration shall register with the Customs in accordance with the laws.

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 by the General Administration of Customs on 13 March 2014, and last amended on 29 May 2018, and became effective on 1 July 2018, the registration of customs declaration entities comprises the registration of the customs declaration enterprise and the registration of the consignor or consignee of import and export goods. The customs declaration enterprises shall not handle customs declaration business until they have registered with the local direct-affiliated Customs or the authorized-affiliated Customs, while the consignor or consignee of import and export goods may directly register with local Customs.

---

## REGULATORY OVERVIEW

---

### REGULATIONS ON ENVIRONMENTAL PROTECTION

Pursuant to the Environment Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated on 26 December 1989, amended on 24 April 2014 and became effective on 1 January 2015, enterprises that cause environment pollution and other public nuisances shall adopt effective measures to prevent the pollution of and hazards caused to the environment. Construction projects shall be equipped with constructional environmental protection facilities, which must be simultaneously designed, built and put into operation with the main part of the construction. Enterprises discharging pollutants must report to and register with the relevant authorities in accordance with the provisions of the competent environmental protection authority under the State Council. The competent environmental protection authority shall record unlawful environmental acts of enterprises in the social credit file, and disclose information in a timely manner. Enterprises and other producers and operators unlawfully discharging pollutants shall be fined and ordered to take corrective measures. For those refusing to make corrections, the competent authority may, starting from the day after the date of ordering correction, continuously impose daily fines based on the sum of the original fine. Enterprises and other producers and operators, which discharge pollutants exceeding the pollutant discharge standard or key pollutant gross discharge control thresholds, may be ordered by the competent environmental protection authority above the provincial level to take measures such as restricting production, suspending production and rectification. Serious cases may be reported to and approved by the competent government authority, resulting in orders of suspension or shutdown of operation.

Pursuant to the Environment 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, amended on 2 July 2016 and 29 December 2018 and became effective on 29 December 2018, the government of PRC implements an environmental impact evaluation system, which classifies and manages the environmental impact evaluation of construction projects based on the degree of environmental impact caused by construction projects.

### REGULATIONS ON BIDS AND TENDER

According to the Construction Law of the PRC and the Tender and Bidding Law of the PRC (《中華人民共和國招標投標法》), promulgated on 30 August 1999, newly amended on 27 December 2017, and effective on 28 December 2017, large-scale infrastructure and public works projects relating to social and public welfare and safety within PRC, projects funded wholly or partly by the state, and projects using loans or aid funds from international organizations or foreign governments, including the survey, design, construction and supervision of such projects, as well as the procurement of major equipment and materials for project construction shall be subject to bidding. The bid winner may, according to the provisions under the contract or the consent from the project owner, subcontract non-vital parts and non-critical works of the project.

The Provisions on Tender and Bidding of Construction Projects (《工程建設項目施工招標投標辦法》), promulgated on 8 March 2003, amended on 11 March 2013 and effective on 1 May 2013, the Regulation on the Implementation of the Tender and Bidding Law of the PRC (《中華人民共和國招標投標法實施條例》), promulgated on 20 December 2011, last amended and effective on 2 March 2019 and the Provisions on Projects Subject to Tender Process (《必須招標的工程項目規定》) promulgated on 27 March 2018, and effective on 1 June 2018, specify the requirements and procedures for bidding. For example: (1) For any projects which are wholly invested with state-owned funds or where state-owned funds are in controlling or dominant positions, public bidding shall be carried out, except for the major construction projects approved legally by the NDRC or the people's governments of provinces,

---

## REGULATORY OVERVIEW

---

autonomous regions and municipalities directly under the PRC central government to be with invitational bidding, while invitational tender may be applied to other kinds of projects; (2) For any projects which are wholly or partially invested with state-owned funds or financed by the state, any projects that use loans or aid funds from international organizations or foreign government, and any projects such as large-scale infrastructure and public utilities that related with social interest and public safety and are subject to the bid determined by the development and reform department of the State Council in conjunction with relevant departments of the State Council, with the estimated cost for the single contract of construction of more than RMB4 million, the estimated cost for the single contract of the procurement of important equipment, materials and other goods of more than RMB2 million, and the estimated cost for the single contract of the procurement of survey, design, supervision and other services of RMB1 million, the bid shall be carried out; and (3) A construction that is resumed after the suspension or postponement of the construction and that there is no change in the contractor, a construction that is self-built and self-used by the construction enterprise and that the qualification grade of the construction enterprise meets the project requirements, a minor ancillary project or a main body addition project that is added to the construction in progress and that there is no change in the contractor and other circumstances stipulated by laws, regulations and rules may not require construction bidding upon approval by the construction authorities of the local people's governments at or above the county level.

---

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

---

We are a leading ethanol production system producer in the PRC. Through Zhongke Tianyuan and Boluo Tianyuan, we primarily provide integrated services including engineering design, equipment manufacturing, installation and commissioning and subsequent maintenance for the core system of ethanol production system in the ethanol fuel and alcoholic beverage industries in the PRC.

### Business milestones

Our Group's key business milestones are as follows:

- 2006                      Our Company and Zhongke Tianyuan were incorporated and established, respectively. Zhongke Tianyuan then acquired certain assets, including service contracts entered into in 2002 and 2004 by Zhongke Regeneration as well as manufacturing equipment for the production of ethanol and its related products, from Baojie and Zhongke Regeneration, respectively.
- Due to our patented technology for the production of ethanol fuel by cassava and sugarcane mixed raw materials thick mash fermentation\* (木薯、甘蔗混合原料濃醪發酵生產燃料乙醇), we received the BlueSky Award, the Global Top Ten Investment Scenarios to Apply New Technologies for Renewable Energy Utilisation\* (最具投資價值的十大領先技術) by the United Nations Industrial Development Organization\* (聯合國工業發展組織), which established the status of Zhongke Tianyuan in the bioliquid fuel technology.
- 2007                      Our Group acquired the rights to certain patent applications from Zhongke Regeneration.
- We were awarded and recognised as the Guangzhou Engineering Technology Research and Development Center\* (廣州市工程技術研究開發中心) by Guangzhou Science and Technology and Information Technology Bureau\* (廣州市科技和信息化局), Guangzhou Development and Reform Commission\* and Guangzhou Economic and Trade Committee\* (廣州市經濟貿易委員會).
- 2008                      Certain pressure equipment designed and constructed by us conformed to European Union specifications that it could be affixed with “CE” markings and can be sold throughout the European Economic Area.
- 2010                      Our Group was accredited with the “High and New Technology Enterprise Certificate”\* (高新技術企業認定證書) since 2010.
- 2011                      Our Shares were admitted on AIM under the stock code “CNEL”.
- 2014                      Zhongke Tianyuan was awarded and recognized as the Engineering Technology Research Center of Guangdong Province\* (廣東省省級工程技術中心) by Ministry of Science and Technology of the PRC\* (廣東省科技廳).
- 2017                      ASME certification marked the establishment of an effective ASME pressure vessel quality management system of our Group, and was of far-reaching significance for entering the North American market.

---

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

---

### CORPORATE DEVELOPMENT AND STRUCTURE

#### Establishment of our Group

The origins of our Group can be traced back to 2002, with the formation of Zhongke Regeneration, which was formed as a result of a spin-out from GIEC CAS, which was a prominent research centre in China which specialises in the research of alternative energy and renewable energy technologies. Mr. Yu, our executive Director, Mr. Tang, our executive Director, Mr. Jiang, our general manager and senior management, Mr. Qiu Weiming, a former director of Zhongke Tianyuan, Mr. Chen Baiquen, a former supervisor of the R&D department of Zhongke Tianyuan, and Zhongke Environment, an asset management company of GIEC CAS, were founding shareholders of Zhongke Regeneration. In September 2006, Zhongke Tianyuan acquired certain assets, including service contracts entered into by Zhongke Regeneration, respectively, in 2002 and 2004 as well as manufacturing equipment for the production of ethanol and its related products, from Baojie and Zhongke Regeneration respectively, which enabled the establishment of our business operations.

Below are the brief particulars of the members of our Group:

#### Our Company

Our Company was incorporated in Jersey on 2 May 2006 under the Jersey Companies Law with an authorised share capital of £10,000,000 divided into 200,000,000 shares of £0.05 each. Two shares were issued to two initial subscribers on the date of incorporation and then transferred to London Asia Chinese Private Equity Fund Limited (“**London Fund**”), an institutional investor who was an Independent Third Party, on 21 June 2006.

On 15 August 2006, the authorised share capital of our Company was subdivided into 1,000,000,000 shares of £0.01 each. 1,599,990, 1,200,000, 1,200,000, 500,000, 500,000, 49,830 shares were allotted and issued to Leader Vision, Asia Tianxing, Best Full, Mr. Qiu Weiming, Mr. Jiang and KPRHW Holdings Pte Ltd, an Independent Third Party, respectively, at par on 17 August 2006. Subsequently, 1,683,277 shares were allotted and issued to London Fund at premium at a consideration of £2,124,191 on 18 August 2006.

On 6 September 2006, the issued share capital of our Company was quoted on the PLUS-quoted Market (the “**PLUS**”) (now known as the NEX Exchange Growth Market), which allows trading of shares in unlisted companies in United Kingdom. We withdrew our listing from PLUS on 19 January 2009 because, in the opinion of the Board at the time, there was no apparent benefit to our Company for maintaining its listing on PLUS as we had not raised any capital as a result of its PLUS listing.

On 21 March 2011, the authorised share capital of our Company was further subdivided into 10,000,000,000 shares of £0.001 each. 2,019,932 shares were allotted and issued to the Trustee at par on 15 April 2011 held on trust in accordance with the terms of an employee benefit trust (the “**EBT**”).

On 6 May 2011, the authorised share capital of our Company was further subdivided into 40,000,000,000 Shares of £0.00025 each. Subject to the admission of the Shares on AIM, 9,920,295 Shares were conditionally allotted and issued to the advisers to our Company as partial settlement of their fees for the quotation on AIM on 16 May 2011.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

On 23 May 2011, upon the admission of our Shares on to AIM, 9,360,147 Shares were allotted and issued by our Company to the relevant subscribers at £0.07 per Share by way of placing and the total number of all issued Shares was 296,684,450 immediately after the placing.

From the date of admission of our Shares on AIM to 26 January 2018, our Company had a number of allotments and issues of new Shares on AIM pursuant to the relevant placings and subscription. The table below sets out a summary of these allotments and issues of Shares:

Date of issue	Relationship of the placees/subscribers with our Company	Number of new Shares issued	Consideration per new Share £	Total number of issued Shares after each issue	Total net proceeds (appr.) £
14 June 2011	An Independent Third Party	7,932,412	nil <sup>(Note)</sup>	304,616,862	nil <sup>(Note)</sup>
20 December 2011	An adviser for our admission on AIM	6,000,000	0.05	310,616,862	259,000
25 September 2012	An Independent Third Party	6,000,000	0.01	316,616,862	57,000
30 October 2013	An Independent Third Party	10,000,000	0.025	326,616,862	232,500
20 November 2013	An Independent Third Party	8,571,429	0.035	335,188,291	279,000
21 November 2013	An Independent Third Party	6,666,667	0.0375	341,854,958	250,000
29 November 2013	An Independent Third Party	7,107,143	0.035	348,962,101	248,750
29 September 2014	Jet-Air (H.K.) Limited, an Independent Third Party	44,652,107	0.01332	393,614,208	594,766
29 December 2015	An Independent Third Party	13,333,333	0.015	406,947,541	188,000
14 June 2016	An Independent Third Party	37,500,000	0.02	444,447,541	705,000
16 March 2017	An Independent Third Party	46,808,809	0.015	491,256,350	702,132

*Note: Our Shares were allotted and issued upon the exercise of the cashless mechanism of warrants granted in December 2010 to the investor by our Company.*

The Company applied part of the net proceeds of the above placings and subscription to finance its working capital, repayment of debts, annual listing fee, directors fees and annual professional fees (including nominated adviser, auditor, brokers, managers and company secretary). On 26 January 2018, our Company subsequently repurchased 46,808,809 Shares allotted and issued on 16 March 2017 from the relevant Independent Third Party at £0.012 each, which were then held in treasury.

---

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

---

The price of our Shares allotted and issued pursuant to the relevant placings and subscriptions was determined with reference to the then prevailing market price of our Shares on AIM and after arm's length negotiation between the relevant parties and our Company. The relevant placings and subscriptions had been completed in compliance with the relevant rules and regulations under AIM and the net proceeds had been irrevocably settled. None of the allottees under the relevant placings and subscriptions had any special right over other shareholders of the Company.

Save for the cancellation of treasury Shares on 23 October 2019, since 16 March 2017 and up to the Latest Practicable Date, the issued share capital of our Company has remained unchanged.

### **Zhongke Tianyuan**

On 2 September 2006, our Company established Zhongke Tianyuan with a total investment of US\$40 million and registered capital of US\$38 million.

In September 2006, Zhongke Tianyuan acquired certain assets, including service contracts entered into by Zhongke Regeneration, respectively, in 2002 and 2004 as well as manufacturing equipment for the production of ethanol and its related products, from Baojie and Zhongke Regeneration respectively, which enabled the establishment of our business operations. The total consideration was approximately RMB29.0 million, which has been settled, and was determined based on its then valuation of the assets of Baojie and Zhongke Regeneration, respectively performed by PRC accounting firm.

On 6 January 2010, Zhongke Tianyuan reduced its total investment from US\$40 million to US\$27 million and its registered capital from US\$38 million to approximately US\$11 million.

During the Track Record Period and up to the Latest Practicable Date, Zhongke Tianyuan was principally engaged in the provision of ethanol production system technology integrated services.

### **Boluo Tianyuan**

On 25 July 1998, GIEC CAS and a company established in the PRC (the "Founder") entered into the Contract for Joint Investment and Operation of Guangdong Boluo Jiuneng and High and New Technology Engineering Co., Ltd.\* (《合作投資經營廣東省博羅九能高新技術工程有限公司合同書》), pursuant to which Boluo Tianyuan should be established with the joint investment of GIEC CAS and the Founder. In particular, GIEC CAS should invest with cash, technology, land use right and licence fee for use of analysis and testing devices in aggregate of RMB3.57 million, in which RMB2.55 million should be injected into the registered capital of Boluo Tianyuan, representing 51% of the registered capital of Boluo Tianyuan, and the Founder should invest with cash, machinery processing equipment, factory and infrastructure in aggregate of RMB3.43 million, in which RMB2.45 million should be injected into the registered capital of Boluo Tianyuan, representing 49% of the registered capital of Boluo Tianyuan. On 30 September 1998, the Founder and GIEC CAS established Boluo Tianyuan with a registered capital of RMB5 million.

---

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

---

On 25 September 2002, the Founder transferred its 49% equity interests in Boluo Tianyuan to Zhongke Environment at a consideration of RMB1.5 million.

On 1 August 2006, Zhongke Environment and Baojie entered into an equity transfer contract on the China Beijing Equity Exchange, pursuant to which Zhongke Environment transferred all of its 49% equity interests in Boluo Tianyuan to Baojie at a consideration of approximately RMB1.42 million. On the same day, GIEC CAS and Zhongke Regeneration entered into an equity transfer contract on the China Beijing Equity Exchange, pursuant to which GIEC CAS transferred all of its 51% equity interest in Boluo Tianyuan to Zhongke Regeneration at a consideration of approximately RMB1.48 million.

On 28 September 2010, Baojie and Zhongke Regeneration respectively entered into equity transfer contracts with Zhongke Tianyuan, pursuant to which Baojie transferred all of its 49% equity interests in Boluo Tianyuan to Zhongke Tianyuan at a consideration of approximately RMB2.99 million, and Zhongke Regeneration transferred all of its 51% equity interests in Boluo Tianyuan to Zhongke Tianyuan at a consideration of approximately RMB3.11 million, which has been fully settled, and was determined based on the then valuation of the net asset of Boluo Tianyuan performed by a PRC asset valuer. After the transfer, Boluo Tianyuan became our wholly owned subsidiary.

During the Track Record Period and up to the Latest Practicable Date, Boluo Tianyuan was principally engaged in the fabrication and manufacture of equipment in accordance with project requirements and designs.

### EMPLOYEE BENEFIT TRUST

Our Company established the EBT known as the China New Energy Limited Employee Benefit Trust governed by the trust deed dated 24 March 2011 between our Company and EES Trustees International Limited (the “Trustee”), an Independent Third Party. Generally, the employees of our Group or their spouse or child under the age of 18 could be beneficiaries under the EBT. Trust assets and income were held on trust for such of the beneficiaries as the Trustee may determine in its absolute discretion. The EBT might be financed by contributions by way of gifts and/or loans from our Company or any member of our Group and the beneficiaries were eligible to receive the benefit from any income deriving from those contributions.

59 employees of our Group were awarded 2,019,932 shares of £0.001 each in aggregate by our Company through the EBT, as an incentive on 30 March 2011. On 15 April 2011, our Company had approved the allotment and issue of 2,019,932 shares of £0.001 each to the Trustee as a gift, to be held in accordance with the terms of the EBT for the benefit of those employees. The number of Shares held by the above employees immediately before the transfer had been increased by three times to 8,079,728 Shares due to the share subdivision approved on 6 May 2011.

The EBT was terminated with effect from 19 August 2014 and all our Shares previously awarded to the above employees were transferred to Praise Hero at a consideration of £0.01425 per Share with reference to the then prevailing market price of the Shares.



# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

## PRE-IPO SHARE OPTION SCHEMES

Our Company adopted the Pre-IPO Share Option Schemes on 17 October 2017, the purposes of which were to set long-term incentives for the then (1) Directors and senior management and (2) employees of our Group, respectively.

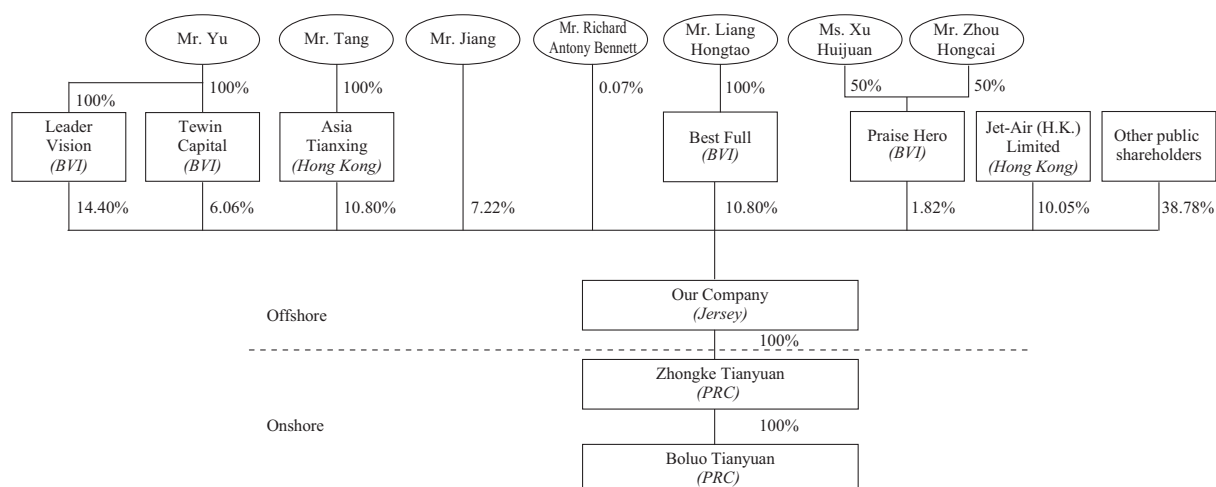
On 20 October 2017, our Company granted 39,300,508 options under the Pre-IPO Share Option Schemes at nil consideration. As at the Latest Practicable Date, the outstanding options under the Pre-IPO Share Option Schemes were 39,300,508 which could be available for subscription representing a total of 8.39% of the issued share capital of our Company immediately before the Global Offering. In particular, 17,647,765 options under the Pre-IPO Share Option Schemes, representing 3.77% of the issued share capital immediately before the Global Offering, had been granted to our Directors and senior management of our Group. The granted options under the Pre-IPO Share Option Schemes were exercisable for a period of three years from 17 October 2017.

The exercise price of each option for our Share under the Pre-IPO Share Option Schemes was set at £0.015. For the three years ended 31 December 2017, 2018 and 2019, the total expenses recognised by our Group for the options under the Pre-IPO Share Option Schemes were RMB96,000, RMB460,000 and RMB461,000, respectively.

Details of the principal terms of the Pre-IPO Share Option Schemes are summarised in the paragraph headed “D. Pre-IPO Share Option Schemes” in Appendix IV to this prospectus.

Save for the aforesaid share options granted under the Pre-IPO Share Option Schemes and the Pre-HKIPO Loan as described in the paragraph headed “Pre-HKIPO Investment” below, our Group does not have any outstanding share options, warrants, convertible debt securities or other convertible instruments, or similar rights convertible into our Shares as at the Latest Practicable Date.

The corporate shareholding structure (showing the approximate percentage of voting Shares) of our Group immediately before the Reorganisation is set out below:



Our Company held 46,808,809 Shares in treasury before the Reorganisation. The treasury Shares did not carry any voting rights.

---

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

---

### REORGANISATION

In preparation for the Listing and to simplify the shareholding structure of our Company, we underwent the Reorganisation which involved the following steps:

#### **Transfer of Shares from Praise Hero to Tewin Capital**

On 5 March 2019, Praise Hero transferred 8,079,728 Shares to Tewin Capital. The consideration for such transfer was determined with reference to the prevailing trading price of our Share on AIM at £0.01 per Share. Upon completion of the above transfer, Praise Hero ceased to be a Shareholder.

For details of the transfer, please refer to the paragraph headed “Pre-HKIPO Investments” in this section.

#### **Transfer of Shares from Leader Vision to Tewin Capital**

On 4 April 2019, Leader Vision transferred 64,000,000 Shares to Tewin Capital at nil consideration. Upon completion of the above transfer, Leader Vision ceased to be a Shareholder. After the above transfers, Tewin Capital was interested in 99,012,168 Shares.

#### **Transfer of Shares from Asia Tianxing to Tonzest Capital**

On 18 July 2019, Asia Tianxing transferred 48,000,000 Shares to Tonzest Capital at nil consideration. Upon completion of the above transfer, Asia Tianxing ceased to be a Shareholder. After the above transfer, Tonzest Capital was interested in 48,000,000 Shares.

#### **Transfer of Shares from Mr. Jiang to Jojo**

On 30 June 2019 and 26 July 2019, Mr. Jiang transferred 32,100,000 Shares in total to Jojo at nil consideration. Upon completion of the above transfer, Mr. Jiang ceased to hold any Shares in his personal capacity. After the above transfer, Jojo was interested in 32,100,000 Shares.

#### **Cancellation of treasury Shares**

On 23 October 2019, our Shareholders resolved to cancel 46,808,809 Shares held by us, being all the treasury Shares. Upon the cancellation, share capital and share premium of our Company of RMB97,000 and RMB4,584,000 were reduced respectively and correspondingly treasury reserve of our Company of RMB4,681,000 was cancelled and therefore did not result in any change in total equity. After the cancellation, the total number of the issued Shares was 444,447,541.

---

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

---

### PRE-HKIPO INVESTMENTS

#### Pre-HKIPO Loan

On 1 February 2019, our Company as borrower and Mr. Yu, Mr. Tang and Mr. Jiang as guarantors entered into a convertible loan agreement (the “**Loan Agreement**”) with Double River pursuant to which Double River agreed to grant a loan to our Company in the principal amount of HK\$11.5 million (the “**Pre-HKIPO Loan**”) which shall be convertible into 23,924,502 Shares upon obtaining the approval on the Listing by our Company. The Pre-HKIPO Loan was drawn down on 14 February 2019 and the term of the Pre-HKIPO Loan was extended pursuant to two extension deeds (the “**Extension Agreements**”) dated 3 January 2020 and 29 April 2020, respectively, entered into among the relevant parties to the Loan Agreement.

On 14 July 2020, the Pre-HKIPO Loan will be fully converted into 23,924,502 Shares and Double River will become interested in 4.34% of the entire issued Share capital of our Company immediately after the Global Offering (without taking into account Shares which may be allotted and issued pursuant to the exercise of the options which have been granted under the Pre-IPO Share Option Schemes).

#### Background of Double River and its beneficial owners

Double River is an investment holding company incorporated in BVI and is wholly owned by Mr. Kwan Hoi Wang (“**Mr. Kwan**”). The principal business of Double River is private equity investment with a primary focus on emerging companies, and Mr. Kwan has made a number of pre-IPO investments through different vehicles in various segments and industries which were either proposed to be listed or listed on the Stock Exchange. The focus of Mr. Kwan’s investment in our Group is the emerging business of our Group. As a sophisticated investor, Mr. Kwan was convinced by the prospect of our Group in the market of ethanol production system technology services, and therefore he invested in our Group at a premium as at the date of investment, i.e. 1 February 2019 compared to the then trading price on AIM of our Shares.

To the best knowledge, information and belief of, and having made all reasonable enquiries by our Directors, each of Double River and Mr. Kwan is Independent Third Parties. The subscription of the Shares through conversion of the Pre-HKIPO Loan by Double River as stated above was not financed directly or indirectly by any connected persons of our Company.

The Sole Sponsor confirms that the investment made by Double River complies with HKEx-GL44-12, in particular (i) details of the investment made by Double River have been fully disclosed in this prospectus; (ii) the net proceeds have been irrevocably settled and received by our Group at least 28 clear days before the Hong Kong listing application of the Company; (iii) no special rights were given to Double River; and (iv) the investment made by Double River complies with the relevant AIM rules and regulations.

There were no special rights granted to Double River in connection with its investments in our Group. Double River’s shareholding in our Company will be counted as part of the “public float” for the purpose of Rule 8.24 of the Listing Rules.

---

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

---

### Lock-up requirements

There is no lock-up restriction against Double River under the Pre-HKIPO Loan.

### The pre-HKIPO investment

The following table summarises the pre-HKIPO investment made by Double River in our Company by way of the Pre-HKIPO Loan.

Investor	Double River
Date of investment	1 February 2019
Amount of investment	HK\$11.5 million
Settlement date of investment amount	14 February 2019
Investment cost per Share <sup>(Note)</sup>	Approximately HK\$0.481
Discount to the mid-point of the indicative Offer Price range	Approximately 57.43%
Use of proceeds from the pre-HKIPO investment	For general corporate purposes (all of the proceeds had been utilised as at the Latest Practicable Date)
Shareholding in our Company upon completion of the Global Offering	Approximately 4.34%

*Note: Based on 23,924,502 Shares to be held by Double River upon full conversion of the Pre-HKIPO Loan*

### Principal terms of the Pre-HKIPO Loan

To the best of the knowledge of our Directors, the terms of the Pre-HKIPO Loan were agreed at after arm's length negotiation between Double River and our Company. The principal terms of the Loan Agreement are as follows:

Date of the Loan Agreement	1 February 2019
Date of the Extension Agreements	3 January 2020 and 29 April 2020
Aggregate principal amount	HK\$11.5 million
Borrower	Our Company

---

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

---

Interest	<p>12% per annum upon events of default</p> <p>Interest is payable upon repayment of the principal amount</p> <p>No interest shall be payable by our Company if the Pre-HKIPO Loan are converted into our Shares before the maturity date</p>
Maturity date	<p>14 August 2020, being 18 months (taking into account the six months extension pursuant to the Extension Agreements) after the date when our Company received the sum of the Pre-HKIPO Loan from Double River</p>
Conversion	<p>In the event that our Company has obtained the approval of the Listing, the Pre-HKIPO Loan shall be automatically converted into our Shares. Double River shall instruct the Company to and the Company shall allot and issue 23,924,502 Shares and the Loan Agreement shall then be terminated.</p>
Events of default	<ol style="list-style-type: none"><li>(1) any material breach by our Company of the terms of the Loan Agreement</li><li>(2) any material changes of the operation of our Group</li><li>(3) any material changes of the organisation structure of our Company, save for those necessary reorganisations as required by or pursuant to the Listing</li><li>(4) creation of mortgage, pledge or other encumbrance on the material assets of our Group save for those already disclosed to Double River on or before the date of the Loan Agreement</li><li>(5) any petition for the winding up of our Group or any one of the guarantors of the Pre-HKIPO Loan</li><li>(6) any termination of the application of Listing by our Company or if our Company cannot submit the formal application of Listing to the Stock Exchange before 30 September 2019</li><li>(7) any rejection of the application of Listing by the Stock Exchange, SFC, or the Shareholders meeting of our Company</li></ol>

---

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

---

Our Company shall notify Double River when our Company is aware of the occurrence of any event of default. Our Company shall rectify the breach within three Business Days upon receiving notice from Double River about the breach resulting from any event of default. If our Company fails to rectify the said breach within the aforesaid time limit, Double River may, by giving notice to our Company, terminate the Loan Agreement and declare that all or part of the Pre-HKIPO Loan and all other amounts accrued or outstanding under the Loan Agreement be immediately due and payable, whereupon they shall become immediately due and payable. As at the Latest Practicable Date, the Company is not aware of any circumstance that would lead to termination or event of default, and therefore the risk of termination is low.

The Pre-HKIPO Loan by Double River is accounted for as financial liabilities at fair value through profit or loss. If the Loan Agreement terminates, Double River may declare that all or part of the Pre-HKIPO Loan and all other amounts accrued or outstanding under the Loan Agreement be immediately due and payable. The difference between the consideration paid and the carrying amount of the Pre-HKIPO Loan will be recognised in profit or loss.

The Loan Agreement may be terminated upon:

1. the conversion of the Pre-HKIPO Loan into the Shares upon the Company obtaining approval of the Listing (the “**Conversion Event**”) and completion of the delivery of the Shares (“**Situation 1**”);
2. the repayment of the Pre-HKIPO Loan plus accrued interest in the event of non-occurrence of the Conversion Event on or before the maturity date or such other later dates as may be agreed between the Company and Double-River in writing from time to time (“**Situation 2**”); or
3. the occurrence of any event of default by the Company. Double River may, by giving notice to the Company, declare that all or part of the Pre-HKIPO Loan and all other amounts accrued or outstanding be immediately due and payable (“**Situation 3**”).

Under Situation 1, the difference between the fair value of the equity instruments issued and the carrying amount of the convertible notes then, which is measured in fair value, will be recognised as a gain or loss.

Under Situations 2 and 3, the difference between any proceeds paid and the carrying amount of the convertible notes then, which is measured in fair value, will be recognised as a gain or loss.

---

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

---

In the event of non-occurrence of the Conversion Event on the maturity date, the termination of the Loan Agreement will result in cash outflow of HK\$13,225,000 but it is expected that it will not result in negative cash and cash equivalent balance in the year ending 31 December 2020.

As at the Latest Practicable Date, there has not been any early termination repayment and redemption under the Loan Agreement.

On 14 July 2020, our Company will allot and issue to Double River 23,924,502 Shares, which will represent 4.34% of the entire issued share capital of our Company upon the completion of the Global Offering (without taking into account Shares which may be allotted and issued pursuant to the exercise of the options which have been granted under the Pre-IPO Share Option Schemes).

### Transfer of Shares from Praise Hero

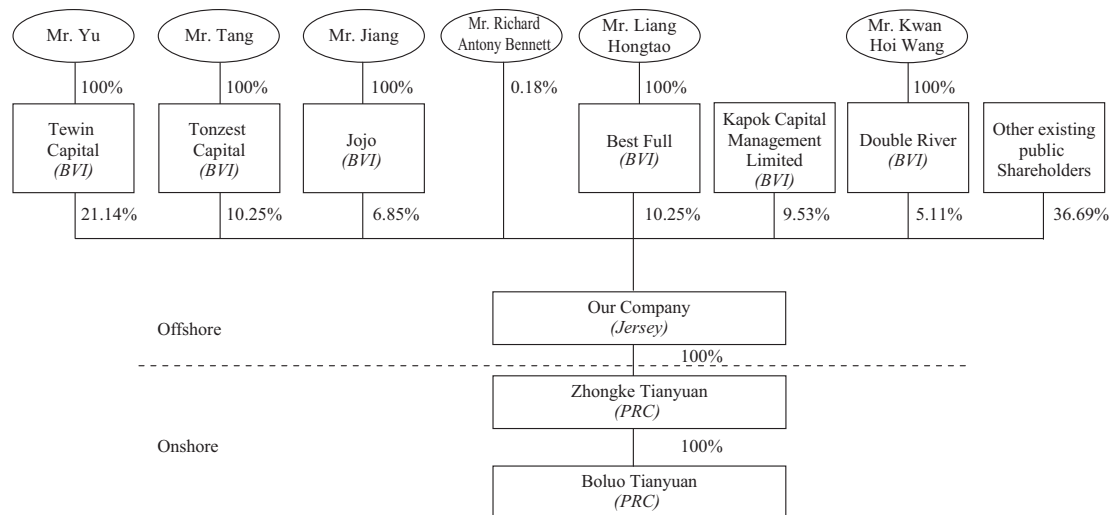
The following table summarises the terms of the transfer of Shares from Praise Hero to Tewin Capital:

Investor	Tewin Capital
Date of investment	5 March 2019
Amount of investment	£80,797.28
Settlement date of investment amount	20 March 2019
Investment cost per Shares	£0.01 (equivalent to approximately HK\$0.1033)
Discount to the mid-point of the indicative Offer Price range	Approximately 90.86%
Shareholding in our Company upon completion of the Global Offering	Approximately 1.47%
Special rights	No special rights granted to Tewin Capital for the investment

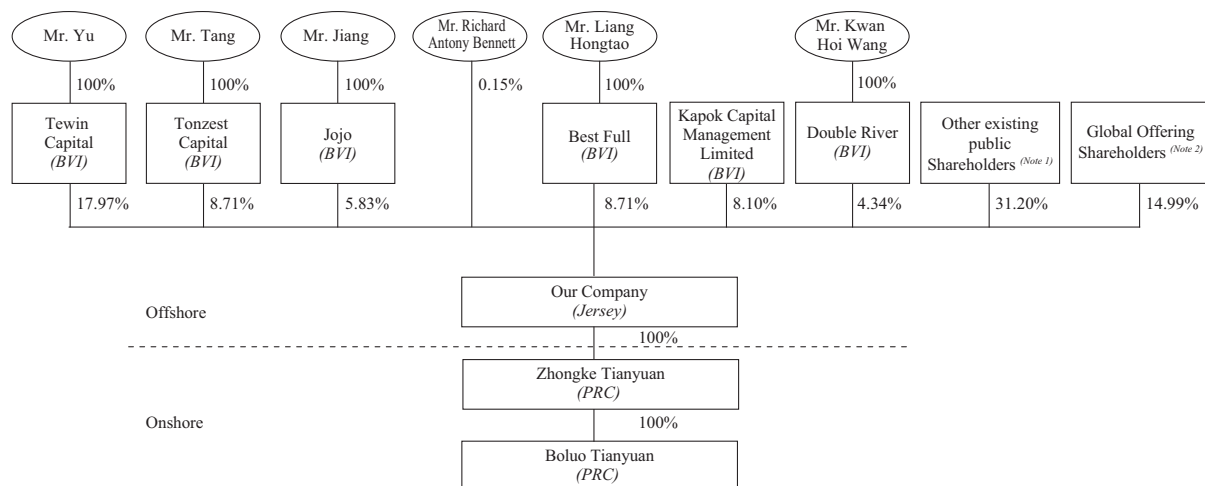
There is no lock-up restriction against Tewin Capital under the transaction.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The corporate shareholding structure of our Group immediately before the Global Offering is set out below:



The corporate shareholding structure of our Group immediately after the Global Offering (without taking into account Shares which may be allotted and issued pursuant to the exercise of the options which have been granted under the Pre-IPO Share Option Schemes) is set out below:



Notes:

- (1) They are the existing public Shareholders.
- (2) They are the public Shareholders who will be interest in our Shares through the Global Offering.



---

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

---

### OUR SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, our Company has issued 444,447,541 Shares. According to the Listing Rules, as at the Latest Practicable Date, our Company had no Controlling Shareholder. There was no material change to the shareholdings of our ultimate Substantial Shareholders during the Track Record Period and up to the Latest Practicable Date.

The tables below set out the shareholdings of our Substantial Shareholders and the holding companies of our Directors as at the Latest Practicable Date:

Name	Shares	Approximate percentage of shareholding
Tewin Capital <sup>(Note 1)</sup>	99,012,168	22.28
Tonzest Capital <sup>(Notes 2 and 5)</sup>	48,000,000	10.80
Best Full <sup>(Notes 3 and 5)</sup>	48,000,000	10.80
Kapok Capital Management Limited <sup>(Notes 4 and 5)</sup>	44,652,107	10.05

Notes:

- (1) *Tewin Capital was wholly owned by Mr. Yu.*
- (2) *Tonzest Capital was wholly owned by Mr. Tang.*
- (3) *Best Full was wholly owned by Mr. Liang Hongtao.*
- (4) *Kapok Capital Management Limited was wholly owned by Ms. Chen Wan Ling. To the best knowledge of our Directors, Kapok Capital Management Limited and Ms. Chen Wan Ling are Independent Third Parties.*
- (5) *Tonzest Capital, Best Full and Kapok Capital Management Limited will lease to be our Substantial Shareholders upon Listing.*

For details of our Substantial Shareholders, please refer to the sections headed “Relationship with our Substantial Shareholders” and “Substantial Shareholders” of this prospectus.

For the most recent audited financial year, there had not been any (i) material changes in the shareholding of our Substantial Shareholders; nor (ii) material changes in the control of our Substantial Shareholders.

### PRC LEGAL COMPLIANCE

Our PRC Legal Advisers have confirmed that all relevant approvals and permits in relation to the share transfers and any changes in the registered capital in respect of the member of our Group established in the PRC as described above had been obtained and the procedures involved had been carried out in accordance with PRC laws and regulations and do not violate any PRC laws and regulations.

---

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

---

### SAFE Registration in the PRC

On 21 October 2005, SAFE issued Circular No. 75 [2005] — Issues Relating to the Administration of Foreign Exchange in Respect of Financings and Return Investments by Domestic Residents through Offshore Special Purpose Vehicles (匯發[2005]75號 — 國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (“**Circular 75**”), pursuant to which a PRC individual resident (the “**PRC Resident**”) are required to register with the competent local branch of SAFE before they establish or control any offshore special purpose vehicles (the “**Offshore SPV**”) for capital raising with the assets or equity interest of PRC domestic companies owned by them. According to the Circular 75, the PRC Resident include those individuals who have PRC citizenship or other domestic legal status and those “individuals who do not have any domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests”.

On 4 July 2014, SAFE issued Circular No. 37 [2014] — “Issues Relating to the Administration of Foreign Exchange in Respect of Offshore Investments, Financings and Return Investments by Domestic Residents through Special Purpose Vehicles” (匯發[2014]37號 — 國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (“**Circular 37**”) thus repealing Circular 75. The Circular 37 requires a PRC Resident to register with the local SAFE branch before he or she contributes assets or equity interests in an Offshore SPV that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, the PRC Resident is also required to register with the local SAFE branch for any major changes in respect of the Offshore SPV, including, among other things, any major changes of a PRC Resident shareholder, name or term of operation of the Offshore SPV, or any increase or reduction of the Offshore SPV’s registered capital, share transfer or swap, merger or division.

Our PRC Legal Advisers consider that, each of our applicable Shareholders who are PRC Residents and beneficial owners of our Company at that time, namely, Mr. Yu, Mr. Liang Hongtao, Mr. Tang and Mr. Jiang have completed the foreign exchange registration procedure in Guangdong Branch of SAFE on 3 August 2006 in accordance with Circular 75.

### AIM COMPLIANCE

As advised by Cairn Financial Advisers LLP, being the nominated advisor of our Company for admission to AIM, and the Sole Sponsor concurs that, since the admission of our Shares to AIM and up to the Latest Practicable Date, each of our Company, Mr. Yu, Mr. Tang and Mr. Richard Antony Bennett, has not been the subject of any completed, ongoing or potential disciplinary inquiries or investigations by AIM, in relation to any alleged or actual material or potential material breach of any applicable laws, regulations, implementation measures and listing rules of AIM.

### DELISTING AND LISTING

#### Rationale for Delisting and Listing

Please refer to the paragraphs headed “Future plan and use of proceeds — Business strategies — Rationale for Delisting” and “Future plan and use of proceeds — Business strategies — Rationale for Listing” for the reasons of Delisting and Listing.

---

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

---

### **Delisting**

Accordingly, a resolution was passed at the general meeting held by our Company on 16 April 2020 to approve, among other things, the delisting of our Shares from AIM, which is conditional upon the Listing. The Listing is not conditional on the delisting of our Shares from AIM.

In accordance with rule 41 of the AIM Rules and the guidance notes published by the LSE, we have issued a regulatory news service announcement and notified the LSE through our nominated adviser of the intended effective date of delisting from AIM at least 20 business days prior to that date. The announcement sets out, amongst other things, the reasons for Delisting, a description of how our Shareholders will be able to effect transactions in our Shares once they have been delisted from AIM.

Save where the LSE otherwise agrees, the Delisting must be conditional on the consent of not less than 75% of votes cast by our Shareholders given in a general meeting. We passed Shareholders' resolutions on 16 April 2020 to approve the Delisting conditional upon the Listing. Delisting shall only take effect until at least five Business Days have passed since our Shareholders' approval has been obtained and a dealing notice has been issued. It is expected that our Shares in issue will cease to be admitted to AIM with effect from the first day of dealings in our Shares on the Stock Exchange, subject to the granting of the approval for Listing. Shareholders will be able to trade our Shares on AIM up until the delisting of our Shares on AIM becomes effective.

Based on the advice we received from our legal advisers as to English law and our nominated adviser, our Directors believe that there is no legal impediment to the Delisting taking place, conditional upon the Listing.

### ***First Record Date***

In order to enable all our Shares in issue to be available for dealings after Listing, we have put in place arrangements and set the First Record Date where our Shareholders who hold our Shares in their own names as at the First Record Date were provided with four options prior to the First Record Date as summarised below so as to facilitate the trading of our Shares after the Listing:

#### ***Option 1 — request the new share certificates in respect of Shares held by a Shareholder to be sent to his/her/its stockbroker in Hong Kong via his/her/its current stockbroker in the United Kingdom***

Prior to the First Record Date, a Shareholder could through his/her/its stockbroker in the United Kingdom request that the new share certificates in respect of our Shares held by him/her/it be sent to the stockbroker in Hong Kong which is able to trade on the Stock Exchange and which his/her/its stockbroker in the United Kingdom has custodial and nominee arrangements (either directly or through a Hong Kong counterparty).

#### ***Option 2 — request the new share certificates in respect of Shares held by a Shareholder to be sent to his/her/its new stockbroker in the United Kingdom***

An arrangement has been made by us with certain stockbrokers in the United Kingdom who are able to trade on the Stock Exchange and have agreed, subject to their account opening procedures, to act for our Shareholders in his/her/its trading activities on the Stock Exchange. Prior to the First Record Date, a Shareholder could request that the new share certificates in respect of Shares held by him/her/it to be sent to such new stockbrokers in the United Kingdom.

---

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

---

### ***Option 3 — request the new share certificates in respect of Shares held by a Shareholder be sent to a stockbroker in Hong Kong***

If a Shareholder has a Hong Kong brokerage account and wishes to hold his/her/its Shares through such account following the Listing, such Shareholder can request that the new share certificates in respect of Shares held by him/her/it be sent to his/her/its stockbroker in Hong Kong.

### ***Option 4 — request the new share certificates in respect of Shares held by a Shareholder to be sent to such Shareholder directly***

If a Shareholder wishes the new share certificates of Shares held by him/her/it to be sent to him/her/it directly and such Shares are lodged with a stockbroker, such Shareholder could request his/her/its stockbroker to arrange for rematerialisation of such Shares and request the new share certificates to be dispatched to his/her/its address. However, as the new share certificates will only be dispatched on the day before the Listing Date, the new share certificates may not arrive in the United Kingdom by the first day of trading on the Stock Exchange due to delivery time.

### ***Second Record Date***

A Shareholder who wish to continue to trade his/her/its Shares on AIM until Delisting and wish to have the new share certificates sent to an address other than his/her/its registered address should select one of the four options as mentioned above prior to the Second Record Date.

### ***Take no action or make no option selection***

If a Shareholder takes no action or makes no option selection, the new share certificates will be issued and sent to the name and address that appear on the share register of our Company on the Second Record Date. However, as the new share certificates will only be dispatched on the day before the Listing Date, the new share certificates may not arrive in the United Kingdom by the first day of trading on the Stock Exchange due to delivery time.

The expected timetable of principal events in respect of the Delisting and the Listing is set out below:

Issue of dealing notice by the LSE . . . . .	on or around Tuesday, 30 June 2020
First Record Date . . . . .	on or around Tuesday, 30 June 2020
Second Record Date . . . . .	on or around Tuesday, 14 July 2020
Last day of trading on AIM of our Shares . . . . .	on or around Tuesday, 14 July 2020
Cancellation of admission to trading on AIM of our Shares expected to be effective . . . . .	on or around Wednesday, 15 July 2020
Dealings in Shares on the Stock Exchange expected to commence . . . . .	on or around Wednesday, 15 July 2020

---

## BUSINESS

---

### OVERVIEW

Founded in 2006, we are a leading ethanol production system producer in the PRC. We primarily provide integrated services including engineering design, equipment manufacturing, installation and commissioning and subsequent maintenance for the core system of ethanol production system in the ethanol fuel and alcoholic beverage industries in the PRC. During the Track Record Period, we also provided our technology integrated services for other chemical production systems in Canada, Russia, Indonesia and other countries. With 13 years of operating history, we have gained substantial experience and established a solid reputation in terms of advanced technology skills and proven track records in the PRC. According to the CIC Report, we ranked the first in terms of revenue with a market share of 10.8% in the ethanol production system industry in the PRC in 2019.

We completed 20, 27 and 22 technology integrated service projects for the three years ended 31 December 2019, respectively. As at 31 December 2019, the aggregate contract value (exclusive of VAT) of our service contracts in our backlog was RMB584.9 million. Our total revenue slightly decreased from RMB257.1 million for the year ended 31 December 2017 to RMB250.0 million for the year ended 31 December 2018, representing a decrease of 2.8%. Our total revenue increased from RMB250.0 million for the year ended 31 December 2018 to RMB398.6 million for the year ended 31 December 2019, representing a growth of 59.4%. Our net profit was RMB45.7 million for the year ended 31 December 2017 and our net profit remained relatively stable at RMB45.8 million for the year ended 31 December 2018. Our net profit increased from RMB45.8 million for the year ended 31 December 2018 to RMB59.2 million for the year ended 31 December 2019, representing a growth of 29.3%.

In 2006, due to the PRC government's concerns over the grain crisis which may result from excessive consumption of corn which is the major raw material for the production of ethanol fuel, the ethanol fuel industry entered into an adjustment period in 2006. During 2006 to 2016, the approval of ethanol production plant construction was strictly controlled which discouraged the construction of ethanol production plant. Between 2013 and 2016, the ethanol production system industry has started to enter into a recovery period and recorded steady growth, with the market size in terms of revenue increasing from RMB1,187.4 million to RMB1,653.1 million, representing a CAGR of 11.7%, however, the approval of ethanol production plant construction was still strictly controlled which limited the growth of the industry. In addition, due to the overcapacity in the alcoholic beverage industry, there were only a few newly-built ethanol production plants between 2013 and 2016. During that period, ethanol production systems were mainly applied in reconstruction projects, capacity expansion projects, and technology upgrade projects, which were generally of smaller contract value. Due to the inactive market environment, prior to the Track Record Period, the aggregate value of the contracts we secured during 2013 to 2015 was generally smaller as compared with the contracts secured during the Track Record Period and our Group recorded net losses, resulting in an accumulated losses of RMB101.7 million and RMB89.8 million as at 1 January 2016 and 2017, respectively.

In 2017, the ethanol production system industry has experienced a rapid growth. We believe that the significant growth in our revenue and net profit in 2017 was attributable to the increasing customer demand for ethanol production systems, which we believe has been mainly driven by the relevant PRC government policies such as (i) the 13th Five Year Plan for Renewable Energy Development implemented by the PRC government in 2016 to expand ethanol fuel production capacity, which drove demand for ethanol production systems in the ethanol fuel industry; and (ii) the initiative of the PRC government ordering for the close down of small-scale ethanol plants to promote centralized mass production, and advanced ethanol production systems and technology upgrade needed to support the new large ethanol

## BUSINESS

plants, which increased the demand for new ethanol plants. In September 2017, NEA announced E10 Mandate that was designed to expand the mandatory use of E10 fuel from 12 trial provinces to the entire country by 2020. In 2018, State Council of the PRC (中華人民共和國國務院) executive meeting decided to promote the usage of ethanol fuel in another 14 provinces in addition to the original 12 trial provinces. These measures, together with the rapid growth in the ethanol production system industry, enabled us to secure more projects with larger scale, resulting in our financial performance being turned around from losses to profits since 2016. Given that environmental protection is a key long-term development strategy in the PRC and the PRC government's support for the development of new energy is one of its key strategies in environmental protection, CIC and our Directors are of the view that should there be any changes in the near future to the government policy, in particular the E10 Mandate, such changes would be supportive and favourable to the promotion of the environmental-friendly ethanol fuel. We believe our customers' demands for ethanol production systems have been, and may likely continue to be, driven by the PRC government policies governing the ethanol industry. Our results of operations will be affected by our ability to seize opportunities from, and respond timely and competitively to, potential changes in these government policies.

Our wide range of ethanol production system technology integrated services are primarily offered to the following two industries:

1. Ethanol fuel: Ethanol fuel refers to anhydrous ethanol with a volume concentration of 99.5% or above. After denaturation, ethanol fuel can be mixed with gasoline in a certain ratio to produce ethanol fuel for vehicles. According to the CIC Report, ethanol fuel accounted for approximately 47.4% of the ethanol market in the PRC in 2019 in terms of sales volume.
2. Alcoholic beverage: Alcoholic beverage industry accounted for approximately 37.3% of the ethanol market in the PRC in 2019 in terms of sales volume according to the CIC Report. Baijiu, the most popular Chinese traditional spirit, is the major final product in the alcoholic beverage industry.

Set out below is our revenue by each of (i) industry; and (ii) geographical location during the Track Record Period:

### Revenue by industry:

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Ethanol fuel	212,378	145,273	347,184
Alcoholic beverage	42,210	88,697	45,080
Others (Note)	2,521	16,008	6,294
<b>Total</b>	<b>257,109</b>	<b>249,978</b>	<b>398,558</b>

*Note: Others refer to revenue generated from the provision of services for pharmaceutical alcohol, sales of component and other chemical production systems such as ethyl acetate and vital fiber oligosaccharide.*

---

## BUSINESS

---

### Revenue by geographical location:

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
PRC	254,427	233,945	379,852
Canada	2,521	–	–
Russia	–	16,008	187
Indonesia	–	–	14,601
Other countries ( <i>Note</i> )	161	25	3,918
<b>Total</b>	<b>257,109</b>	<b>249,978</b>	<b>398,558</b>

*Note: Other countries include Thailand and Myanmar.*

We have established a solid reputation in terms of advanced technology skills and proven track records in the PRC. We have been devoted to research and development to drive improvement and innovation in technologies to be applied to the core system of the ethanol production system, and we intend to continue to invest in our research and development efforts. As at the Latest Practicable Date, we owned 32 patented technologies, which have been incorporated into our production procedures. In addition, as at the Latest Practicable Date, we have submitted 15 patent registration applications in the PRC and one patent registration application in Brazil and are engaging in two ongoing research and development projects.

In previous years, our ethanol production system technologies have earned awards granted by industry organizations in the ethanol industry. We have been awarded the status as “High and New Technology Enterprise” (高新技術企業) in December 2016 and renewed in December 2019 with a validity period of three years and have been entitled to a preferential EIT rate of 15%. For details, please refer to the sub-section headed “Awards, Recognitions and Subsidies” in this section. Our Directors believe that the awards represented a remarkable recognition from the industry for our technology and innovation applied in our projects. We believe our advanced technologies and research and development capabilities have given us a competitive edge and allowed us to continue in securing contracts from customers through our provision of high-quality and innovative ethanol production system technology integrated services.

### OUR COMPETITIVE STRENGTHS

We believe that the following strengths distinguish us from our competitors and contribute to our ability to compete effectively in our target market:

#### **We are a leading ethanol production system producer in the PRC**

We are a leading ethanol production system producer in the PRC. According to the CIC Report, we ranked the first in terms of revenue with a market share of approximately 10.8% in the ethanol production system industry in the PRC in 2019.

---

## BUSINESS

---

According to the CIC Report, the ethanol production system market is highly fragmented because the whole ethanol projection system consists of a number of equipment and sub-systems. Some companies in the industry focus on the manufacturing of one or few equipment or non-core systems, which can be widely applied in chemical and light machinery industry, such as concentration facilities, pressure vessels, dehydration facilities, plumps, lifting equipment, etc., while other companies focus on providing core systems, namely distillation and dehydration system. Our Company targets to provide integrated service for the core systems for downstream customers.

We are capable to provide engineering design, equipment manufacturing, installation and commissioning and subsequent maintenance for the core system of the ethanol production system in the ethanol fuel and alcoholic beverage industries in the PRC, based on customer needs. In April 2014, our application of Five Tower Second Grade Differential Pressure Distillation Technology for Production of Quality Edible Alcohol\* (五塔二級差壓蒸餾技術在優級食用酒精生產過程中的應用) had been awarded the 2013 China Alcoholic Drinks Association Science Technology Progress Award — First Class\* (2013年度“中國酒業協會科學技術進步獎”一等獎), and in April 2016, our research and application of Distillation through Two-Wide Diameter Towers with Differential Pressure for Production of Ethanol Fuel\* (雙粗塔差壓蒸餾生產燃料乙醇工藝技術) was awarded the 2015 China Alcoholic Drinks Association Science Technology Progress Award — Second Class\* (2015年度“中國酒業協會科學技術進步獎”二等獎) by Science Technology Award Committee of China Alcoholic Drinks Association\* (中國酒業協會科學技術獎獎勵委員會). In June 2020, our research and application of Distillation through Eight Towers Differential Pressure Distillation for the Production of Special Alcohol\* (八塔差壓蒸餾生產特級酒精工藝技術的研發與應用) was awarded 2019 China Alcoholic Drink Association Science Technology Progress Award First Class\* (2019年度“中國酒業協會科學技術進步獎”一等獎) by Award Office of Science Technology Award of China Alcoholic Drink Association\* (中國酒業協會科學技術獎獎勵辦公室). We believe that these awards further enhance and strengthen our position and reputation in the industry.

According to the CIC Report, the market size for the ethanol production system industry in the PRC in terms of revenue is projected to increase from RMB4,090.5 million in 2020 to RMB5,716.2 million in 2024, representing a CAGR of 8.7% driven by the expansion of ethanol fuel production capacity and equipment upgrades in the ethanol production system industry. We believe that by leveraging on our position as the leading ethanol production system producer and our reputation in the industry, we have the advantage and abilities in capturing the expected growth in the industry.

### **We possess advanced technologies and research and development capabilities that enhance our competitiveness**

We have established a solid reputation in advanced technology skills in the PRC. Over the years, we are devoted to research and development to drive improvement and innovation in the ethanol production system industry, and we continue to invest in our research and development efforts. As at the Latest Practicable Date, our research and development team led by Dr. Ou Jingshen consisted of four personnel. For details of their background industry experience, please refer to the paragraph headed “Research and development” in this section and the paragraph headed “Directors, Senior Management and Employees” in this prospectus.



---

## BUSINESS

---

Our total expenditure on research and development, including capitalised and expensed costs, for the three years ended 31 December 2019 amounted to RMB2.8 million, RMB6.7 million and RMB7.4 million, respectively. As at the Latest Practicable Date, we owned 32 patented technologies and have submitted 15 patent registration applications in the PRC and one patent registration application in Brazil and are engaging in two ongoing research and development projects. For details of these research projects, please refer to the paragraph headed “Research and development — Our research and development projects” in this section.

According to the CIC Report, amongst the various patented technologies of our Group, the Seven-Tower Device with Multi-Effect Differential Pressure Distillation Technology to Jointly Produce Quality Alcohol and Ethanol Fuel\* (七塔多效差壓蒸餾技術聯產優級酒精和燃料乙醇裝置) and the Five-Tower Second Grade Differential Pressure Distillation Technology for Production of Quality Edible Alcohol\* (五塔二級差壓蒸餾技術在優級食用酒精生產裝置) are highly recognized in the industry. In particular, the Seven-Tower Device with Multi-Effect Differential Pressure Distillation Technology to Jointly Produce Quality Alcohol and Ethanol Fuel\* (七塔多效差壓蒸餾技術聯產優級酒精和燃料乙醇裝置) is the leading system in the core system of ethanol production system industry in the PRC due to its ethanol production efficiency. For details of all these patents owned by our Company, 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 — Patents” in Appendix IV to this prospectus.

We believe our advanced technologies and research and development capabilities have given us a competitive edge and allowed us to continue in securing contracts from our customers through our provision of ethanol production system technology integrated services.

**We are highly recognised by our customers for our capabilities in the provision of ethanol production system technology integrated services**

We are a leading ethanol production system producer in the PRC. We are capable to provide engineering design, equipment manufacturing, installation, commissioning and subsequent maintenance for the core system of the ethanol production system. As a leader in the ethanol production system industry in the PRC, we have accumulated extensive experience and earned sound reputation among customers.

We obtained both CE accreditation and ASME certification, signifying our implementation of a well-recognised quality control system for the design and construction of pressure vessels of the core system of the ethanol production system. The award of such globally recognized accreditation and certificate proves our abilities in the provision of ethanol production system technology integrated services system and allows us to expand our footprint to Europe and North America. We completed 20, 27 and 22 technology integrated service projects for the three years ended 31 December 2019, respectively.

---

## BUSINESS

---

During the Track Record Period, we have completed a number of major ethanol production system technology integrated services projects. For details of our major projects, please refer to the paragraph headed “Our projects — Major projects” in this section.

Our Directors believe that our proven track record in providing technology integrated services to our customers would enable us to maintain our execution quality and improve our chances in securing contracts from our customers.

### **We have a visionary, experienced and market-oriented management team**

Throughout the years of development, our management team has continued to adhere to the market principles and cultivated our core competitiveness. The formulation of visionary business strategy and the detail-oriented execution by our senior management team, which is led by Mr. Yu, Mr. Tang and Mr. Jiang, established a solid reputation in advanced technology skills in the PRC. Each of Mr. Yu, Mr. Tang and Mr. Jiang has extensive experience in the ethanol production system industry. Their solid industry knowledge and extensive operation experience will continue to be our important asset and will continue to contribute to our results of operations. For details of the background of our management team members, please refer to the section headed “Directors, senior management and employees” in this prospectus.

Our success is also attributable to other members of our senior management. Our key members of senior management have strong management capabilities in areas such as industry research, business planning and management, finance and project management. As at the Latest Practicable Date, we have 96 employees, among which 44 have completed university or above, and among which four have master degree and one has doctoral degree. Our management team values the importance of loyalty, teamwork, cohesiveness, continuous learning and performance excellence.

### **OUR BUSINESS STRATEGIES**

Our goal is to continue to enhance our overall competitiveness and to capture greater market share in the ethanol production system industry and expand our presence to solidify our position as a leading ethanol production system producer in the PRC. To achieve this goal, we intend to pursue the following strategies:

#### **Continue to maintain and further consolidate our leading market position by undertaking more projects in the PRC**

According to the CIC Report, the market size for the ethanol production system industry in the PRC in terms of revenue is projected to increase from RMB4,090.5 million in 2020 to RMB5,716.2 million in 2024, representing a CAGR of 8.7% driven by the expansion of ethanol fuel production capacity and equipment upgrades in the ethanol production system industry. As a leading ethanol production system producer in the PRC, we are committed to capturing the expected growth in the industry and increasing our market share by engaging more projects in the PRC so as to maintain our market leading position.

---

## BUSINESS

---

In accordance with the contracts entered into between us and our customers, we will normally be paid on a progressive basis. Upon the signing of the contract, our customers will generally make a prepayment to us for initiating the project. Depending on the needs of each project, we may agree with our customers to pay us progress payments between each milestone. Despite such payment schedule, we generally have to commit our internal resources on top of the funding received from our customers for payment of various project costs, which includes, among others, the purchase of raw materials and equipment as well as the procurement of labour subcontracting. In other words, we generally experience a net cash outflow even after we receive prepayment or progress payments from our customers during the course of project execution. During the Track Record Period, given that we were unable to source sufficient funding at a reasonable cost, we funded such cash outflow mainly by our internal financial resources and through bank and other borrowings. In light of such net cash outflow, the availability of our financial resources may limit the number of projects that we are able to undertake during the same period, and therefore limit our growth and sustainable development.

In the circumstances, we intend to allocate 80%, or RMB29.6 million of the net proceeds from the Global Offering for strengthening our financial position so that we can satisfy the cost commitment at different stages of the projects and therefore this would allow us to undertake more projects in the future, thereby maintaining and further consolidating our leading market position in the industry.

### **Continue to focus on research and development to strengthen our design and engineering capability**

As the technology in the ethanol production system industry continues to develop, we are committed to keeping ourselves abreast of the latest design and technology development. We intend to continue to build our knowledge base and further strengthen our expertise in the technologies in the ethanol production system to improve the quality and value of the ethanol production system that we may offer to our customers. We expect to use approximately 10%, or RMB3.7 million of the net proceeds from the Global Offering for the development of demonstration projects for (i) Generation 2.0 technology; and (ii) molecular sieve dehydration technology.

- Ethanol production technology is classified into Generation 1.0, Generation 1.5, and Generation 2.0, according to the different feedstock used and processing methods. Among them, Generation 1.0 is the most mature and stable technology. However, excessive use of grain will increase grain price and result in food shortage problems while the feedstock of Generation 1.5 can only be planted in tropical areas. Therefore, Generation 1.0 and Generation 1.5 are limited by the availability of feedstock. Generation 2.0 technology uses corn stalk and other wastes as feedstock, which could reduce the demand for grain and make full use of agricultural wastes and avoid the competition for grain with food consumption. For the Generation 2.0 ethanol production technology, enzymes are used to decompose complex cellulose into glucose in the pre-processing step, followed by subsequent steps such as fermentation, distillation and dehydration. According to the CIC Report, the PRC government supports the development of Generation 2.0 technology carrying out relating technology projects, establishing pilot bases and providing subsidies for cellulosic ethanol producers. Generation 2.0 technology is widely viewed as the next stage of development for the biofuel industry due to the abundance of cellulosic materials. However, the production technology of cellulosic ethanol is still not mature and currently, Generation 2.0 ethanol production technology is only used in pilot projects. Scalable production using this technology has not yet been achieved due to the high production costs as a result of low ethanol conversion rate.

---

## BUSINESS

---

The U.S. and Brazil, the two largest ethanol producers, mainly produce ethanol by using corn and cassava as the feedstock (i.e. Generation 1.0, and Generation 1.5). The annual yield of corn and cassava in China is much lower than these two countries, which is the major reason limiting the expansion of China's ethanol production capacity. Therefore, the PRC government listed the development of Generation 2.0 technology (cellulosic ethanol) as one of the key projects in the 13th Five Year Plan. Currently, Generation 1.0 is the primary method used for producing ethanol in China, accounting for approximately 70% of the total ethanol production volume. Once Generation 2.0 is mature enough for industrialization, this technology will be widely promoted in China, which will significantly boost the expansion of China's ethanol production capacity.

As at the Latest Practicable Date, we had made a patent application for “A technique for producing fuel ethanol with starch and lingo-cellulosic as raw materials” (一種以澱粉質和木質纖維素為原料生產燃料乙醇的工藝). For 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”. However, such technique is at preliminary stage and has not been put into commercialisation. To breakthrough the technology bottlenecks in achieving scalable production and capitalise on the favourable prospect and government policy, we intend to develop a Generation 2.0 demonstration project which will enable us to put the technique of production of cellulosic ethanol into practice and refine such technique through reviewing the operation performance of such demonstration project for commercialisation. The purpose of the demonstration project is to implement our Generation 2.0 technique in an ethanol production plant to be cooperated with an Independent Third Party so that we can test, review and refine our technique in a practical environment. Upon successful testing of the demonstration project, we can put our technique into commercialization which will be a technology breakthrough in the industry to achieve scalable production and can further expand our business when this technology is commonly applied in the market. We will apply for patent for the result of the demonstration project upon completion.

Our Directors believe that if we are able to master the technology and commercialize it, we would be able to maintain our technology advantage for securing projects that require to use Generation 2.0 technology and further expand our business when that technology is commonly applied. Therefore, we intend to fund the demonstration project by utilising approximately 5%, RMB1.9 million of the net proceeds from the Global Offering. It is expected that the Generation 2.0 demonstration project will be completed within 18 months after the commencement.

---

## BUSINESS

---

- According to the CIC Report, molecular sieve is widely used in the biofuel industry for removing water from ethanol in the dehydration process. A molecular sieve system removes water from the ethanol/water vapor mixture leaving the rectification column. The dehydrated product can be tailored to the specific need of the client to yield anything from bioethanol with a water content of 0.5% to super dry ethanol for pharmaceutical or industrial applications with a water content of 0.01% or less. The new generation of molecular sieve dehydration technology makes use of nano-size molecular sieve which only water molecule can pass through, thereby separating water from ethanol. The technique involved in dehydration by molecular sieve is simple and with higher efficiency compared to traditional dehydration by distillation and condensation and hence, can effectively save the energy for steam-back procedure and cooling-water. Considering the rapid growth of ethanol fuel production capacity, the molecular sieve dehydration systems are in high demand.

As at the Latest Practicable Date, we had made a patent application for “A technique and device for jointly production of ethanol fuel by compressing steam and molecular sieve (一種壓縮蒸氣、分子膜聯合生產燃料乙醇的工藝和裝置)”. For 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”. However, such technique is at preliminary stage and has not been put into commercialisation. To capture the advantages of molecular sieve dehydration technology, we intend to develop a molecular sieve demonstration project on application of molecular sieve dehydration technology in ethanol fuel production which will enable us to put the technique of application of molecular sieve dehydration technology into practice and refine such technique through reviewing the operation performance of such demonstration project for application in our future projects. The purpose of the demonstration project is to implement our know-how in producing molecular sieve and apply it in an ethanol production plant to be cooperated with an Independent Third Party so that we can test, review and refine our technique in a practical environment. Upon successful testing of the demonstration project, we can put our technique into commercialization which can further expand our business when this technology is commonly applied in the market. We will apply for patent for the result of the demonstration project upon completion.

We intend to fund the demonstration project by utilising approximately 5%, RMB1.9 million of the net proceeds from the Global Offering. It is expected that the demonstration project will be completed within eight months after the commencement.

Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for details of our future plans in relation to our demonstration projects.

---

## BUSINESS

---

### OUR BUSINESS OPERATIONS

We primarily provide ethanol production system technology integrated services to our customers.

The following summarises details of our services:

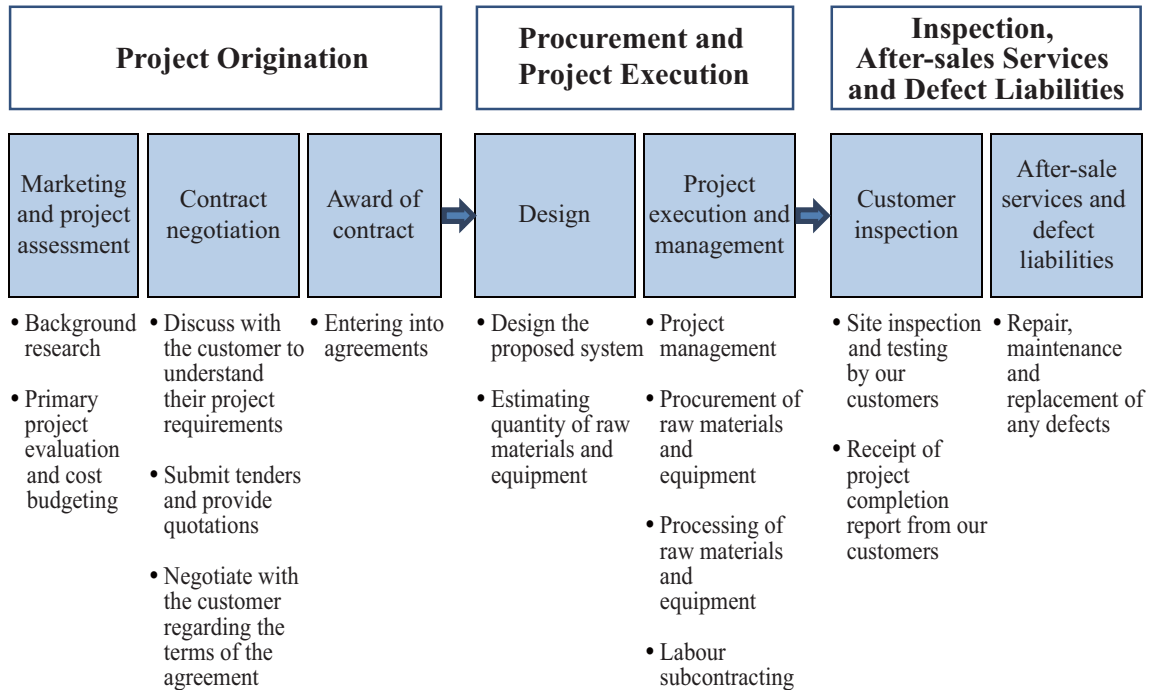
- 1 Ethanol production system integrated services: Our integrated services include the primary focus on engineering design, equipment manufacturing, installation, commissioning and subsequent maintenance.
- 2 System upgrade services: We also offer system upgrade services including system enhancement design to our customers to optimise their existing ethanol production system by enhancing the production efficiency, energy saving, expanding production capacity and improving the product quality of their existing system.

The following table is a comparison between our ethanol production system integrated services and our ethanol production system upgrade services:

	<b>Ethanol production system integrated services</b>	<b>Ethanol production system upgrade services</b>
<b>Project period</b>	Generally ranges from six months to one year	Generally ranges from three to six months
<b>Gross profit margin</b>	Generally ranges from 20% to 40%	Varies from project-to-project depending on the scope of work
<b>Source of customers</b>	Through the business development activities of our marketing personnel and most of our projects are obtained by direct quotation	Through the business development activities of our marketing personnel and most of our projects are obtained by direct quotation or a continuation of our past or existing ethanol production system integrated services which require upgrade services
<b>Contract size</b>	Generally larger	Generally smaller
<b>Cost structure</b>	Consisting of costs of raw materials and equipment, subcontracting costs, design costs and labouring costs	
<b>Workflow</b>	Procurement and processing of raw materials and equipment, labour subcontracting, site inspection and testing by our customers	

## BUSINESS

The key steps of our project workflow of our ethanol production system technology integrated services and system upgrade services are generally depicted as follows:



### PROJECT ORIGINATION

#### Marketing and project assessment

Our sales and marketing department is responsible to identify our potential projects. Please refer to the paragraph headed “Sales and marketing and customers” in this section for further details of our sales and marketing activities.

After we identify potential projects, we will conduct internal assessment of such projects by reviewing a number of factors, including technical specifications of the project, cost budgeting, project location, project prospects, potential customer background and whether the necessary licenses, certificates and permits have been obtained.

#### Contract negotiation

We will discuss with the potential customers to understand their project requirements and negotiate with them regarding the terms of the agreements to be entered into. Our sales and marketing department is responsible for negotiating contract terms with our customers and our respective project design team, engineering department, and finance and legal department will review and approve the contract terms.

We mainly obtained projects by way of direct quotation from our customers. During the Track Record Period, 22, 26 and 23 projects were obtained by direct quotation, representing a total contract value (exclusive of VAT) of RMB91.2 million, RMB471.5 million and RMB316.9 million, respectively.

## BUSINESS

Apart from direct quotations from our customers, some of our projects were obtained by way of open tendering and invitational tendering. Below is a summary of the successful rates of obtaining contracts by way of open tendering and invitational tendering:

	By way of open tendering				By way of invitational tendering			
	Number of open tenders submitted	Projects awarded		Successful rate	Number of invitational tenders submitted	Projects awarded		Successful rate
		Number of projects	Contract amount (exclusive of VAT) RMB'000			Number of projects	Contract amount (exclusive of VAT) RMB'000	
<b>For the year ended</b>								
<b>31 December</b>								
<b>2017</b>	2	1	56,996	50.0%	6	2	69,307	33.3%
<b>2018</b>	3	0	0	0%	5	2	9,445	40.0%
<b>2019</b>	4	1	330,776	25.0%	2	0	0	0%

### Award of contract

After a project is awarded to us, we will prepare the service contract for execution with our customers based on the details set out in the quotation, open tendering and invitational tendering.

## PROCUREMENT AND PROJECT EXECUTION

### Design, procurement, processing and inspection of raw materials and equipment

After execution of the service contract, we will begin to design the proposed system and form installation plans in accordance with the system blueprint design and terms of the contract. We will then procure raw materials and equipment, including, steel plates, steel pipes, etc. for the production of key components and equipment such as molecular sieve filling, flowmeters, grinders and heat exchangers. When selecting our suppliers, we usually consider and assess various factors, including quality, price, location, after-sale services, delivery terms, technical ability, backup services and payment terms offered by the relevant suppliers and will assign a rating to each supplier based on the above factors. We have an internal supplier selection procedure for choosing suppliers and make reference to the list of qualified suppliers in different districts and provinces that we reviewed and maintained before we select it. Please refer to the paragraph headed "Suppliers" in this section for further details.

### Project execution and management

We will process the raw materials and equipment in our processing plant for the production of key components in accordance with the specification on the technical standards of the design of the system. We will also process raw materials on-site for non-core components such as stand for ethanol fuel production systems.



---

## BUSINESS

---

We will transport the components from our processing plant to the project site after which we will then proceed with the construction and installation.

The duration of our projects typically ranges from six months to one year. We have established project management and control procedures and provide our services in accordance with such procedures to ensure our compliance with contract requirements. During the course of the projects, our customers or independent surveyors engaged by our customers will conduct regular inspection of our work. For more information on the quality, please refer to the paragraph headed “Quality control” in this section. We communicate regularly with our customers during the process to ensure that our work meets their expectations.

We will engage labour subcontractors to complete and deliver the manual and ancillary works such as production, assembling and installation of components for our projects in accordance with our requirements set forth in the contracts entered into with us. For details of the labour subcontracting arrangement, please refer to the paragraph headed “Suppliers — Labour subcontractors” in this section.

Our projects are managed by our engineering department, which assigns a project management team to each project. The size of each project management team varies depending on the scale and complexity of the project. Each project management team typically comprises project managers and engineers. Our project management team is responsible for project accounting, technology, project quality and safety, supply and equipment management, labour management and supervision.

Our staff from engineering department of the processing plant is mainly responsible for overall project management such as project quality and safety, supply and equipment management, labour management and supervision. Key components of the project are processed and built in our processing plant in Boluo, while some non-core components are built on-site. Machineries maintained in Boluo are generally used to pre-process, cut and bend steel according to the design specifications before those can be assembled into components of system of our customers. Since the function of the machineries is for simple ancillary work process, there is no specific designed capacity assigned to each of them. Therefore, the utilization of the machineries in the plant does not serve as a material indicator for the expansion of our business. We mainly engage labour subcontractors to complete the production, assembling and installation of the components for our projects. With the expansion of our business, we will increase our engagement with labour subcontractors in order to meet with the increasing labour works following the increasing demand of our services.

### **INSPECTION, AFTER-SALES SERVICES AND DEFECT LIABILITY**

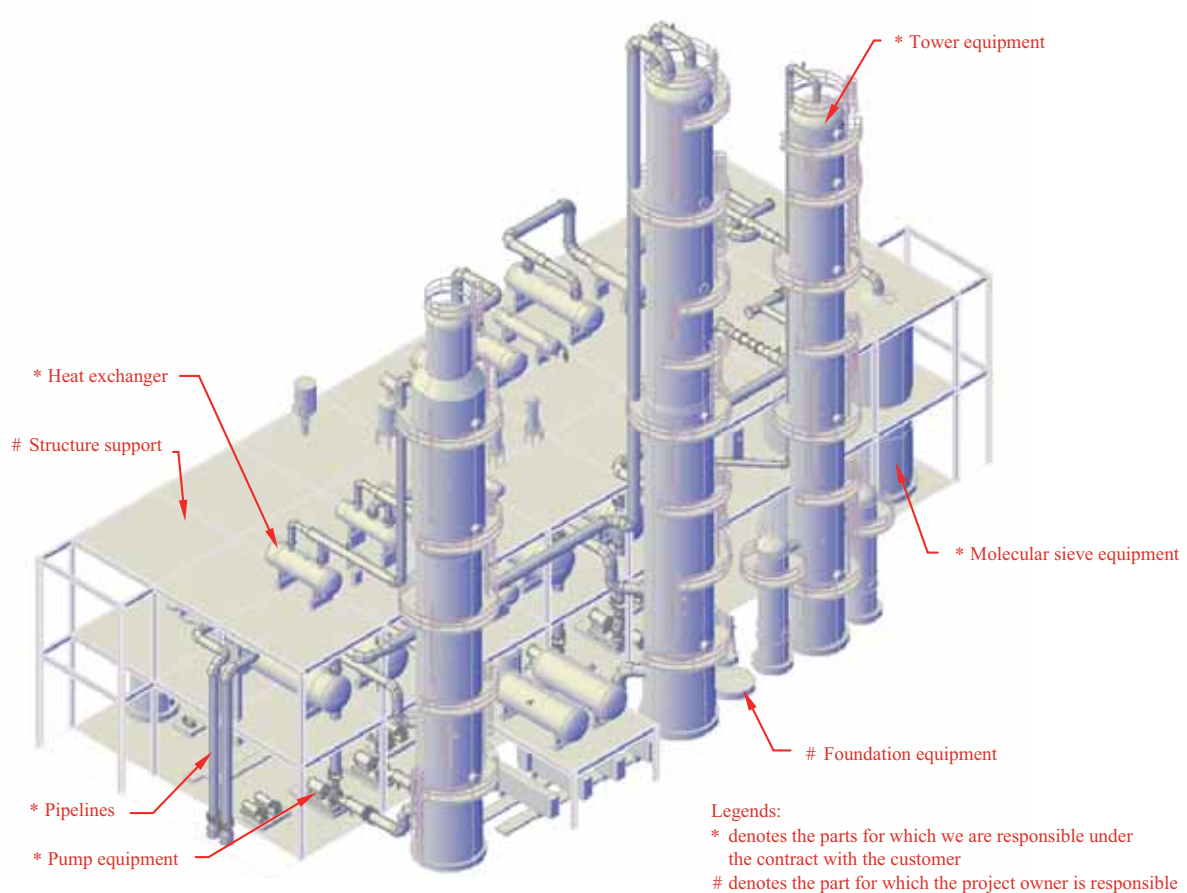
#### **Customer inspection**

Upon completion of the project and after the project passes our internal inspection by our engineering department, our customers or independent surveyors engaged by our customers will conduct inspection on the project. Upon passing the inspection, we will receive a project completion report issued by our customer and other parties involved in the inspection process. The length of the period between completion of installation and the final inspection varies on case-by-case basis. It depends on various factors, including but not limited to, the site condition, the completion and readiness of other systems contracted by other contractors and slight adjustments on the system after inspection. The period generally varies from one month to six months.

### After-sale services and defect liabilities

We generally provide after-sale services to our customers for a period of 12 months from the date of receipt of a project completion report. During such defect liability period, generally 5% to 10% of the total value will be retained by our customers and will be paid to us at the end of such defect liability period. If there are any quality defects of the system during the period, we will provide free service to replace or repair. Besides, our sales and marketing department will respond to customer inquiries and service requests in a timely manner.

The following is the concept design diagram of the ethanol production system finished by us:



---

## BUSINESS

---

### OUR PROJECTS

The following table sets forth the movement of the number of our projects during the Track Record Period:

	For the year ended 31 December		
	2017	2018	2019
Number of projects at the beginning of the year (Note 1)	25	30	31
Number of new projects awarded (Note 2)	25	28	24
Less: Number of projects completed (Note 3)	20	27	22
Number of projects at the end of the year (Note 4)	30	31	33

*Notes:*

- (1) *The number of projects where the percentage of completion had not reached 100% as at the beginning of the relevant year.*
- (2) *The number of projects awarded to us during the relevant year. During the Track Record Period, save for the suspended projects, our Group has not re-negotiated any awarded contracts which would result in material changes in their terms and conditions and/or profit margins.*
- (3) *The number of projects where the percentage of completion reached 100% during the relevant year.*
- (4) *The number of projects where the percentage of completion had not reached 100% as at the end of the relevant year. As at 31 December 2017, 2018 and 2019, it was agreed by our Group to suspend six projects with a total outstanding contract value (exclusive of VAT) of RMB46.2 million. The contracts of these six projects were entered into between 2010 and 2014, of which, four projects have been suspended since the period between 2012 and 2014 and two projects have not yet commenced as at the Latest Practicable Date. During the Track Record Period, we have no re-negotiated the contracts of these suspended projects which would result in material changes in their terms and conditions and/or profit margins. To the best knowledge of our Directors, as at the Latest Practicable Date, these customers had no timetable to resume these projects.*

## BUSINESS

### Major projects

The following tables set forth details of our top ten projects in terms of revenue recognised during the Track Record Period:

#### For the year ended 31 December 2017

Rank	Project	Industry	Project type	Location	Time of completion <sup>(1)</sup> / expected time of completion <sup>(2)</sup>	Contract value (exclusive of VAT)	Revenue recognised during the year	Approximate percentage of our total revenue during the year	Outstanding contract value (exclusive of VAT) as at 31 December 2019 <sup>(3)</sup>	Overall gross profit margin for the Track Record Period
						(RMB'000)	(RMB'000)	(RMB'000)		
1.	Project 094	Ethanol fuel	Distillation and feed equipment system upgrade project	Jilin Province, the PRC	January 2018	67,085	66,081	25.7%	0	43.5%
2.	Project 072	Ethanol fuel	Integrated service project for distillation devices	Anhui Province, the PRC	November 2018	56,996	51,918	20.2%	0	25.4%
3.	Project 066	Ethanol fuel	Integrated service project for distillation and dehydration equipment	Jilin Province, the PRC	January 2018	51,736	44,191	17.2%	0	42.0%
4.	Project 106	Ethanol fuel	Environmental deodorization and energy efficient distillation technology system upgrade project	Jilin Province, the PRC	April 2018	21,368	15,923	6.2%	0	27.4%
5.	Project 091	Ethanol fuel	Technical system upgrade project for crushing, liquefaction and fermentation devices	Guangxi Province, the PRC	July 2018	17,953	14,163	5.5%	0	-19.3% (Note 4)
6.	Project 083	Ethanol fuel	Integrated service project for premium grade and dehydrated alcohol	Heilongjiang Province, the PRC	October 2018	13,125	10,785	4.2%	0	35.8%

## BUSINESS

Rank	Project	Industry	Project type	Location	Time of completion <sup>(1)</sup> / expected time of completion <sup>(2)</sup>	Contract value (exclusive of VAT) (RMB'000)	Revenue recognised during the year (RMB'000)	Approximate percentage of our total revenue during the year	Outstanding contract value (exclusive of VAT) as at 31 December 2019 <sup>(3)</sup> (RMB'000)	Overall gross profit margin for the Track Record Period
7.	Project 093	Alcoholic beverage	Technical system upgrade project for premium grade credit alcohol (corn raw materials)	Inner Mongolia Autonomous Region, the PRC	December 2019	11,658	10,230	4.0%	0	40.6%
8.	Project 095	Alcoholic beverage	Integrated service project for special grade edible alcohol devices	Sichuan Province, the PRC	August 2018	10,052	9,835	3.8%	0	23.2%
9.	Project 101	Alcoholic beverage	Integrated service project for special grade edible alcohol distillation devices	Sichuan Province, the PRC	Second quarter of 2020	10,557	9,565	3.7%	691	34.5%
10.	Project 104	Alcoholic beverage	Integrated service project for premium grade edible alcohol distillation equipment	Inner Mongolia Autonomous Region, the PRC	September 2019	10,139	3,708	1.4%	0	20.3%
<b>Total:</b>						<u>270,669</u>	<u>236,399</u>	<u>91.9%</u>		

## BUSINESS

### For the year ended 31 December 2018

Rank	Project	Industry	Project type	Location	Time of completion <sup>(1)</sup> / expected time of completion <sup>(2)</sup>	Contract value (exclusive of VAT)	Revenue recognised during the year	Approximate percentage of our total revenue during the year	Outstanding contract value (exclusive of VAT) as at 31 December 2019 <sup>(3)</sup>	Overall gross profit margin for the Track Record Period
						(RMB'000)	(RMB'000)	(RMB'000)		
1.	Project 114	Ethanol fuel	Integrated service project for corn-based ethanol fuel devices	Heilongjiang Province, the PRC	Fourth quarter of 2020	237,970	85,689	34.3%	141,376	36.4%
2.	Project 119	Alcoholic beverage	Distillation section technology system upgrade project	Jilin Province, the PRC	April 2019	47,243	44,550	17.8%	0	26.7%
3.	Project 120	Other (ethyl acetate)	Integrated service project for ethyl acetate devices	Russia	July 2019	16,196	16,008	6.4%	0	47.6%
4.	Project 125	Ethanol fuel	Integrated service project for ethanol fuel distillation and dehydration equipment	Heilongjiang Province, the PRC	October 2019	61,324	12,908	5.2%	0	31.0%
5.	Project 111	Alcoholic beverage	Integrated service for distillation equipment project	Henan Province, the PRC	September 2018	11,542	11,542	4.6%	0	18.3%
6.	Project 124	Alcoholic beverage	Integrated service for distillation unit project for special grade edible alcohol	Henan Province, the PRC	June 2019	17,241	10,626	4.3%	0	21.3%

## BUSINESS

Rank	Project	Industry	Project type	Location	Time of completion <sup>(1)</sup> expected time of completion <sup>(2)</sup>	Contract value (exclusive of VAT)	Revenue recognised during the year	Approximate percentage of our total revenue during the year	Outstanding contract value (exclusive of VAT) as at 31 December 2019 <sup>(3)</sup>	Overall gross profit margin for the Track Record Period
						(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	
7.	Project 143	Ethanol fuel	Sale of project equipment and materials	Hubei Province, the PRC	Third quarter of 2020	14,179	10,091	4.0%	1,528	35.7%
8.	Project 115	Alcoholic beverage	Technical system upgrade project for distillation devices	Guangdong Province, the PRC	May 2019	6,293	6,110	2.4%	0	27.8%
9.	Project 121	Alcoholic beverage and ethanol fuel	Technical system upgrade project for premium grade edible alcohol and dehydrated alcohol devices (corn raw materials)	Jilin Province, the PRC	November 2019	48,138	6,067	2.4%	0	27.8%
10.	Project 104	Alcoholic beverage	Integrated service project for premium grade edible alcohol distillation equipment	Inner Mongolia Autonomous Region, the PRC	September 2019	10,139	5,805	2.3%	0	20.3%
<b>Total:</b>						<u>470,265</u>	<u>209,396</u>	<u>83.7%</u>		

## BUSINESS

### For the year ended 31 December 2019

Rank	Project	Industry	Project type	Location	Time of completion <sup>(1)</sup> / expected time of completion <sup>(2)</sup>	Contract value (exclusive of VAT) (RMB '000)	Revenue recognised during the year (RMB '000)	Approximate percentage of our total revenue during the year	Outstanding contract value (exclusive of VAT) as at 31 December 2019 <sup>(3)</sup> (RMB '000)	Overall gross profit margin for the Track Record Period
1.	Project 138	Ethanol fuel	Integrated service project for ethanol fuel equipment (corn raw materials)	Heilongjiang Province, the PRC	Fourth quarter of 2020	212,389	133,643	33.5%	78,746	30.0%
2.	Project 136	Ethanol fuel	Integrated service project for ethanol fuel device	Inner Mongolia Autonomous Region, the PRC	Fourth quarter of 2020	330,776	121,322	30.4%	209,454	30.2%
3.	Project 125	Ethanol fuel	Integrated service project for ethanol fuel distillation and dehydration equipment	Heilongjiang Province, the PRC	October 2019	61,324	48,416	12.1%	0	31.0%
4.	Project 121	Alcoholic beverage & ethanol fuel	Technical system upgrade project for premium grade edible alcohol and dehydrated alcohol devices (corn raw materials)	Jilin Province, the PRC	November 2019	48,138	42,071	10.6%	0	27.8%
5.	Project 141	Alcoholic beverage & pharmaceutical alcohol	Technical system upgrade project for dehydrated ethanol	Indonesia	Third quarter of 2020	21,199	14,601	3.7%	6,599	30.0%
6.	Project 114	Ethanol fuel	Integrated service project for corn-based ethanol fuel devices	Heilongjiang Province, the PRC	Fourth quarter of 2020	237,970	10,905	2.7%	141,376	36.4%



## BUSINESS

Rank	Project	Industry	Project type	Location	Time of completion <sup>(1)</sup> / expected time of completion <sup>(2)</sup>	Contract value (exclusive of VAT)	Revenue recognised during the year	Approximate percentage of our total revenue during the year	Outstanding contract value (exclusive of VAT) as at 31 December 2019 <sup>(3)</sup>	Overall gross profit margin for the Track Record Period
						(RMB'000)	(RMB'000)	(RMB'000)		
7.	Project 124	Alcoholic beverage	Integrated service for distillation unit project for special grade edible alcohol	Henan Province, the PRC	June 2019	17,241	6,615	1.7%	0	21.3%
8.	Project 135	Ethanol fuel	Integrated service project for dehydration devices for dehydrated alcohol	Thailand	December 2019	3,296	3,296	0.8%	0	41.0%
9.	Project 119	Alcoholic beverage	Distillation section technology system upgrade project	Jilin Province, the PRC	April 2019	47,243	2,693	0.7%	0	26.7%
10.	Project 143	Ethanol fuel	Sale of project equipment and materials	Hubei Province, the PRC	Third quarter of 2020	14,179	2,560	0.6%	1,528	35.7%
					<b>Total:</b>	<u>993,755</u>	<u>386,122</u>	<u>96.8%</u>		

Notes:

1. Time of completion represents the time when the percentage of completion reached 100%.
2. Expected time of completion represents the time of completion set forth in our service contracts or the time of completion as later agreed upon with our customers.
3. Outstanding contract value (exclusive of VAT) as at 31 December 2019 represents the difference in total contract value (exclusive of VAT) and accumulated revenue recognised as at 31 December 2019.

## BUSINESS

### Backlog

The following table sets forth the movement of backlog (representing our estimate of the contract value of work that remains to be completed as at a certain date) of our projects during the Track Record Period and during the period from 1 January 2020 to 30 April 2020:

	For the year ended 31 December			For the period from 1 January 2020 to 30 April 2020
	2017	2018	2019	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000
Contract value (exclusive of VAT) at the beginning of the year/period	138,142	98,565	329,577	584,901
Contract value (exclusive of VAT) of new contracts awarded during the year/period	217,532	480,990	653,882 <i>(Note 1)</i>	86,414 <i>(Note 3)</i>
Less:				
Revenue recognised during the year/period	<u>(257,109)</u>	<u>(249,978)</u>	<u>(398,558)</u>	<u>(136,196)</u>
Contract value (exclusive of VAT) at the end of year/period	<b>98,565</b>	<b>329,577</b>	<b>584,901</b>	<b>535,119</b>
Less:				
Contract value (exclusive of VAT) of suspended projects at the end of the year/period <i>(Note 2)</i>	<u>(46,236)</u>	<u>(46,236)</u>	<u>(46,236)</u>	<u>(46,236)</u>
Contract value (exclusive of VAT) of active projects at the end of the year/period	<u><b>52,329</b></u>	<u><b>283,341</b></u>	<u><b>538,665</b></u>	<u><b>488,883</b></u>

*Notes:*

- This amount includes (i) tax adjustments of RMB15.7 million made to the unbilled contract value (exclusive of VAT) of certain projects due to change in VAT rate pursuant to the new policies on VAT rates issued on 20 March 2019 by the Ministry of Finance of the PRC (中華人民共和國財政部), the State Taxation Administration (國家稅務總局) and the General Administration Customs of the PRC (中華人民共和國海關總署); (ii) contract value adjustments of RMB0.8 million; and (iii) the replacement of one existing contract of RMB8.7 million by a new contract with contract value of RMB14.6 million.*
- As at 31 December 2017, 2018 and 2019 and as at 30 April 2020, it was agreed by our Group to suspend six projects with a total outstanding contract value (exclusive of VAT) of RMB46.2 million. The contracts of these six projects were entered into between 2010 and 2014, of which, four projects have been suspended since the period between 2012 and 2014 and two projects have not yet commenced as at the Latest Practicable Date. To the best knowledge of our Directors, as at the Latest Practicable Date, these customers had no timetable to resume these projects.*

## BUSINESS

3. *Due to the outbreak of COVID-19, the contract value of the new contract awarded during the period from 1 January 2020 to 30 April 2020 was relatively lower than that in the same period during the Track Record Period. However, in view of (i) resumption of normal operations of ethanol production system providers in February 2020; (ii) the support provided by the Ministry of Industry and Information Technology to ethanol producers to ensure their normal operations; and (iii) the continuous support from E10 Mandate, the number of new contracts and the contract value of new contracts to be awarded will continue to resume to normal level.*

The following table sets forth a breakdown of our backlog by type of industry as at 30 April 2020:

	Contract value (exclusive of VAT)	
	RMB'000	%
Ethanol fuel	386,533	72.2
Alcoholic beverage	132,549	24.8
Others	16,037	3.0
<b>Total</b>	<b>535,119</b>	<b>100.0</b>

The following table sets forth our backlog projects as at 30 April 2020:

Project code	Industry	Project Type	Location	Commencement date	Expected time of completion	Contract value (exclusive of VAT)	Total revenue recognised during the Track Record Period and up to 30 April 2020	Revenue expected to be recognised after 30 April 2020
						(RMB'000)	(RMB'000)	(RMB'000)
Project 136	Ethanol fuel	Integrated service project for ethanol fuel device	Inner Mongolia Autonomous Region, the PRC	March 2019	Fourth quarter of 2020	330,776	164,915	165,861
Project 114	Ethanol fuel	Integrated service project for corn-based ethanol fuel devices	Heilongjiang Province, the PRC	May 2018	Fourth quarter of 2020	237,970	156,651	81,319
Project 138	Ethanol fuel	Integrated service project for ethanol fuel equipment (corn raw materials)	Heilongjiang Province, the PRC	May 2019	Fourth quarter of 2020	212,389	152,712	59,677
Project 206	Ethanol fuel	Integrated service project for premium alcohol and dehydrated ethanol	Heilongjiang Province, the PRC	April 2020	Fourth quarter of 2020	53,861	20	53,841
Project 194	Alcoholic beverage & other (ethyl acetate)	Integrated service project for special grade edible alcohol and ethyl acetate equipment	Hungary	– (Note 1)	First quarter of 2021	28,590	–	28,590

## BUSINESS

Project code	Industry	Project Type	Location	Commencement date	Expected time of completion	Contract value (exclusive of VAT)	Total revenue recognised during the Track Record	Revenue expected to be recognised after
							Period and up to 30 April 2020	30 April 2020
						(RMB'000)	(RMB'000)	(RMB'000)
Project 140	Alcoholic beverage & ethanol fuel	Integrated service project for edible alcohol and ethanol fuel equipment	Heilongjiang Province, the PRC	February 2020	Third quarter of 2020	26,724	1,828	24,896
Project 215	Alcoholic beverage	Integrated service project for special grade edible alcohol and neutral alcohol distillation equipment	Shandong Province, the PRC	May 2020	September 2020	13,782	–	13,782
Project 186	Alcoholic beverage	Integrated service project for special grade edible alcohol equipment (corn raw materials)	Myanmar	August 2019	Third quarter of 2020	14,602	5,933	8,669
Project 207	Alcoholic beverage	Technical system upgrade project for distillation device	Jilin Province, the PRC	May 2020	Third quarter of 2020	6,460	–	6,460
Project 208	Alcoholic beverage	Technical system upgrade product for normal grade alcohol distillation device	Heilongjiang Province, the PRC	May 2020	Second quarter of 2020	5,403	–	5,403
Other 30 projects (Note 2)						229,070	52,939	86,621
<b>Total</b>						<b>1,159,627</b>	<b>534,998</b>	<b>535,119</b>

*Notes:*

(1) works for this project have not commenced.

(2) it was agreed by our Group to suspend six projects with a total outstanding contract value (exclusive of VAT) of RMB46.2 million as at 30 April 2020. The contracts of these six projects were entered into between 2010 and 2014, of which, four projects have been suspended since the period between 2012 and 2014 and two projects have not yet commenced as at the Latest Practicable Date. During the Track Record Period, we have no re-negotiated the contracts of these suspended projects which would result in material changes in their terms and conditions and/or profit margins. To the best knowledge of our Directors, as at the Latest Practicable Date, these customers had no timetable to resume these projects.

---

## BUSINESS

---

### **Pricing policy**

Our contract price is determined primarily based on a number of factors, including the availability and costs of raw materials, project schedule, subcontracting costs, labour costs, geographical location, condition of the project site, as well as the complexity and scale of the project.

### **Credit policy**

We generally do not grant any credit term to our customers after the issuance of invoice upon the completion of the particular milestone of the project. Accordingly, the due dates of our payment are the dates on which the respective invoices will be issued. We will monitor closely if the payments have been settled by the customers; if not, our sales and marketing department will request them to deliver us a payment proposal within 15 days setting out when and how they would settle the payment. If the payment has been overdue for more than 30 days, our sales and marketing department will assist to request the customers to settle the outstanding amount. If the payment has been overdue for more than 45 days and we fail to agree with the customers any settlement plan, we may take legal action if and when necessary and appropriate.

As we have determined some of the trade receivables is not recoverable after we have taken all necessary actions, total amount of RMB78.3 million of impaired trade receivables had been written off during the year ended 31 December 2018.

### **Seasonality**

Our nature of business does not exhibit any particular seasonality trend on an annual basis other than that demand for our services may be lower during the Chinese New Year holidays.

## **COMPETITION**

According to the CIC Report, the ethanol production system market is highly fragmented because the whole ethanol production line consists of numbers of equipment and sub-systems. Some companies in the industry focus on the manufacturing of one or few equipment or non-core systems, while our Group targets to provide services in providing core systems to downstream customers.

The main entry barriers to the PRC ethanol production system industry include high capital requirement, requisite technical requirements and research and development capability and industry knowhow. According to the CIC Report, we have strong competitive strengths in the domestic market, in terms of advanced technology. We believe our competitive advantage allows us to compete effectively with our competitors. Our patents and industry qualifications allow us to provide a comprehensive set of ethanol production system technology integrated services to our customers that our competitors may not be qualified to provide. Our projects have won us with certain industry awards, allowing us to augment our reputation and brand recognition. We believe our competitive advantage will allow us to continue to differentiate ourselves from our competitors.

---

## BUSINESS

---

### AWARDS, RECOGNITIONS AND SUBSIDIES

The following table sets out the key awards and accreditations received by our Group. Our Directors believe that the awards represented a remarkable recognition from the industry for our technology and innovation applied in our projects.

Year	Award	Issuing authority
April 2014	Our application of Distillation through Five Towers Second Grade Differential Pressure Distillation Technology for the Production of Quality Edible Alcohol* (五塔二級差壓蒸餾技術在優級食用酒精生產過程中的應用) was awarded 2013 China Alcoholic Drinks Association Science Technology Progress Award — First Class* (2013年度“中國酒業協會科學技術進步獎”一等獎)	Science Technology Award Committee of China Alcoholic Drinks Association* (中國酒業協會科學技術獎勵委員會) (Note)
April 2016	Our research and application of Distillation through Two-Wide Diameter Towers with Differential Pressure for Production of Ethanol Fuel* (雙粗塔差壓蒸餾生產燃料乙醇工藝技術的研發與應用) was awarded 2015 China Alcoholic Drinks Association Science Technology Progress Award — Second Class* (2015年度“中國酒業協會科學技術進步獎”二等獎)	Science Technology Award Committee of China Alcoholic Drinks Association* (中國酒業協會科學技術獎勵委員會) (Note)
June 2020	Our research and application of Distillation through Eight Towers Differential Pressure Distillation for the Production of Special Alcohol* (八塔差壓蒸餾生產特級酒精工藝技術的研發與應用) was awarded 2019 China Alcoholic Drink Association Science Technology Progress Award — First Class* (2019年度“中國酒業協會科學技術進步獎”一等獎)	Award Office of Science Technology Award of China Alcoholic Drink Association* (中國酒業協會科學技術獎勵辦公室)

---

## BUSINESS

---

*Note: China Alcoholic Drinks Association\* (中國酒業協會) is supervised by State-owned Assets Supervision and Administration Commission of the State Council\* (國務院國有資產監督管理委員會) and is responsible for evaluating the technology achievements in the industry, promoting the applicable new technology, facilities and materials, reducing the waste of energy and promoting the environment protection. China Alcoholic Drinks Association\* (中國酒業協會) has granted awards since 2011 in the following categories: (1) Science and Technology Invention Award (科學技術發明獎); (2) Science and Technology Progress Award (中國酒業協會科學技術進步獎); (3) International Cooperation Award (國際合作獎); and (4) Science and Technology Progress Excellent Paper Award. Each category is further subdivided into First Class, Second Class and Third Class.*

During the Track Record Period, we have received government subsidies for recognition of our research and development and economic contribution. During the Track Record Period, we recognised other income in relation to government subsidies of approximately RMB1.0 million, RMB1.7 million and RMB1.8 million, respectively.

Zhongke Tianyuan obtained a “High and New Technology Enterprise” certificate in December 2016 and renewed in December 2019, with a validity period of three years, from competent authorities in accordance with the relevant regulations. According to the approval from its local taxation authority, Zhongke Tianyuan is entitled to a preferential EIT rate of 15% as a High and New Technology Enterprise.

### LICENSES, CERTIFICATES AND PERMITS

We operate in regulated businesses that require us to obtain and maintain certain licenses, certificates and permits. As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we had obtained all the material requisite licenses, certificates and permits from the relevant regulatory authorities for our operations in the PRC, and all of our material licenses, certificates and permits were in force as at the Latest Practicable Date. We may be required to renew or update information on our licenses, certificates and permits from time to time. We generally commence preparations for renewal procedures six months in advance of the relevant due dates. As advised by our PRC Legal Advisers, we do not expect any difficulties in such renewals. The material operating licenses, certificates and permits held by us as at the Latest Practicable Date are summarized as follows:

Holder	Name of licences, certificates or permits	Details	Effective date	Validity period	Issuing authority
Zhongke Tianyuan	Design License of Special Equipment (Pressure Vessel)* (中華人民共和國特種設備設計許可證(壓力容器))	Authorised to engage in the following pressure vessels design: D1 type 1 pressure vessel and D2 type 2 pressure vessel	May 2019	Four years	Administration for Market Regulation of Guangdong Province* (廣東省市場監督管理局)

## BUSINESS

Holder	Name of licences, certificates or permits	Details	Effective date	Validity period	Issuing authority
Boluo Tianyuan	Installation, Alteration, Repair and Maintenance License for Special Equipment for Pressure Piping* (中華人民共和國特種設備安裝改造維修許可證(壓力管道))	Authorised to engage in installation of the following pressure piping: type GC and level GC2	May 2016	Four years (Note 1)	Administration of Quality and Technology Supervision of Guangdong Province* (廣東省質量技術監督局)
Boluo Tianyuan	Manufacture License of Special Equipment (Pressure Vessel)* (中華人民共和國特種設備製造許可證(壓力容器))	Authorised to engage in the following pressure vessel production: D1 type 1 pressure vessel and D2 type 2 low and middle pressure vessel	May 2016	Four years (Note 1)	Administration of Quality and Technology Supervision of Guangdong Province* (廣東省質量技術監督局)
Boluo Tianyuan	ASME	Manufacturing of pressure vessels in compliance with the standard of ASME	May 2017	Three years (Note 2)	ASME
Boluo Tianyuan	Construction Enterprise Qualification Certificate* (建築業企業資質證書)	Level 3 professional contractor in building mechanical and electrical installation and construction	July 2018	Five years	Urban and Rural Construction of Huizhou Municipality* (惠州市住房和城鄉規劃建設局)
Boluo Tianyuan	National Industrial Products Production Permit* (全國工業產品生產許可證)	Authorised to produce packaging and cans of dangerous chemical goods	October 2018	Five years	Administration of Quality and Technology Supervision of Huizhou Municipality* (惠州市質量技術監督局)
Boluo Tianyuan	Work Safety License (安全生產許可證)	Authorise to engage in building construction	June 2019	Three years	Guangdong Province Housing and Urban-rural Development Bureau* (廣東省住房和城鄉建設廳)

*Notes:*

1. On 5 March 2020, Guangdong Administration for Market Regulation (廣東省市場監督管理局) extended the validity period of both licenses till 25 November 2020.
2. On 7 November 2019, Boluo Tianyuan has submitted an application to renew the certificate which is pending for review in August 2020.



---

## BUSINESS

---

### RESEARCH AND DEVELOPMENT

We have established a solid reputation in advanced technology skills and proven track records in the PRC. Over the years, we have been devoted to research and development to drive improvement and innovation in the ethanol production system industry, and we continue to invest in our research and development efforts. As at the Latest Practicable Date, we had 32 patented technologies, which we have incorporated into our production procedures. In addition, as at the Latest Practicable Date, we have submitted 15 patent registration application in the PRC and one patent registration application in Brazil and are engaging in two ongoing research and development projects.

Our total expenditure on research and development, including capitalised and expensed costs, for the three years ended 31 December 2019 amounted to RMB2.8 million, RMB6.7 million and RMB7.4 million, respectively. As at the Latest Practicable Date, our research and development team consisted of four personnel. Amongst them, one is a doctoral degree holder and three are engineers; and they have extensive relevant industry experience. Our research and development team is led by Dr. Ou Jingshen who is the deputy director of the biofuel engineering technology research centre of Zhongke Tianyuan and Mr. Zhou Hongcai who is our deputy general manager. For detailed biographies of Dr. Ou Jingshen and Mr. Zhou Hongcai, please refer to the section headed “Directors, Senior management and Employees” in this prospectus.

#### Our research and development projects

During the Track Record Period and up to the Latest Practicable Date, we have commenced or completed a number of research and development projects. The following table sets forth a summary of the key projects:

Research and development projects	Commencement Date	Purpose of the research	Patent applied/obtained	Applicability of the research in our system/ technology
Research and application of agricultural biomass raw material pre-processing and ethanol fuel production technology (農林生物質原料預處理及燃料乙醇生產技術的研究與應用)	January 2016	Pilot study of cellulosic ethanol production technology	In October 2016, we applied for the registration of our invention patent which was registered in February 2019; and we applied for the registration of another invention patent in December 2017	Cellulosic ethanol production technology

## BUSINESS

Research and development projects	Commencement Date	Purpose of the research	Patent applied/obtained	Applicability of the research in our system/ technology
Research and application of electronic grade ultra-high purity ethanol (電子級超高純淨乙醇的研究與應用)	March 2016	Based on the current ethanol production technology, to broaden the use of products, to develop a “ppb-class” ultra-clean high-purity ethanol production process, and to expand our business scope of ethanol production	In October 2017 and November 2017, we applied for the registration of two invention patents.	Electronic grade ethanol production technology
Research of the key technology of industrialization of the joint production of edible alcohol and ethanol fuel (食用酒精和燃料乙醇聯產產業化關鍵技術研究)	June 2016	To construct an edible alcohol and fuel ethanol co-production device with an annual output of 100,000 tonnes of ethanol	In September 2018, we obtained one utility patent.	Edible alcohol and fuel ethanol co-production device
Research of pharmaceutical alcohol and high-purity alcohol production equipment and its production technology (醫藥酒精和高純度酒精生產裝置及其生產工藝)	February 2017	Technology upgrade and expansion of main business scope	In September 2017, we applied for the registration of one invention patent.	Pharmaceutical grade alcohol production technology
Research and application of upgrading the neutral alcohol and special grade alcohol production technology (中性酒精、特級酒精生產工藝技術升級換代的研究與應用)	May 2017	To upgrade neutral alcohol and special grade alcohol production technology and to maintain technological competitiveness	In November 2017, we applied for the registration of one invention patent.	Energy efficient production technology of neutral or super-neutral alcohol under high thermal coupling condition

## BUSINESS

Research and development projects	Commencement Date	Purpose of the research	Patent applied/obtained	Applicability of the research in our system/ technology
Eight-towers differential pressure distillation device for special grade alcohol and its energy efficient production technology (特級酒精八塔差壓蒸餾裝置與節能生產工藝)	January 2018	To upgrade the special grade edible alcohol production technology and to maintain technological competitiveness	In April 2019, we applied for the registration of one invention patent.	Special grade edible alcohol production technology
Research and development of special grade alcohol and ethanol fuel production technology and equipment (特級酒精與燃料乙醇相關生產工藝技術與裝置的研發)	March 2019	To upgrade the special grade alcohol and ethanol production technology and equipment and to maintain technological competitiveness	In second half of 2019, we applied for the registration of three invention patents.	Equipment that can produce both special grade alcohol and ethanol fuel

### SALES AND MARKETING AND CUSTOMERS

Our sales and marketing department comprised six personnel as at the Latest Practicable Date. For the three years ended 31 December 2019, revenue from our top five customers amounted to approximately RMB225.7 million, RMB178.9 million and RMB371.2 million, respectively, accounting for approximately 87.9%, 71.6% and 93.1% of our total revenue, respectively. During the same periods, revenue from our largest customer amounted to approximately RMB110.7 million, RMB93.9 million and RMB144.8 million, respectively, accounting for approximately 43.1%, 37.6% and 36.3% of our total revenue, respectively. Our major customers mainly engage in production and sales of ethanol fuel and alcoholic beverages.

## BUSINESS

The following table sets forth certain information in relation to our top five customers for the year ended 31 December 2017:

Ranking	Customer	Principal business	Background and scale of operation	Project type	Location	Credit period	Settlement method	Relationship with us since	Revenue recognized during the year (RMB'000)	Approximate percentage of our total revenue
1	Customer A	Ethanol, denatured ethanol fuel, ethylene, DDGS protein feed, liquor making (liquid), grain procurement and sales etc	Consisting of (i) a company established in the PRC in 2000 with a registered capital of RMB100 million; (ii) a company established in the PRC in 2006 with a registered capital of over RMB580 million; and (iii) a company established in the PRC in 2006 with a registered capital of over RMB3,700 million and its branch company	Ethanol fuel system enhancement	Jilin Province, the PRC	Payable on demand	Bank transfer/ demand draft	2006	110,701	43.1%
2	Customer B	Productions and sales of fuel ethanol, edible alcohol and secondary products	Consisting of (i) a company established in the PRC in 2006 with a registered capital of over US\$40 million; (ii) a company established in the PRC in 1998 with a registered capital of RMB1,850 million and is listed on the Shenzhen Stock Exchange; and (iii) a company established in the PRC in 2002 with a registered capital of RMB20 million	Ethanol fuel production system integrated service	Anhui and Guangxi Provinces, the PRC	Payable on demand	Bank transfer/ demand draft	2009	66,081	25.7%

## BUSINESS

Ranking	Customer	Principal business	Background and scale of operation	Project type	Location	Credit period	Settlement method	Relationship with us since	Revenue recognized during the year (RMB'000)	Approximate percentage of our total revenue
3	Zizhong Yinshan Hongzhan Industrial Limited Liability Company* (資中縣銀山鴻展工業有限責任公司) (Note 1)	Production and sales of edible alcohol	A company established in the PRC in 2002 with a registered capital of RMB50 million	Alcoholic beverage system enhancement	Sichuan Province, the PRC	Payable on demand	Bank transfer/ demand draft	2008	19,927	7.8%
4	Customer C	Ethanol, ethyl acetate, pentanol, denatured fuel ethanol production, edible alcohol	A company established in the PRC in 2005 with a registered capital of RMB400 million	Ethanol fuel system enhancement service	Jilin Province, the PRC	Payable on demand	Bank transfer/ demand draft	2007	18,208	7.1%
5	Heilongjiang Weikete Biotechnology Co., Ltd.* (黑龍江威克特生物科技有限公司)	Biotechnology development and promotion; manufacturing, processing and sale of Baijiu and protein feed; processing and sale of corn; acquisition and sale of food; dry and storage of food; logistic services, planting and processing of crops, import and export	A company established in the PRC in 2016 with a registered capital of RMB100 million	Alcoholic beverage production system integrated service	Heilongjiang Province, the PRC	Payable on demand	Bank transfer/ demand draft	2016	10,785	4.2%
<b>Total:</b>									225,702	87.9%

Note:

- Zizhong Yinshan Hongzhan Industrial Limited Liability Company\* (資中縣銀山鴻展工業有限責任公司) and Supplier A (one of the top five suppliers of the Group for the year ended 31 December 2019) are the fellow subsidiaries of the same parent company.

## BUSINESS

The following table sets forth certain information in relation to our top five customers for the year ended 31 December 2018:

Ranking	Customer	Principal business	Background and scale of operation	Project type	Location	Credit period	Settlement method	Relationship with us since	Revenue recognised during the year (RMB'000)	Approximate percentage of our total revenue
1	Customer D	Bioscience and technology research services, chemical engineering research services, processing, corn starch and starch products manufacturing, primary processing of agricultural products, feed processing	Consisting of (i) a company established in the PRC in 2017 with a registered capital of over RMB 113 million; and (ii) a company established in the PRC in 2017 with a registered capital of RMB 100 million	Ethanol fuel production system integrated service	Heilongjiang Province, the PRC	Payable on demand	Bank transfer/ demand draft	2017	93,929	37.6%
2	Jilin Xintianlong Industrial Co., Ltd.* (吉林省新天龍實業股份有限公司)	Production and sale of edible alcohol, industrial alcohol, chemical reagents (anhydrous ethanol), feed, fusel oil, corn oil (raw materials)	A company established in the PRC in 1988 with a registered capital of approximately RMB456 million	Alcoholic beverage production system integrated service	Jilin Province, the PRC	Payable on demand	Bank transfer/ demand draft	2006	44,550	17.8%
3	ETILACETAT LIMITED LIABILITY COMPANY	Production and sale of ethyl acetate	A company incorporated in Russia in 2018 with a paid capital of 100,000 (Russian Ruble)	Ethyl acetate construction project	Russia	Payable on demand	Bank transfer/ demand draft	2018	16,008	6.4%

## BUSINESS

Ranking	Customer	Principal business	Background and scale of operation	Project type	Location	Credit period	Settlement method	Relationship with us since	Revenue recognised during the year (RMB'000)	Approximate percentage of our total revenue
4	Heilongjiang Province Wanlirunda Biotechnology Co., Ltd.* (黑龍江省禹里潤達生物科技有限公司)	Biotechnology development and promotion services; starch and starch products manufacturing and sales; feed processing and sales; production and sales of amino acid products	A company established in the PRC in 2017 with a registered capital of RMB200 million	Ethanol fuel production system integrated system	Heilongjiang Province, the PRC	Payable on demand	Bank transfer/ demand draft	2018	12,908	5.2%
5	Mengzhou Houtyuan Biotechnology Co., Ltd.* (孟州市厚源生物科技公司)	Biotechnology, chemical raw materials and product development; production and sales of corn dried whole alcohol grains DDGS, ethanol solution, carbon dioxide (liquefied), ethanol (anhydrous), aerated concrete block	A company established in the PRC in 2015 with a registered capital of RMB30 million	Alcoholic beverage production system integrated service	Henan Province, the PRC	Payable on demand	Bank transfer/ demand draft	2018	11,542	4.6%
<b>Total:</b>									178,937	71.6%

## BUSINESS

The following table sets forth certain information in relation to our top five customers for the year ended 31 December 2019:

Ranking	Customer	Principal business	Background and scale of operation	Project type	Location	Credit period	Settlement method	Relationship with us since	Revenue recognized during the year (RMB'000)	Approximate percentage of our total revenue
1	Customer D	Bioscience and technology research services, chemical engineering research services, processing, corn starch and starch products manufacturing, primary processing of agricultural products, feed processing	Consisting of (i) a company established in the PRC in 2017 with a registered capital of over RMB113 million and (ii) a company established in the PRC in 2017 with a registered capital of RMB100 million	Ethanol fuel production system integrated service	Heilongjiang Province, the PRC	Payable on demand	Bank transfer/ demand draft	2017	144,785	36.3%
2	Inner Mongolia Zhongneng Biological Technology Co., Ltd.* (內蒙古中能生物科技有限公司)	Food purchase, storage and wholesale, selling of edible agricultural products and feed, import and export businesses of biotechnology, new material technology, quality inspection technology, energy conservation technology, agricultural technology development, transfer, consulting service, goods or technology.	A company established in the PRC in 2019 with a registered capital of RMB55 million	Ethanol fuel production system integrated service	Inner Mongolia Autonomous Region, the PRC	Payable on demand	Bank transfer	2019	121,322	30.4%
3	Heilongjiang Province Wanlirunda Biotechnology Co., Ltd* (黑龍江省萬里潤達生物科技有限公司)	Biotechnology development and promotion services; starch and starch products manufacturing and sales; feed processing and sales; production and sales of amino acid products	A company established in the PRC in 2017 with a registered capital of RMB200 million	Ethanol fuel production system integrated service	Heilongjiang Province, the PRC	Payable on demand	Bank transfer/ demand draft	2018	48,416	12.1%



## BUSINESS

Ranking	Customer	Principal business	Background and scale of operation	Project type	Location	Credit period	Settlement method	Relationship with us since	Revenue recognized during the year (RMB'000)	Approximate percentage of our total revenue
4	Fuyou Huihai Wine Industry Co., Ltd.* (伏餘市匯海酒業有限公司)	Ethanol, amyl alcohol production and selling, DDGS feed production and selling, grain purchase, storage and selling	A company established in the PRC in 2005 with a registered capital of RMB180 million	Alcoholic beverage and Ethanol fuel production system integrated service	Jilin Province, the PRC	Payable on demand	Bank transfer/demand draft	2018	42,071	10.6%
5	PT Indonesia Ethanol Industry	Ethanol, alcohol production and selling, DDGS feed production and selling, grain purchase, storage and selling	A company established in Indonesia in 2007 with an issued capital of Rp494 billion	Alcoholic beverage and ethanol fuel production system integrated services	Indonesia	Payable on demand	Letter of credit	2008	14,601	3.7%
<b>Total:</b>									371,195	93.1%

---

## BUSINESS

---

To the best of our knowledge, information and belief of our Directors, having made all reasonable enquiries, during the Track Record Period and up to the Latest Practicable Date, save as disclosed in this prospectus,

- a) all of our top five customers were Independent Third Parties;
- b) none of our Directors, their respective close associates or any of our Shareholders who owned more than 5% of our share capital had any interest in any of our top five customers; and
- c) none of our customers are also our suppliers, or vice versa.

### **Key terms of customer service contracts**

Our customer service contracts specify the major terms of a project, such as pricing, project and payment schedule, warranty and performance guarantee. From time to time, we may enter into supplemental contracts if we are required to provide services outside the original scope of work. The salient terms included in most of our service contracts are summarized as follows:

#### ***Scope of work and quality requirements***

The service contract sets out the scope of work with specifications on technical standards which are in line with national standards, industry recognised standards and the project specific installation plan. We should ensure that the quality of our work can satisfy the inspection by our customers or independent surveyors engaged by our customers. Technical standards for all projects located in the PRC have to be in line with the national standards and industry recognised standards adopted in the PRC while that for projects located overseas have to be in line with the applicable local standards. If there is no such local standard, we will adopt the international standards (CE or ASME) in such projects. We will from time to time keep track of updates to these standards so as to ensure our continuous compliance with the required standards.

#### ***Contract period***

The term of service contracts generally varies from six months to one year depending on scale and complexity of work, progress of projects and requirements of our customers. Depending on the requirement of each project, we will agree with our customer the expected commencement and completion date of the work assigned to us.

#### ***Contract value***

The agreed contract value is generally the same amount as our bidding price under quotation, open tendering and invitational tendering, which usually takes into account, without limitation, availability and cost of raw materials and equipment, project schedule, subcontracting costs, labour costs, geographical location, condition of the project site, as well as the complexity and scale of project.

---

## BUSINESS

---

### *Payment terms*

Our customers generally pay us on a progressive basis. The major milestones on which our customers pay us generally include (i) the signing of the contract (generally 20% to 50% of the contract value, representing the prepayment made by customers to us for initiating the project), (ii) before delivery of the equipment to the project site of our customer (generally 15% to 45% of the contract value), (iii) after completion of installation of the equipment (generally 10% to 30% of the contract value), (iv) issuance of project completion report (generally 5% to 20% of the contract value) and (v) the expiry of the defect liability period (generally 5% to 10% of the contract value), which is generally 12 months from the date of project completion report issued by our customer. Depending on the needs of each project, we may agree with our customers to pay us progress payments between each milestone.

### *Defect liability*

The service contract will set out the duration of the defect liability period, which is generally for a period of 12 months from the date of project completion report from our customer. We are generally responsible for rectifying defects of our works at our own expense during the defect liability period. As described above, we also generally agree for our customers to retain 5% to 10% of the total contract value during the defect liability period as post-completion warranty. Besides, we have our sales team to respond to customer inquiries and service requests in a timely manner.

### *Liquidated damages*

Our customers are generally entitled to claim liquidated damages against us if we fail to complete the project within the contract period. Except being approved by our customers, any delay in our work will cost us liquidated damages calculated on a daily basis with reference to the rate or amount specified in the service contract.

Furthermore, our customers are generally entitled to claim liquidated damages if we breach a specific term of the contract, such as delay in completion of projects, using sub-standard materials, or failing to conform prescribed quality or technical standards.

During the Track Record Period, the aggregate amount of liquidated damages paid by our Group was not material. Our Directors do not expect any material delay in the time of completion of projects in progress as at the Latest Practicable Date which is likely to cause material liquidated damages to be imposed on our Group.

## SUPPLIERS

Our suppliers primarily included (i) suppliers of raw materials and equipment; (ii) labour subcontractors; and (iii) delivery service companies for transporting the processed materials from our processing plant in Boluo to the customers' sites.

### **Raw materials and equipment**

Our principal raw materials include raw materials such as steel plates, steel pipes etc. for the production of key components and equipment such as molecular sieve filling, flowmeters, grinders and heat exchangers, for the provision of our services. For the three years ended 31 December 2019, the costs of raw materials and equipment amounted to approximately RMB132.6 million, RMB140.2 million and RMB229.2 million, respectively, representing approximately 73.7%, 79.0% and 79.3% of our total cost of sales, respectively.

We may need to absorb any price fluctuation in raw materials unless we are able to negotiate for price adjustment with our customers. We do not keep a significant inventory of raw materials to minimize inventory costs and the risks associated with price fluctuations in raw materials, components and equipments. Nevertheless, during the Track Record Period, we did not experience any major price fluctuations, delays or shortages in our supply of raw materials and equipment, and we do not anticipate significant difficulties in obtaining alternative sources of supply if necessary.

Our engineering department manages the procurement of raw materials. Our engineering department maintains a list of qualified suppliers for raw materials and equipments from which our engineering department procures on an as-needed basis. Save for those procurements involving tendering or those amounts that are insignificant, we will generally invite at least three qualified suppliers to provide quotations and certification for our assessment. Our qualified suppliers are selected based on various criteria, including price, quality, record of timely delivery, location, supply capacity, and customer service. Due to the diversified location of our projects, we have been regularly maintaining an updated list of qualified suppliers in different districts and provinces and we review and update our list of qualified suppliers annually to make sure we will have a stable supply of raw materials and equipment for our projects. We will perform annual evaluation to add new suppliers or remove any substandard suppliers. We will not engage these substandard suppliers in our projects again.

Our Directors believe that, if required, our raw materials and equipment are generally readily available from alternative suppliers at prices and quality comparable to those provided by our current suppliers. As such, we had not entered into long-term supply agreements with any of our suppliers during the Track Record Period and up to the Latest Practicable Date. Our Directors are of the view that our practice of not entering into of long-term supply agreements with our suppliers is in line with industry practice.

---

## BUSINESS

---

Instead, we would enter into supply contracts with the suppliers. The key terms of a supply contract are set forth below:

Standard terms of our supply contract:	Our supply contract usually sets out the specifications and quantity of raw materials or components procured by us, their unit prices and the total transaction amount, the required standard, payment date, delivery method and delivery date of the raw material or components. Suppliers will deliver the raw material or components to the project site or our processing plant.
Delivery:	Suppliers are required to arrange delivery of the raw materials or components within the time period after the date of the supply contracts mutually agreed between us and the suppliers.
Warranty:	Suppliers generally provide a warranty period of one year for the quality of the raw materials and components.
Early termination:	The supply contract can be terminated upon mutual agreement between us and the supplier.
Payment terms:	Suppliers usually require us to make a prepayment at the signing of the purchase order and settle the remaining before the delivery. In some purchase orders, we would generally retain 3% of the total order amount as warranty which will be paid to the suppliers upon 12 months of delivery.
Payment method:	Bank acceptance bill or bank transfer.

### **Labour subcontractors**

In order to save the salary and management expenses of regularly retaining a large pool of self-employed labour, we usually engaged labour subcontractors to complete and deliver the manual and ancillary works such as production, assembling and installation of components for our projects in accordance with our requirements set forth in the contracts entered into with us. The labour subcontractors will also be responsible for the overall quality, safety, schedule and timetable of the commissioned project.

We will generally invite at least three qualified labour subcontractors to provide quotations and certification for our assessment. We choose labour subcontractors in accordance with our internal labour subcontractor selection procedure and also make reference to the list of qualified labour subcontractors in different districts and provinces. We select labour subcontractors primarily based on their licenses maintained, reputation, track record, financial strength, project execution and management and quality control standards, price and other factors relevant to the particular projects. We will conduct detailed briefings to the labour subcontractor's working team before performing the duties.

---

## BUSINESS

---

We will review and update our list of labour subcontractors annually to make sure we have alternative labour subcontractors if any one of them is unable to provide the requested service to us in a timely manner. In case we experience quality issues from a labour subcontractor during the project execution, we will remove such labour subcontractor from our list of qualified labour subcontractors and will not engage such labour subcontractor in our projects again. During the Track Record Period, subcontracting costs incurred by our labour subcontractors under subcontracting arrangements were RMB36.1 million, RMB28.2 million and RMB52.3 million, respectively, accounting for approximately 20.1%, 15.9% and 18.1% of our total cost of sales, respectively.

Subcontracting arrangements are made on a project-by-project basis and the duration of each labour subcontracting agreement generally depends on the timetable, scope and nature of work and other needs of each project. The key terms of our labour subcontractor agreements are:

Duration:	Varies according to the timetable, scope and nature of work and other needs of each project
Scope of work:	Manual and ancillary works such as production, assembling and installation of components for our projects
Payment method:	Bank acceptance bill or bank transfer
Payment terms:	Labour subcontractors usually require us to make a prepayment at the signing of the contract and settle the remaining amount in different stages of the project. In some contracts, we would retain 5% of the total contract amount as warranty which will be paid to the labour subcontractors after 12 months from completion of the acceptance check of the project.
Quality guarantee period:	Labour subcontractors generally provide a quality guarantee period for 12 months after completion of the acceptance check of the project.
Early termination:	If any party fails to comply with the terms and conditions of the agreement or relevant laws and regulations, the other party has the right to early terminate the agreement and the defaulting party is liable to compensate the damages incurred.

## BUSINESS

The following table sets forth certain information in relation to our top five suppliers for the year ended 31 December 2017:

Ranking	Supplier	Principal business	Background and scale of operation	Type of raw materials/ service supplied	Location	Credit period	Settlement method	Relationship with us since	Purchase amount (RMB'000)	Approximate percentage of our total purchase
1	Wuxi Century Zhonggang Stainless Steel Co., Ltd.* (無錫市世紀中鋼不銹鋼有限公司)	Sales of metal materials and stainless steel products, general machinery and accessories, building materials, decoration materials, hardware, electricity and furnace materials.	A company established in the PRC in 2014 with a registered capital of RMB20 million	Steel plates	Jiangsu Province, the PRC	Payment on demand	Bank transfer/ bank acceptance bill	2015	21,307	12.1%
2	Wuxi Runbaotai Metal Products Co., Ltd.* (無錫市潤寶泰金屬製品有限公司)	Sales of metal materials and products, building materials, hardware products, machinery and accessories, chemical products and raw materials, office supplies, and daily necessities.	A company established in the PRC in 2015 with a registered capital of RMB5 million	Steel plates	Jiangsu Province, the PRC	Payment on demand	Bank transfer/ bank acceptance bill	2016	11,761	6.7%
3	Shanghai Hengye Molecular Sieve Co., Ltd.* (上海恒業分子篩股份有限公司)	Molecular sieves, activated alumina manufacturing, processing, chemical raw materials, adsorption and separation of environmental protection equipment wholesale, retail, chemical technology consulting and services.	A company established in the PRC in 2000 with a registered capital of approximately RMB52.6 million	Molecular sieve filling	Shanghai, the PRC	Payment on demand	Bank transfer/ bank acceptance bill	2007	11,149	6.3%

## BUSINESS

Ranking	Supplier	Principal business	Background and scale of operation	Type of raw materials/ service supplied	Location	Credit period	Settlement method	Relationship with us since	Purchase amount (RMB'000)	Approximate percentage of our total purchase
4	Zhaoyang Dongyang Hongcheng Pipes Co., Ltd.* (肇陽東洋鴻誠制管有限公司)	Manufacture, sale and installation of stainless steel pipes and related products	A company established in the PRC in 2008 with a registered capital of RMB5 million	Steel pipes	Guangdong Province, the PRC	Payment on demand	Bank transfer/ bank acceptance bill	2013	7,339	4.2%
5	Shenyang Dongfang Kunlun Stainless Steel Industry Co., Ltd.* (瀋陽東方昆侖不銹鋼工業有限公司)	Production and processing of stainless steel sheet, pipe, round and profile products	A company established in the PRC in 2005 with a registered capital of USD33.2 million	Steel plates	Liaoning Province, the PRC	Payment on demand	Bank transfer/ bank acceptance bill	2007	6,258	3.6%
<b>Total:</b>									57,814	32.9%



## BUSINESS

The following table sets forth certain information in relation to our top five suppliers for the year ended 31 December 2018:

Ranking	Supplier	Principal business	Background and scale of operation	Type of raw materials/ service supplied	Location	Credit period	Settlement method	Relationship with us since	Purchase amount (RMB'000)	Approximate percentage of our total purchase
1	Shenyang Decheng Metal Materials Co., Ltd.* (瀋陽德誠金屬材料有限公司)	Lighting appliances, mechanical equipment, electronic products, chemical products, metal materials, metal products wholesale, retail	A company established in the PRC in 2015 with a registered capital of RMB5 million	Steel plates and steel pipes	Liaoning Province, the PRC	Payment on demand	Bank transfer/ bank acceptance bill	2018	22,082	13.8%
2	Shenyang Longtai Stainless Steel Co., Ltd.* (瀋陽隆泰不銹鋼有限公司)	Stainless steel materials, valves, plumbing equipment, metal materials, mechanical and electronic equipment, plastic woven bags, wood products, packaging materials, stone wholesale, retail	A company established in the PRC in 2001 with a registered capital of RMB0.5 million	Steel plates and steel pipes	Liaoning Province, the PRC	Payment on demand	Bank transfer/ bank acceptance bill	2007	10,109	6.3%
3	Wuxi Henglong Metal Products Co., Ltd.* (無錫市恒龍金屬製品有限公司)	Sales of metal materials and products, chemical raw materials and products, building materials, decorative materials, electromechanical products, environmental protection special equipment, water treatment equipment, pumps, valves, heavy machinery, cables, furnace materials, and office supplies	A company established in the PRC in 2010 with a registered capital of RMB10 million	Steel pipes	Jiangsu Province, the PRC	Payment on demand	Bank transfer/ bank acceptance bill	2017	9,769	6.1%

## BUSINESS

Ranking	Supplier	Principal business	Background and scale of operation	Type of raw materials/ service supplied	Location	Credit period	Settlement method	Relationship with us since	Purchase amount (RMB'000)	Approximate percentage of our total purchase
4	Harbin Changhua Metals Co., Ltd.* (哈爾濱昌華金屬有限公司)	Purchase and sale of steel, daily necessities, hardware, electrical appliances, plumbing and building materials; sheet metal processing, mechanical equipment maintenance.	A company established in the PRC in 2002 with a registered capital of RMB6 million	Steel plates	Heilongjiang Province, the PRC	Payment on demand	Bank transfer/ bank acceptance bill	2018	9,217	5.8%
5	Shanghai Hengye Molecular Sieve Joint-stock Co., Ltd.* (上海恒業分子篩股份有限公司)	Molecular sieves, activated alumina manufacturing, processing, chemical raw materials, adsorption and separation of environmental protection equipment wholesale, retail, chemical technology consulting and services.	A company established in the PRC in 2000 with a registered capital of approximately RMB52.6 million	Molecular sieve filling	Shanghai, the PRC	Payment on demand	Bank transfer/ bank acceptance bill	2007	7,425	4.7%
<b>Total:</b>									58,602	36.7%

## BUSINESS

The following table sets forth certain information in relation to our top five suppliers for the year ended 31 December 2019:

Ranking	Supplier	Principal business	Background and scale of operation	Type of raw materials/ services supplied	Location	Credit period	Settlement method	Relationship with us since	Purchase amount (RMB'000)	Approximate percentage of our total purchase
1	Supplier A (Note 1)	Production and sale of construction machineries, metal tools and universal parts, general mechanical processing and mechanical technology consulting and services	A company established in the PRC in 2003 with a registered capital of RMB15 million	Evaporators	Sichuan Province, the PRC	Payable on demand	Bank transfer/bank acceptance bill	2019	56,358	19.7%
2	Supplier B	Sales of construction materials and steel	An individual industrial and commercial household business set up in the PRC in 2019	Steel plates and steel pipes	Jilin Province, the PRC	Payable on demand	Bank transfer	2019	24,285	8.5%
3	Supplier C	Engineering, procurement and construction, engineering design, manufacturing, processing and sales of construction materials, equipment leasing and real estate development and investment	A state-owned enterprise established in the PRC in 1952 with a registered capital of RMB3 billion	Professional construction and installation services	Hunan Province, the PRC	Payable on demand	Bank Transfer	2019	15,237	5.3%

## BUSINESS

Ranking	Supplier	Principal business	Background and scale of operation	Type of raw materials/ services supplied	Location	Credit period	Settlement method	Relationship with us since	Purchase amount (RMB'000)	Approximate percentage of our total purchase
4	Supplier D	General business, including among others, sales of electronic products, computer software and supporting equipment, water pumps, valves, metal materials, electric wires and cables, etc.	A company established in the PRC in 2017 with a registered capital of RMB1 million	Steel plates and steel pipes	Inner Mongolia Autonomous Region, the PRC	Payable on demand	Bank transfer/bank acceptance bill	2019	15,045	5.3%
5	Supplier E	Engineering, procurement and construction, engineering design, installation of pipelines, manufacturing and sales of construction materials and leasing	A state-owned enterprise established in the PRC in 1953 with a registered capital of RMB1.2 billion	Professional construction and installation services	Shanxi Province, the PRC	Payable on demand	Bank Transfer	2019	9,862	3.5%
<b>Total:</b>									120,787	42.3%

*Note:*

1. *Supplier A and Zizhong Yinshan Hongzhan Industrial Limited Liability Company\* (資中縣銀山鴻展工業有限責任公司) (one of the top five customers of the Group for the year ended 31 December 2017) are the fellow subsidiaries of the same parent company.*

---

## BUSINESS

---

Purchases from our top five suppliers collectively amounted to approximately RMB57.8 million, RMB58.6 million and RMB120.8 million, during the Track Record Period, accounting for approximately 32.9%, 36.7% and 42.3%, respectively, of our total purchase during the corresponding period.

Purchases from our largest supplier amounted to approximately RMB21.3 million, RMB22.1 million and RMB56.4 million, during the Track Record Period, accounting for approximately 12.1%, 13.8% and 19.7%, respectively, of our total purchase during the corresponding period.

Certain of our top five suppliers changed from year to year during the Track Record Period and with relatively short history of business relationship with us as we generally look for suppliers which are in close proximity to our project sites in order to save the transportation cost of the raw material purchased. We became acquainted with our top five suppliers in or around the time of entering the supply contracts with the suppliers through third party's referral, in different business occasions, sales calls by suppliers or recommended by our customers. To the best of our knowledge, information and belief of our Directors, having made all reasonable enquiries, during the Track Record Period and up to the Latest Practicable Date, save as disclosed in this prospectus,

- all of our top five suppliers were Independent Third Parties and none of our top five suppliers and their respective subsidiaries, directors, shareholders or management, or any of their respective associates have any past or present relationship (including without limitation, family, employment, trust, financing or otherwise) with our Company, our subsidiaries, our Shareholders, directors, senior management or any of their respective associates;
- none of our Directors, their respective close associates or any of our Shareholders who owned more than 5% of our share capital had any interest in any of our top five suppliers; and
- none of our suppliers are also our customers, or vice versa.

### INVENTORY

Our inventories mainly consist of raw materials and work-in-progress while the finished goods represent the recoverable amount of the equipment which was returned to us pursuant to a court order over a dispute on an ethanol production system technology integrated service project.

### QUALITY CONTROL

We believe that stringent quality control is critical to our reputation and success. To ensure our quality of work adheres to the contractual requirements and specifications with our customers, we have put in place quality control measures at various stages of our work process, including project planning, selection of suppliers and labour subcontractors, procurement of raw materials, implementation of projects and completion of projects. After the raw materials and equipment have been delivered to our processing plant in Boluo or the project site, we will conduct appearance examination on the raw materials and equipment and will occasionally appoint a qualified third party laboratory to conduct various examinations on a sampling basis to ensure that the raw materials and equipment meet with our required specification.

## BUSINESS

We take steps to ensure the quality of work executed by labour subcontractors, including project managers stationed in the customer’s site to monitor and check the production conditions conform to our specifications during the installation stage. We also have internal control measures in place, for instance, by instructing our project manager to carry out on-site reviews with the labour subcontractors, to manage and monitor the performance of our labour subcontractors in terms of both quality and delivery of their services. If our on-site project manager identifies any delay in schedule and/or quality issues by our labour subcontractors, we will discuss with the labour subcontractors for remediation plan and will monitor the progress and effectiveness of the execution of remediation plan from time to time. In addition, we have implemented a quality control system with detailed internal control procedures for major aspects of our operations, including safety, quality, progress and budget.

During the Track Record Period, have the following certification in respect of our quality control:

Holder	Name of certification	Details	Effective date	Validity period	Issuing authority
Boluo Tianyuan	China Great Wall (Tianjin) Quality Assurance Centre Certificate of Conformity of Quality Management System Certification* (長城(天津)質量保證中心質量管理體系認證證書)	Quality management system in compliance with standard GB/T 19001-2016/ISO 9001:2015	October 2017	Three years	China Great Wall (Tianjin) Quality Assurance Centre* (長城(天津)質量保證中心)
Zhongke Tianyuan	China Great Wall (Tianjin) Quality Assurance Centre Certificate of Conformity of Quality Management System Certification* (長城(天津)質量保證中心質量管理體系認證證書)	Quality management system in compliance with standard GB/T 19001-2016/ISO 9001:2015	January 2018	Three years	China Great Wall (Tianjin) Quality Assurance Centre* (長城(天津)質量保證中心)

During the Track Record Period, we completed a total of 69 technology integrated service projects, among which only two projects, namely Project 049 and Project 091, experienced quality issues, representing only approximately 2.9% of the total number of our completed projects. For details of the quality issues relating to Project 049 and Project 091, please refer to the respective section headed “Financial Information — Description of Selected Consolidated Income Statement Line Items — Gross profit and gross profit margin” and the section headed “Financial Information — Analysis of Selected Items from the Consolidated Balance Sheets — Trade and bills receivables” in this prospectus. Save for these two projects, our Directors are not aware of any quality issues before the receipt of project completion reports from the customers during the Track Record Period. We did not experience any material quality issues or receive any material complaint about the quality of our services or products.

---

## BUSINESS

---

### OCCUPATIONAL HEALTH AND SAFETY

We are committed to providing a safe working environment to our employees and labour subcontractors and we have in place stringent internal safety policies to ensure our safe operations and our compliance with relevant PRC laws and regulations. We will arrange regular inspection of the worksite, and record and address the potential workplace hazards identified during the inspection. We also organise occupational health safety training for our staff to raise their awareness of potential occupational hazards in their positions. Accidents at workplace shall be properly documented and recorded, and reported to the supervisor of the worksite.

Our legal staff is responsible for overseeing our compliance with relevant PRC laws and regulations, conducting regular reviews and inspections of our safety performance, conducting review of any material accidents, and ensuring that we maintain the necessary licenses, approvals and permits to operate.

During the Track Record Period and up to the Latest Practicable Date, our Group had not experienced any material claim or incident in relation to work safety and had not been involved in any accident causing death or serious injury during the course of our business operations.

### ENVIRONMENTAL PROTECTION

As an ethanol production system producer, our services include engineering design, equipment manufacturing, installation and commissioning and subsequent maintenance for the core system of ethanol production. In view of the nature of our services provided, we believe that our operations do not produce material industrial waste, pollutants or emissions and have a limited impact on the environmental as compared to companies that directly engage in production. Accordingly, although we are subject to PRC national environmental laws and regulations as well as environmental regulations promulgated by the relevant local government authorities, we believe that potential impact of environmental-related risks on our business, strategy and financial performance is immaterial.

We have established and implemented an environmental compliance system to specify various environmental protection procedures and measures and ensure our compliance with the relevant PRC laws and regulations. We are of the view that the annual cost of compliance with the applicable environmental protection laws, regulations, policies and standards was not material during the Track Record Period and the cost of such compliance is not expected to be material going forward.

Our Directors confirm that our operations have complied and will comply with all PRC environmental laws and regulations in all material respects. Our PRC Legal Advisers have confirmed that we have obtained the necessary approval or permit required by the relevant PRC laws and regulations in relation to environmental standards and we have not been subject to any penalties or administrative sanctions arising from non-compliance of national or local environmental laws or regulations during the Track Record Period. During the Track Record Period, we have not received any notification from environmental authorities for any violation of environmental protection laws and regulations. In the circumstances, we believe that the actual impact of environmental-related risks on our business, strategy and financial performance during the Track Record Period is immaterial.

---

## BUSINESS

---

### INSURANCE

We maintain insurance policies that are required under PRC laws and regulations as well as policies based on our assessment of our operational needs and industry practice. In accordance with relevant PRC laws and regulations, we maintained personal accident insurance for our personnel who are onsite in our projects. We also require our labour subcontractors to obtain personal accident insurance for their onsite personnel.

As confirmed by our PRC Legal Advisers, we had duly maintained all material insurance policies in compliance with the relevant PRC laws and regulations during the Track Record Period. For the three years ended 31 December 2019, we incurred approximately RMB0.8 million, RMB1.2 million and RMB1.8 million, for insurance costs, respectively. Our Directors believe that our insurance coverage is sufficient and adequate and in line with the industry norm.

### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, our Group had registered one trademark in Hong Kong and we had also submitted 15 patents registration applications in the PRC and one patent registration application in Brazil. For details of these patents, please refer to the section headed “Statutory and general information — B. Further information about the business of our Group — 2. Intellectual property rights of our Group — Patents” in Appendix IV to this prospectus.

As at the Latest Practicable Date, our Group is the owner of 32 patents which are material to our business and we also have six domain names. For details of these patents, 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 — Patents” in Appendix IV to this prospectus.

Save for the above, to the best of our knowledge, information and belief of our Directors, having made all reasonable enquiries, during the Track Record Period and up to the Latest Practicable Date, we did not have any material intellectual property rights (whether registered or pending registration) that are significant to our business operations or financial positions.

To the best of our knowledge, information and belief of our Directors, having made all reasonable enquiries, during the Track Record Period and up to the Latest Practicable Date, we were not aware of any material infringements (i) by us of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by us. To the best of our knowledge, information and belief of our Directors, having made all reasonable enquiries, during the Track Record Period and up to the Latest Practicable Date, we were also not aware of any pending or threatened disputes, litigations or claims against us or against any members of our Group in relation to any material infringement of intellectual property rights of third parties.



---

## BUSINESS

---

### EMPLOYEES

We believe that our long-term growth depends on the expertise, experience and development of our employees. The salaries and benefits of our employees depend primarily on their type of work, position, length of service with us and local market conditions. In order to improve our employees' skills and technical expertise, we provide periodic training to our employees.

We mainly recruit our personnel from open market. As at the Latest Practicable Date, we had a total of 96 employees, who are in the PRC. The following table sets forth the number and breakdown of our full-time employees by function:

	<u>Number of employees</u>
Management <i>(Note 1)</i>	9
Project design and research and development <i>(Note 2)</i>	20
Engineering	17
Processing plant	20
Technology support	6
Sales and marketing	6
Finance and legal <i>(Note 3)</i>	10
Administrative	8
<b>Total</b>	<u><u>96</u></u>

*Notes:*

1. *Mr. Zhou Hongcai, our deputy general manager, is responsible for the overall technical design, development and management of engineering projects.*
2. *One employee under the project design functions also carries out research and development works.*
3. *One employee is responsible for handling the legal affairs of our Group.*

For additional information on certain of our employees, please refer to the section headed "Directors, Senior management and Employees" in this prospectus. We contribute to social security insurance for our employees in accordance with relevant PRC laws and regulations. We had completed registration for the social insurance plans and housing provident fund. We have started to make sufficient contributions to the social insurance plans for our employees since March 2019, and sufficient contribution to the housing provident fund for our employees in Boluo Tianyuan and Zhongke Tianyuan since August 2019 and June 2019, respectively. As advised by our PRC Legal Advisers, we and our subsidiaries have made contributions to the social security fund and the housing reserve fund in accordance with the proportion approved by the competent authorities, and as confirmed by the relevant confirmation letter issued by the relevant authorities of Guangzhou and Huizhou government respectively, we have not been subject to any punishment for any matter relating to the social security fund and housing provident fund during the Track Record Period.

Each job applicant has an equal job opportunity. All of them will be treated equally and there is no discrimination as to gender, age and ethnicity. The employment decision of a job applicant would be based solely on the applicant's knowledge, experience and capability. Further, any promotion within our Group would be based solely on the employee's performance and work quality and efficiency.

---

## BUSINESS

---

We have not experienced any significant difficulty in recruiting employees, nor have we had any material disputes with our employees arising from staff compensation or other employment matters. We believe that we have maintained satisfactory work relationships with our employees.

During the Track Record Period, we did not experience any material labour disputes with our employees, receive any complaints, notices or orders from relevant government authorities or third parties, or receive any claims from our employees relating to social insurance or housing provident funds.

### PROPERTIES

#### Owned properties

As at the Latest Practicable Date, we owned two parcels of land in the PRC, details of which are as follows:

<u>Location</u>	<u>Usage</u>	<u>Approximate total site area (square meters)</u>
Pengtian, Xialang Management District, Luoyang Town, Boluo, the PRC	Industrial purpose	6,133
Chetian, Third Village, Xialang Management District, Luoyang Town, Boluo, the PRC	Industrial purpose	7,200

As at the Latest Practicable Date, we owned six properties in the PRC, details of which are as follows:

<u>Location</u>	<u>Usage</u>	<u>Approximate total site area (square meters)</u>
Meihua Industrial Zone, Luoyang Town, Boluo, the PRC	Warehouse	161.4
Meihua Industrial Zone, Luoyang Town, Boluo, the PRC	Office	843.6
Meihua Industrial Zone, Luoyang Town, Boluo, the PRC	Staff quarter	340.85
Pengtian, Xialang Management District, Luoyang Town, Boluo, the PRC	Industrial purpose	1,284.0
Meihua Industrial Zone, Luoyang Town, Boluo, the PRC	Factory	1,084.8
Pengtian, Xialang Management District, Luoyang Town, Boluo, the PRC	Temporary warehouse	212.2

---

## BUSINESS

---

Save for the temporary warehouse mentioned above, we obtained the ownership certificates for the above land and properties. As advised by our PRC Legal Advisers, based on (i) the confirmations from the relevant government authorities; (ii) the temporary warehouse is built on a land parcel where we own the right to use with planning permit; (iii) the construction planning permit obtained on 8 March 2019; and (iv) the consultation with the relevant government authorities by our PRC Legal Advisers and us, our use of the temporary warehouse complies with the relevant laws and provisions of the PRC laws and regulations.

### Leased properties

We have entered into tenancy agreements, with two landlords who are Independent Third Parties, in respect of two properties in the PRC, details of which are as follows:

Location	Usage	Approximate gross floor area (square meters)	Duration of tenancy	Monthly rent (exclusive of disbursement) (RMB)
Guangzhou High New Technology Industry Development Zone, Guangzhou, the PRC	Office	38.54	1 January 2020 to 31 December 2021	1,734.3
Tianhe District, Guangzhou, the PRC	Office	1,221	1 October 2018 to 15 July 2023	97,680 to 114,251

As at the Latest Practicable Date, the tenancy agreement for the property in Tianhe District, Guangzhou, the PRC had not been registered with the relevant PRC authorities. As advised by our PRC Legal Advisers, the non-registration of the tenancy agreement will not affect the validity of the tenancy agreement, but our Company may be subject to a maximum administrative penalty of RMB10,000 according to the Measures for the Administration of Commercial Housing Leasing (《商品房屋租賃管理辦法》). However, the risk of penalty is insignificant due to the following reasons:

- (1) the lessor of the leased property has already provided the construction land approval, the construction project planning permit and the construction completion acceptance report of this property, and hence, disputes over the property ownership of the property are unlikely; and
- (2) as of the Latest Practicable Date, we have not received any notice from the relevant PRC authorities regarding the registration of the property nor any order for rectification within a stipulated period of time, and no administrative penalties for the non-registration have been ordered.

Save for the above, we have no property interests in the PRC as at the Latest Practicable Date.

---

## BUSINESS

---

As at 31 December 2019, we had no single property with a carrying amount of 15% or more of our total assets. Accordingly, this prospectus is exempt from the requirements under the Listing Rules and the Companies (WUMP) Ordinance. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

### LEGAL PROCEEDINGS AND NON-COMPLIANCE

As at the Latest Practicable Date, we were (i) not involved in any actual or pending legal or arbitration proceedings that we believe would have a material impact on our financial condition or results of operation; and (ii) not aware of any current, pending or threatened litigation, claim or arbitration against our Group which could have a material adverse effect on our financial condition or results of operations. We may occasionally become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business.

**NON-COMPLIANCE**

The following table summarises the non-compliances of our Group during the Track Record Period:

**1. Non-compliance relating to foreign exchanges control laws and regulations**

Non-compliance incident	Reasons for the non-compliance	Legal consequences and maximum penalty	Rectification actions taken and to be taken	Potential operational and financial impact
<p>Circular No. 75 [2005] — Issues Relating to the Administration of Foreign Exchange in Respect of Financings and Return Investments by Domestic Residents through Offshore Special Purpose Vehicles (匯辦[2005]175號—關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (“Circular 75”) provides that a PRC individual resident is required to register with the competent local branch of SAFE before they establish or control any offshore special purpose vehicles for capital raising with the assets or equity interest of PRC domestic companies owned by them.</p> <p>Mr. Yu and Mr. Tang had established Leader Vision and Asia Tianxing on 12 December 2005 and 26 May 2005 respectively to hold 13.03% and 9.77% of the then shareholdings in our Company, respectively, without registering overseas investment by domestic residents under the requirement of Circular 75.</p> <p>Praise Hero which was established by Ms. Xu Huijuan (“Ms. Xu”) and Mr. Zhou Hongcai (“Mr. Zhou”) held 1.64% of the then shareholdings in our Company without registering overseas investment by domestic residents under the requirement of Circular 75.</p> <p>Mr. Jiang had held Shares directly in our Company without complying with Circular 75.</p> <p>Our Group was advised of the above non-compliance incident by our PRC Legal Advisers during its due diligence process in preparation for the Listing.</p>	<p>The non-compliance incident involved the failure of registration on the part of Mr. Yu, Mr. Tang, Ms. Xu, Mr. Zhou and Mr. Jiang under the requirement of Circular 75 due to (i) inadvertent oversight of the responsible handling staff; and (ii) absence of professional advice at the material time. It is not a willful act done by any of them. In addition, they had not received any dividends from any of the First Batch of Distribution and the Second Batch of Distribution and hence, there was no financial gain involved as a result of the non-compliance incident.</p>	<p>According to Circular 75 and the Foreign Exchanges Regulations and as advised by our PRC Legal Advisers, the SAFE may impose on Zhongke Tianyuan a penalty of less than 30% of the amount of the First Batch of Distribution, the Second Batch of Distribution and the Funds Transfer respectively. If the circumstances are considered serious, a penalty of more than 30% or up to the full amount of the First Batch of Distribution, the Second Batch of Distribution and the Funds Transfer respectively may be imposed on Zhongke Tianyuan.</p> <p>Pursuant to Article 29 of the Law of the People’s Republic of China on Administrative Penalty (中華人民共和國行政處罰法) and as advised by our PRC Legal Advisers, where an illegal act is not discovered within two years of its commitment, administrative penalty shall no longer be imposed. The said period of time shall be counted from the date the illegal act is committed, if the illegal act is ongoing or continuous, the period shall be counted from the date when the illegal act ends.</p> <p>The non-compliant act of the First Batch of Distribution had ceased for more than four years. In addition, the non-compliant act of the Funds Transfer had ceased for more than two years. As advised by our PRC Legal Advisers, Zhongke Tianyuan shall only be liable for the Second Batch of Distribution and the amount of penalty that may be imposed on Zhongke Tianyuan will be an amount not more than 100% of the amount of the Second Batch of Distribution, i.e. RMB1,123,988.</p>	<p>The Shares held by Leader Vision had been transferred to Tewin Capital on 4 April 2019, with proper foreign exchange registration.</p> <p>The Shares held by Praise Hero had been transferred to Tewin Capital on 5 March 2019, with proper foreign exchange registration.</p> <p>The Shares held by Asia Tianxing had been transferred to Tonzeest Capital on 18 July 2019, with proper foreign exchange registration.</p> <p>The Shares held by Mr. Jiang had been transferred to Jojo on 30 June 2019 and 26 July 2019, with proper foreign exchange registration.</p> <p>The above rectification actions have been taken immediately after our Company identified the incident.</p>	<p>As advised by our PRC Legal Advisers, as the amount of penalty that may be imposed on Mr. Yu, Mr. Tang, Mr. Jiang, Ms. Xu and Mr. Zhou is relatively low, there will be no material adverse impact on the Listing.</p> <p>Having considered the followings, our Directors are of the view, and the Sole Sponsor concurs, that such past non-compliant act does not have any material adverse implication on the suitability of our Directors and senior management:</p> <ul style="list-style-type: none"> <li>the dividends received pursuant to the First Batch of Distribution and Second Batch of Distribution were used for the redemption of bonds and settlement of administrative expenses for AIM listing and our Company has not further distributed such dividends received to its then Shareholders;</li> <li>each of Mr. Yu, Mr. Tang, Mr. Jiang, Ms. Xu and Mr. Zhou had not received any dividends therefrom nor any financial gains arising from the non-compliant act;</li> <li>the non-compliant act is not a willful act done by any of them and only due to (i) inadvertent oversight of the responsible handling staff; and (ii) absence of professional advice at the material time; and</li> <li>rectifications have been taken immediately after our Company identified the incident.</li> </ul>

Non-compliance incident	Reasons for the non-compliance	Legal consequences and maximum penalty	Rectification actions taken and to be taken	Potential operational and financial impact
<p>Zhongke Tianyuan had distributed dividends in the aggregate amount of RMB18,897,395 to our Company before 31 October 2013 (the “<b>First Batch of Distribution</b>”) for the redemption of bonds and settlement of administrative expenses for AIM listing.</p> <p>Zhongke Tianyuan had distributed dividends on 13 March 2018 and 10 January 2019 respectively, in the aggregate amount of RMB1,123,988 to our Company (the “<b>Second Batch of Distribution</b>”) for the settlement of administrative expenses for AIM listing.</p> <p>Our Company had transferred funds in the amount of RMB6,417,300 to Zhongke Tianyuan during the period from 17 October 2014 to 15 December 2016 (the “<b>Funds Transfer</b>”).</p> <p>The First Batch of Distribution, the Second Batch of Distribution and the Funds Transfer were not conducted in compliance with Circular 75 and the Regulations of the People’s Republic of China on the Management of Foreign Exchanges (中華人民共和國外匯管理條例) (the “<b>Foreign Exchanges Regulations</b>”) due to the failure of Mr. Yu, Mr. Tang, Ms. Xu, Mr. Zhou and Mr. Jiang to register under the requirement of Circular 75.</p>	<p>According to Article 46 of the “Notice of the Supreme People’s Procuratorate and the Ministry of Public Security on Issuing the Provisions (II) of the Supreme People’s Procuratorate and the Ministry of Public Security on the Standards for Filing Criminal Cases under the Jurisdiction of the Public Security Organs for Investigation and Prosecution” (最高人民檢察院、公安部關於印發《最高人民檢察院、公安部關於公安機關管轄的刑事案件立案追訴標準的規定(二)》的通知), in the case of foreign exchange evasion, a criminal case investigation shall be commenced if the amount involved in a single transaction is over US\$2 million, or the amount involved on an aggregated basis is over US\$5 million. As advised by our PRC Legal Advisers, since there was no incident of foreign exchange evasion of Zhongke Tianyuan which was over US\$2 million on a stand-alone basis or over US\$5 million on an aggregate basis, the threshold for commencement of criminal investigation against Zhongke Tianyuan in respect of the past non-compliant act on dividend distribution to offshore entity and fund transfer by our Company to Zhongke Tianyuan is not fulfilled.</p> <p>According to Article 48 of the Foreign Exchanges Regulations, a penalty of less than RMB50,000 may be imposed on each of Mr. Yu, Mr. Tang, Mr. Jiang, Ms. Xu and Mr. Zhou for failing to comply with Circular 75.</p>	<p>As advised by our PRC Legal Advisers, the likelihood of a penalty being imposed on our Directors and our Group is low for the following reasons:</p> <ul style="list-style-type: none"> <li>• our Directors have consulted the Guangdong Provincial Branch of the SAFE, which did not expressly state that our Company, Mr. Yu, Mr. Tang, Mr. Jiang, Ms. Xu and Mr. Zhou would be punished for the non-compliance incident;</li> <li>• in addition, our PRC Legal Advisers had made inquiry on the website of the SAFE and according to the Foreign Exchange Violation Enquiry Form (No. 2018076) issued by the Guangdong Provincial Branch of the SAFE, as at the Latest Practicable Date, there was no record of Zhongke Tianyuan for any administration penalty in relation to violation of the foreign exchange management regulations; and</li> <li>• our Company and our Directors have rectified the non-compliance incident immediately after we identified the incident.</li> </ul>		

Non-compliance incident	Reasons for the non-compliance	Legal consequences and maximum penalty	Rectification actions taken and to be taken	Potential operational and financial impact
			<p>Having considered the followings, our Directors believe that this non-compliance act has no material adverse impact on our operation and financial position:</p> <ul style="list-style-type: none"> <li>• as explained above, the likelihood of a penalty being imposed on the Group is low;</li> <li>• the amount of penalties which may be imposed on our Directors for the non-compliance incident was insignificant;</li> <li>• Mr. Yu, Tewin Capital, Mr. Tang, Tonzest Capital, Mr. Jiang and Jojo have entered into a deed of indemnity whereby they agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any liabilities and losses which our Group may suffer as a result of this non-compliance incident; and</li> <li>• as advised by our PRC Legal Advisers, the subsidiaries of our Company are allowed to distribute dividends offshore in accordance with PRC laws and regulations after the rectification.</li> </ul>	

2. Non-compliance relating to contribution to social insurance plans for employees

Non-compliance incident	Reasons for the non-compliance	Legal consequences and maximum penalty	Rectification actions taken and to be taken	Potential operational and financial impact
<p>The calculation basis adopted by Boluo Tianyuan and Zhongke Tianyuan to make contribution to the social insurance plans for their employees during the Track Record Period was different from the one required under the relevant PRC laws and regulations.</p>	<p>The non-compliance were not wilful and were solely due to (i) inadvertent oversight of the responsible handling staff; and (ii) absence of professional advice at the material time.</p>	<p>According to the relevant laws and regulations and as advised by our PRC Legal Advisers, we may be ordered to make further contributions (if any) based on the calculation basis required under the relevant laws, and late payment fee at a daily rate of 0.05% of the outstanding contribution from the date of delay within a specified time. If we fail to make any of the payments required within a specified time, the relevant government authorities may impose on us a fine ranging between one and three times of the outstanding social insurance balance.</p>	<p>We have taken the following rectification actions:</p> <ul style="list-style-type: none"> <li>Since March 2019, Boluo Tianyuan and Zhongke Tianyuan have been making full contribution to the social insurance plans for their relevant employees with reference to the calculation basis in compliance with the applicable PRC laws and regulations.</li> <li>We have enhanced our internal control procedures by implementing the control policy on social insurance funds that our contribution complies with the relevant laws and regulations.</li> </ul>	<p>As advised by our PRC Legal Advisers, the likelihood of a penalty being imposed on our Group is low for the following reasons:</p> <ul style="list-style-type: none"> <li>Boluo Branch of Huizhou City Social Insurance Fund Bureau* (惠州市社會保險基金管理局博羅分局) confirmed in writing that there was no complaint, investigation and administrative penalty against Boluo Tianyuan relating to social insurance protection during the period from 1 January 2016 to 7 January 2020;</li> <li>Guangzhou City Human Resources and Social Protection Bureau* (廣州市人力資源和社會保障局) and Guangzhou City Medical Security Bureau* (廣州市醫療保障局) confirmed in writing that there was no complaint, investigation and administrative penalty against Zhongke Tianyuan relating to social insurance protection during the period from 1 January 2016 to 31 December 2019;</li> <li>we have been making full contribution to the social insurance for all relevant employees according to the PRC laws and regulations since March 2019; and</li> <li>according to the Social Insurance Law, a fine can only be imposed on an entity when payment has not been made at the expiry of the prescribed period as required by the relevant authorities. As of the Latest Practicable Date, we had not received any complaints from or had any disputes with employees in terms of the social insurance issues, nor had we received notice from relevant authorities to pay for the outstanding contribution of the social insurance funds.</li> </ul>
<p>Boluo Tianyuan and Zhongke Tianyuan had not made sufficient contributions to their employees' social insurance plans during the Track Record Period under the applicable PRC laws and regulations.</p>	<p>Under the relevant PRC laws and regulations, the aggregate unpaid amount incurred during the Track Record Period was approximately RMB2.2 million. Thus, the maximum liability of our Group (inclusive of late payment fee) for such non-compliance in relation to social insurance during the Track Record Period, will be approximately RMB2.9 million.</p>			<p>Having considered the following reasons, our Directors believe that this non-compliance act has no material adverse impact on our operation and financial position:</p> <ul style="list-style-type: none"> <li>We have made sufficient provisions for social insurance contributions based on the actual wages and salaries of the employees and in accordance for the relevant laws and regulations; and</li> <li>Mr. Yu, Tegin Capital, Mr. Tang, Tonzest Capital, Mr. Jiang and Jojo have entered into a deed of indemnity whereby they agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any liabilities and losses which our Group may suffer as a result of this non-compliance incident.</li> </ul>



**3. Non-compliance relating to contribution to housing provident funds for employees**

Non-compliance incident	Reasons for the non-compliance	Legal consequences and maximum penalty	Rectification actions taken and to be taken	Potential operational and financial impact
<p>The calculation basis adopted by Boluo Tianyuan and Zhongke Tianyuan to make contribution to the housing provident funds for their employees during the Track Record Period was different from the one required under the relevant PRC laws and regulations.</p> <p>Boluo Tianyuan and Zhongke Tianyuan had not made sufficient contributions to their employees' housing provident funds during the Track Record Period under the applicable PRC laws and regulations.</p>	<p>The non-compliances were not willful and were solely due to (i) inadvertent oversight of the responsible handling staff; and (ii) absence of professional advice at the material time.</p>	<p>According to the relevant laws and regulations and as advised by our PRC Legal Advisers, we may be ordered to make further contributions (if any) based on the calculation basis required under the relevant laws and regulations for housing provident funds within a specified time. If we fail to do so within such specified time, the relevant government authorities may apply to the PRC courts to enforce their orders and compel us to make the payments required.</p> <p>Under the relevant PRC laws and regulations, the maximum liability of our Group for such non-compliance in relation to housing provident funds during the Track Record Period will be approximately RMB0.2 million.</p>	<p>We have taken the following rectification actions:</p> <ul style="list-style-type: none"> <li>Boluo Tianyuan and Zhongke Tianyuan have been making full contribution to the housing provident funds for their relevant employees by making reference to the calculation basis in compliance with the applicable PRC laws and regulations starting from August 2019 and June 2019, respectively.</li> <li>We have enhanced our internal control procedures by implementing the control policy on housing provident funds contribution to ensure that our contribution complies with the relevant laws and regulations.</li> </ul>	<p>As advised by our PRC Legal Advisers, the likelihood of a penalty being imposed on our Group is low for the following reasons:</p> <ul style="list-style-type: none"> <li>Huizhou City Housing Provident Funds Management Centre* (惠州市住房公积金管理中心) confirmed in writing that there was no penalty against Boluo Tianyuan relating to housing provident funds during the period from 6 February 2015 to 31 December 2019;</li> <li>Guangzhou Housing Provident Funds Management Centre* (廣州市住房公积金管理中心) confirmed in writing that there was no penalty against Zhongke Tianyuan relating to housing provident funds during the period from January 2016 to December 2019;</li> <li>we have been making full contribution to the housing provident fund for all relevant employees according to the PRC laws and regulations since August 2019; and</li> <li>according to the Regulations on Management of Housing Provident Fund, the non-complying entity may be ordered to pay the deficiency (without any penalty) within a prescribed period as required by the Housing Provident Fund Management Center. As of the Latest Practicable Date, we had not received any complaints from or had any disputes with employees in relation to the housing provident funds issues, nor had we received any notice from relevant authorities to pay for the outstanding contribution of the housing provident funds.</li> </ul>
				<p>Having considered the following reasons, our Directors believe that this non-compliance act has no material adverse impact on our operation and financial position:</p> <ul style="list-style-type: none"> <li>We have made sufficient provisions for housing provident fund contributions based on the actual wages and salaries of the employees and in accordance with the relevant laws and regulations; and</li> <li>Mr. Yu, Tewin Capital, Mr. Tang, Tonzest Capital, Mr. Jiang and Jojo have entered into a deed of indemnity whereby they agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any liabilities and losses which our Group may suffer as a result of this non-compliance incident.</li> </ul>

---

## BUSINESS

---

### *Internal control measures in relation to foreign exchange control laws and regulations*

We have adopted the following internal control measures to prevent the recurrence of similar non-compliance incidents relating to foreign exchange control laws and regulations:

- (i) our Company will obtain the latest foreign exchange control policies and information regularly from the SAFE or financial institutions to ensure that our Company, our Directors, senior management and employees comply with the latest foreign exchange policies and regulations;
- (ii) our Company will enquire and update with our Directors and senior management regularly and keep in our record (the “**Internal Record**”) details of (i) whether they have made contribution to any special purpose vehicle or transferred any assets (domestic or foreign) which is/are subject to foreign exchange control policies; (ii) whether there is any change in their foreign exchange registration information in our Internal Record. Upon receipt of replies from our Directors and senior management, our securities department will ascertain with SAFE on whether the relevant Directors and senior management have completed the relevant foreign exchange registration procedures and provide all assistances to them, if necessary to ensure their compliance with the foreign exchange control policies;
- (iii) our Company will keep and update from time to time a record regarding the shareholdings of our Directors and senior management in our Company, including, amongst others, their number of shareholding, nature of shareholding, whether our Shares are held by any special purpose vehicle (if so, the nature of their interest in the vehicle), whether any registration is required in respect of such shareholding (if so, whether proper registration has been filed). If we are aware of any non-compliance with the registration requirement, it will advise our Directors and senior management the requirement and assist them to register accordingly; and
- (iv) our Company has designated our finance department manager and the legal supervisor of our securities department to monitor and oversee the implementation of the abovementioned internal control measures to prevent the recurrence of similar non-compliance incidents in the future. Our finance department manager has over 12 years of experience in accounting related work in our Group and has been our finance department manager since December 2015; while the legal supervisor of our securities department possessed a law degree in the PRC and has over five years of experience in legal related work in our Group.

### *Internal control measures in relation to contribution to social insurance and housing provident funds*

We have adopted the following internal control measures to prevent the recurrence of similar non-compliance incidents relating to contribution to social insurance and housing provident funds for employees:

- (i) our Company will regularly update the staff list and prepare the payment documents of the contribution to our employee’s social insurance funds and housing provident fund monthly. Such payment documents shall be submitted to the finance department and the general manager for approval before arranging payment;

---

## BUSINESS

---

- (ii) our Company will monitor the changes in the insurance regulations and policies of the central and local governments in the PRC and we will hold regular meetings to conduct risk assessment relating to the payment of social insurance funds and housing provident fund accordingly. We will also engage external legal advisors to assess the compliance risk if necessary;
- (iii) our Company will hold meetings annually to determine the payment calculation basis of the social insurance funds and housing provident funds. We will provide the payment calculation basis and submit application for adjustment in the calculation basis if necessary. Such adjustment shall become effective only after obtaining approval in accordance with the approval process of our Company;
- (iv) our Company has designated our human resources manager to monitor and oversee the implementation of the abovementioned internal control measures to prevent the recurrence of similar non-compliance incidents in the future. Our human resources manager has over 12 years of experience in human resources related work in our Group and has acted as our human resources manager for more than nine years.

*Internal control measures in relation to material accounting and financial reporting systems deficiencies*

In preparation for the Listing, our Group engaged an independent consulting firm to review selected areas of our internal controls over financial reporting in December 2018. Certain material internal control deficiencies were identified by the consulting firm in respect of our accounting and financial reporting systems during the Track Record Period. Set out below are the summary of the deficiencies and the remedial measures taken:

- (i) Management of trade receivables:
  - a. deficiencies identified:
    - i. the timing of issuing payment reminder letters were not appropriate and records of payment reminder letters were not properly maintained;
    - ii. there was no adequate methodology in assessing impairment of trade receivables; and
    - iii. there was no trade receivables follow-up and assessment procedures for customers from sanctioned countries.

---

## BUSINESS

---

- b. remedial measures taken:
  - i. trade receivables recovery has been included as a key performance indicator for sales personnel;
  - ii. a regular systematic impairment assessment procedure has been adopted; and
  - iii. adequate policies to monitor trade receivables management for customers from sanctioned countries have been implemented.
- (ii) Management of costs outside budget:
  - a. deficiencies identified: costs were incurred for some ancillary services long after the completion of the final inspection and the expiry of the defect liability period; as provision was not made during the project period, it will cause a cost cut-off issue and affect the accuracy of revenue recognition of projects.
  - b. remedial measure taken: policy to strengthen project cost management and to make a provision on project cost for maintenance before the expiry of defect liability period has been implemented.

The independent consulting firm has reviewed the remedial measures taken by us to address these material internal control deficiencies in respect of our accounting and financial reporting systems, and the additional measures put in place to prevent recurrence of non-compliance incidents in respect of foreign exchange control laws and regulations, and contribution to social insurance and housing provident funds.

On the basis of the preventive measures mentioned above, our Directors are of the view that we have adequate internal control procedures in place for purpose of Rule 3A.15(5) of the Listing Rules. Our Directors are of the view that we have taken all reasonable steps to establish a proper internal control system. As such, the Sole Sponsor shares the view of our Directors that our enhanced internal control procedures are adequate and effective under paragraph b(v) in Appendix 19 to the Listing Rules.

We have reviewed the internal control procedures, and as of the Latest Practicable Date, we had implemented all of the recommendations put forward in the internal control report. In addition, having considered the above non-compliance matters and our enhanced internal control procedures, our Sole Sponsor is not aware of any matters that would render our Director unsuitable to serve as a director of a listed company under Rules 3.08 and 3.09 of the Listing Rules, or ones that would render us unsuitable for the Listing under Rule 8.04 of the Listing Rules.

---

## BUSINESS

---

### LICENCES AND REGULATORY APPROVALS

As advised by our PRC Legal Advisers, to the best of the knowledge of our Directors, during the Track Record Period and up to the Latest Practicable Date, we were in compliance in all material respects with the relevant PRC laws, regulations and requirements relating to our business, and we possess all relevant and valid licences, certificates, approvals and permits from our operations in the PRC, except as disclosed in “Legal Proceedings and Non-Compliance — Non-Compliance” in this section.

Our management has established and implemented a risk management policy to address potential risks associated with our business operations, including strategic risks, operational risks, financial risks and legal compliance risks. Our risk management policy sets forth procedures to identify, analyze, categorise, mitigate and monitor various risks. Our general manager and our accounting and legal staff are responsible for the oversight of the overall risk management as well as the assessment and update of our risk management policy on an annual basis. Our risk management policy also sets forth the reporting hierarchy of risks identified in our operations.

### BUSINESS ACTIVITIES IN SANCTIONED COUNTRIES

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

#### Services provided to Sanctioned Countries

During the Track Record Period, we generated a small proportion of our total revenue from our services provided to customers located in Myanmar and Russia, which were subject to targeted sanctions during the Track Record Period. The aggregate revenue generated from our business activities relating to Myanmar and Russia during the years ended 31 December 2018 and 2019 amounted to approximately RMB16.0 million and RMB0.8 million, representing 6.4% and 0.2% of our total revenue for the years ended 31 December 2018 and 2019, respectively. We did not generate any revenue from Sanctioned Countries during the year ended 31 December 2017.

Hogan Lovells, our International Sanctions Legal Advisers, performed the following procedures to evaluate our risk of exposure to penalties imposed under International Sanctions laws and regulations:

- (a) reviewed documents provided by us with respect to our Group, our business operations, revenue, service contracts and counterparty list in Myanmar and Russia, ownership structure and management;
- (b) reviewed our list of counterparties in Myanmar and Russia during the Track Record Period against the lists of persons and organisations subject to International Sanctions, and confirmed that they are not on such lists; and
- (c) received written confirmation from us that except as otherwise disclosed in this prospectus, neither our Group nor any of our affiliates (including any representative office, branch, subsidiary or other entity which forms part of our Group) conducted during the Track Record Period any business dealings in or with any other countries or persons that are subject to International Sanctions.

---

## BUSINESS

---

As advised by our International Sanctions Legal Advisers, after performing the procedures set out above, our activities during the Track Record Period do not appear to implicate restrictions under International Sanctions. Further, given the scope of our Global Offering and the expected use of proceeds as set out in this prospectus, our International Sanctions Legal Advisers are of the view that the involvement by parties in the Global Offering will not implicate any applicable International Sanctions on such parties, including our Company, our investors, our Shareholders, the Stock Exchange and its Listing Committee and group companies, or any person involved in the Global Offering and accordingly, the sanction risk exposure to our Company, our investors and our Shareholders, and persons who might, directly or indirectly, be involved in permitting the Listing, trading and clearing of our Shares (including the Stock Exchange, its Listing Committee and related group companies) is very low.

Our Directors confirm that we have not been notified of that any International Sanctions will be imposed on us for our services provided to the Sanctioned Countries during the Track Record Period. The customers located in Myanmar and Russia are not specifically identified on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or other restricted parties lists maintained by the U.S., the European Union, Australia and the United Nation and therefore would not be deemed as sanctioned targets. Such services do not involve industries or sectors that are currently subject to International Sanctions and therefore are not deemed to be prohibited activities under the relevant International Sanctions.

---

## RELATIONSHIP WITH OUR SUBSTANTIAL SHAREHOLDERS

---

### OUR SUBSTANTIAL SHAREHOLDERS

Our Company is listed on the AIM before the Delisting and Listing. According to the Listing Rules, as at the Latest Practicable Date, our Company had no Controlling Shareholder. This section is solely to provide prospective investors with information.

As at the Latest Practicable Date, Mr. Yu, through Tewin Capital, were interested in 22.28% of the total issued voting Share of our Company. Immediately after completion of the Global Offering (without taking into account Shares which may be allotted and issued pursuant to the exercise of the options which have been granted under the Pre-IPO Share Option Schemes), Mr. Yu and Tewin Capital will remain as our Substantial Shareholders and will hold approximately 17.97% of the total number of issued Shares immediately upon completion of the Global Offering. For details regarding the shareholding interest of Mr. Yu and Tewin Capital, please refer to the section headed “Substantial Shareholders” of this prospectus.

#### Mr. Yu and Tewin Capital

As at the Latest Practicable Date, Tewin Capital, a company incorporated in BVI, was wholly-owned by Mr. Yu.

Tewin Capital is an investment holding company principally engaged in holding Shares in our Company and does not have any other business. Mr. Yu is an executive Director.

### INDEPENDENCE FROM OUR SUBSTANTIAL SHAREHOLDERS

Our Directors consider that our Company is capable of carrying on our business and is operationally and financially independent from our Shareholders including our Substantial Shareholders and their close associates after Listing for the following reasons:

#### Management independence

Our management and operational decisions are made by our Board and senior management.

Our Board comprises two executive Directors and three independent non-executive Directors. The executive Directors are primarily responsible for overall management of our Group, while our senior management, including, our finance director, Mr. Cen Delin, and our general manager, Mr. Jiang are responsible for the day-to-day management of our Group’s businesses and operations.

Among our independent non-executive Directors, Mr. Richard Antony Bennett has more than 26 years of experience in technology sector, Mr. Chan Shing Fat Heron has more than 20 years of sales management and marketing experience and Mr. Chan Siu Shan Sam has more than 20 years of experience in accounting business operations and financial management, and is also a certified public accountant of the Hong Kong Institute of Certified Public Accountants. All our independent non-executive Directors have been appointed in compliance with the requirements under the Listing Rules. Given the diversity of professions and work experience of our independent non-executive Directors, our Directors believe that our Board contains a balanced composition of independent non-executive Directors with sufficient knowledge and integrity to exercise independent judgment, and to provide balanced views and opinions.

---

## RELATIONSHIP WITH OUR SUBSTANTIAL SHAREHOLDERS

---

Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit of and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group, and our Directors or their respective close associates, the interested Director(s) will declare his interest in the transactions, abstain from the relevant discussion in the transactions during the Board meeting and abstain from voting at the relevant Board meetings in respect of such transactions and will not be counted in the quorum of the relevant Board meeting.

Our Board's main functions include the approval of our Group's overall business plans and strategies, monitoring the implementation of such business plans, strategies and policies, and the management of 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.

Our Group also has an independent senior management team to carry out day to day operations and execute the business decisions of our Group, which is independent of our Substantial Shareholders. Our Directors do not foresee any issue or obstacles which may affect management independence. Our Directors are satisfied that the senior management team will be able to perform their roles in our Company independently.

In addition, our independent non-executive Directors, who are independent of our Substantial Shareholders, are expected to oversee our Board independently to ensure that there is no potential conflict of interest. They can form the necessary quorum to consider the resolutions presented to our Board and have the necessary expertise and sufficient industry knowledge and experience to ensure that decisions made by our Board will be made taking into consideration the interests of our Company and the Shareholders as a whole and the advice of the senior management team of 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 the business of our Group independently from our Substantial Shareholders and their respective close associates after Listing.

### **Operational independence**

Our Company has its own management team and makes business decisions independently. Our Group holds all relevant licenses necessary to carry on our business, and has sufficient capital, equipment and employees to operate our business independently. As at the Latest Practicable Date, we had our own independent operation capabilities and independent access to customers and suppliers. Save for the related party transactions as disclosed in the section headed "Notes to the historical financial information — 39 Related party transactions" in Appendix I to this prospectus, we had not entered into any material transaction with any connected person of our Company during the Track Record Period. As at the Latest Practicable Date, our Group did not have any plan to enter into any connected transaction (including any provision or sharing of services or facilities) with our Substantial Shareholders or any of their respective close associates after the Listing which might be material to our business operation. Any future connected transaction between our Group and our Substantial Shareholders or any of their respective associates will



---

## RELATIONSHIP WITH OUR SUBSTANTIAL SHAREHOLDERS

---

be subject to compliance with the applicable requirements under the Listing Rules and approval by the disinterested members of our Board, including our independent non-executive Directors. Our Directors believe that there is no operational dependence by our Group on our Substantial Shareholders and we are able to operate independently from our Substantial Shareholders after the Listing.

### **Financial independence**

We have sufficient capital and banking facilities to operate our business independently, and have adequate resources to support our daily operations. Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on our Substantial Shareholders. We are financially independent of our Substantial Shareholders and their respective close associates. All loans, advances and balances due to and from our Substantial Shareholders and their respective close associates have been fully settled and all guarantees provided by our Substantial Shareholders on our Group's borrowing will be released upon Listing. Please refer to section headed "Notes to the historical financial information — 39 Related Party Transactions" in Appendix I to this prospectus for further information. In addition, our Group has an independent financial system and makes financial decisions according to its own business needs. Our Directors are satisfied that we are capable of carrying on our business independently from any of our Substantial Shareholders and their respective close associates after our Company is listed on the Stock Exchange.

### **CORPORATE GOVERNANCE MEASURES**

Our Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of our Shareholders:

- (a) the Articles provide that a Director shall declare the nature of his/her interest in any contract or arrangement and/or absent himself/herself from participating in Board meetings (nor shall he/she be counted in the quorum) and voting on any resolution of our Board approving any such contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested;
- (b) our independent non-executive Directors may appoint independent financial adviser and other professional advisers as they consider appropriate to advise them on any matter relating to any connected transaction(s) at the cost of our Company.

Further, any transaction that is proposed between our Group and our Substantial Shareholders and their respective close associates will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

None of the members of our Group has experienced any dispute with its shareholders or among its shareholders themselves and our Directors believe that each member of our Group has maintained positive relationship with its shareholders. With the corporate governance measures including the measures set out above, our Directors believe that the interests of our Shareholders will be protected.

---

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

---

### DIRECTORS

Our Board consists of five Directors including two executive Directors and three independent non-executive Directors. The following table sets forth certain information relating to our Directors:

Name	Age	Date of appointment as Director	Date of joining our Group	Current position/ title	Roles and responsibilities	Relationship with other Directors
Yu Weijun (余偉俊)	55	7 August 2006	7 August 2006	Executive Director and chairman of the Board	Responsible for overseeing the overall strategic planning and corporate development of our Group	Nil
Tang Zhaoxing (唐兆興)	50	7 August 2006	7 August 2006	Executive Director and chief executive officer	Responsible for overseeing the overall company operation, sales and project design and management	Nil
Richard Antony Bennett	51	25 March 2011	25 March 2011	Independent non-executive Director	Responsible for providing independent advice to the Board	Nil
Chan Shing Fat Heron (陳盛發)	57	16 June 2020 with effect from the Listing Date	16 June 2020	Independent non-executive Director	Responsible for providing independent advice to the Board	Nil
Chan Siu Shan Sam (陳少山)	54	16 June 2020 with effect from the Listing Date	16 June 2020	Independent non-executive Director	Responsible for providing independent advice to the Board	Nil

### EXECUTIVE DIRECTORS

**Yu Weijun (余偉俊) (“Mr. Yu”)**, aged 55, is our executive Director and chairman of our Board. He is primarily responsible for the overall strategic planning and corporate development of our Group.

From June 2002 to September 2006, Mr. Yu was a director of Zhongke Regeneration, where he was responsible for its overall strategic planning and corporate development. Mr. Yu has been our executive Director since November 2006, a director of Zhongke Tianyuan since its establishment and a director of Boluo Tianyuan since August 2002.

---

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

---

Mr. Yu has over 31 years of experience in the technology sector. Prior to the incorporation of our Company, from July 1988 to June 2006, Mr. Yu worked as deputy director and later as director of the assets and finance department at GIEC CAS, where he was in charge of asset management and financial matters. From June 2014 to October 2018, he was appointed as the supervisor of Tiandi Science & Technology Co., Ltd\* (天地科技股份有限公司) (a listed company on the Shanghai Stock Exchange, stock code: 600582) where he was mainly responsible for reviewing the company's financials and supervising directors and executives in performing their company duties. From September 2015 to December 2018, Mr. Yu was the director of Hubei Jin Zhuang Renewable Resources of Science and Technology Co., Ltd.\* (湖北金莊科技再生資源有限公司) where he was mainly involved in the business development of the company. From August 2011 to August 2017, Mr. Yu was also appointed as an independent non-executive director of Guangdong Dazhi Environmental Protection Technology Incorporated Co\* (廣東達志環保科技股份有限公司) (a listed company on the Shenzhen Stock Exchange, stock code: 300530). Mr. Yu has also been an independent non-executive director of Guangzhou Startec Science and Technology Co., Ltd.\* (廣州星業科技股份有限公司), a listed company on the Shenzhen Stock Exchange, stock code: 430429) since January 2016.

Mr. Yu obtained a bachelor's degree in economics from Jilin University of Finance and Economics (吉林財經大學) (previously known as Jilin Institute of Finance and Economics\* (吉林財貿學院)) in Changchun, China in July 1988. Mr. Yu obtained an Executive Master of Business Administration from Sun Yat-Sen University (also known as Zhongshan University)\* (中山大學) in Guangzhou, China in December 2005. Mr. Yu has been a member of the The Chinese Institute of Certified Public Accountants\* (中國註冊會計師協會) since December 1998 and a member of the Guangdong Institute of Certified Public Accountants\* (廣東省註冊會計師協會) since March 2010.

Mr. Yu was also the supervisor of Dapu Nanyuewang Natural and Cultural Heritage Co., Ltd.\* (大埔南越王生態文化資源有限公司) immediately before the revocation of its business license. This company was established in the PRC and engaged in among others, investment holding and hotel management. Due to the failure to conduct annual inspection as required, its business license was revoked without cancellation by the relevant authority on 9 December 2013. Mr. Yu confirmed that he was not involved in the actual operation of the company and has not assumed any contingent liabilities nor has he been subject to any relevant claims as a result of the revocation of the business license of the aforesaid company.

In addition, Mr. Yu was previously a shareholder, supervisor or director of the following solvent companies incorporated in the PRC prior to their deregistration:

<u>Name of company</u>	<u>Principal business activity</u>	<u>Date of deregistration</u>
Guangzhou Tonglehui Clothing Co., Ltd.* (廣州市童樂匯服裝有限公司)	Sale of clothing	4 April 2014
Guangzhou Luyi Environmental Protection Technology Co., Ltd.* (廣州綠億環保科技有限公司)	Research and development of air purification, energy saving and environmental protection technologies	24 August 2011
Guangdong West Environmental Protection Engineering Co., Ltd.* (廣東威斯特環保工程有限公司)	Technological research and development and application of new energy	1 July 2014

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name of company	Principal business activity	Date of deregistration
Zhenjiang Zhongke Huadian New Energy Co., Ltd.* (鎮江中科華電新能源有限公司)	Design of biomass gasification equipment and environmental protection equipment	30 December 2004
Tai Po Chengqing Property Management Co., Ltd.* (大埔誠慶物業管理有限公司)	Development and management of tourism projects	31 December 2014
Jiangyang Zhongke Technology Co., Ltd.* (江陽中科能能源高科技有限公司)	Production and sale of water source heat pumps and high end solar water heaters	24 March 2011

As confirmed by Mr. Yu, to the best of his knowledge and belief, the above companies were solvent at the time of their revocation or deregistration. Mr. Yu has confirmed that there is no fraudulent act or misfeasance on his part leading to the revocation or deregistration of the abovementioned companies and he is not aware of any actual or potential claim which has been or will be made against him as a result of the revocation or deregistration of such companies.

Save as disclosed above, Mr. Yu has not held any directorship in any public company or the securities of which are listed on any stock exchange in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

**Tang Zhaoxing (唐兆興)** (“Mr. Tang”), aged 50, is our executive Director and chief executive officer. He is primarily responsible for overseeing the overall operation, sales and project design and management of our Group.

From June 2002 to August 2006, Mr. Tang was a general manager of Zhongke Regeneration, where he was responsible for its overall operation, sales and project design and management. Mr. Tang has been our executive Director since November 2006, and the director and deputy chief executive officer of Zhongke Tianyuan since November 2006.

Mr. Tang has over 29 years of experience in the engineering and technology sectors. Prior to joining our Group, from July 1990 to September 1993, Mr. Tang was an engineer at the chemical process department of Hunan Chemical and Medical Design Institute\* (湖南省化工醫藥設計院), where he was involved in process planning and design. From August 1993 to December 1995, Mr. Tang was a device engineer of the design and equipment installation department at Sinopec Beijing Engineering Incorporation\* (中石化北京工程公司設計安裝室) where he was involved in process and equipment installation design. From January 1996 to September 1999, Mr. Tang was the chief engineer of Guangdong Zhongneng Jiuqing Co., Ltd.\* (廣東中能酒精有限公司), where he was responsible for technology management. From October 1999 to April 2002, Mr. Tang was the chief engineer of Guangdong Huaning Co., Ltd.\* (廣東華靈集團有限公司) where he was responsible for technology and project management. He was the general manager of Guangzhou High and New-tech Zones Renewable Resources Co., Ltd.\* (廣州高新區再生資源公司) from April 2002 to April 2003, where he was responsible for overseeing the overall operation and sales of the company.

---

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

---

Mr. Tang obtained a bachelor's degree in engineering from South China University of Technology (華南理工大學) in Guangdong, China in July 1990. He later obtained an Executive Master of Business Administration degree from Peking University (北京大學) in Beijing, China in January 2009.

Mr. Tang was the legal representative of Guangzhou Sixin Biochemical Technology Co., Ltd.\* (廣州思新生化科技有限公司) immediately before the revocation of its business license. This company was established in the PRC and engaged in, among others, research and development in biological and chemical products. Due to the failure to conduct annual inspection as required, its business license was revoked without cancellation by the relevant authority on 14 October 2004. Mr. Tang was also the shareholder and supervisor of Guangzhou Junxing Technology Development Co., Ltd.\* (廣州市駿興科技開發有限公司) immediately before the revocation of its business license. This company was established in the PRC and engaged in, among others, research and development in biological and chemical products and computer software and hardware. Due to the failure to conduct annual inspection as required, its business license was revoked without cancellation by the relevant authority on 30 December 2002.

In addition, Mr. Tang was the legal representative and executive director of Baojie immediately before its deregistration. This company was established in the PRC and engaged in the sale of electromechanical products. The business license of the company was cancelled on 1 November 2011 as the company has ceased to conduct business. Mr. Tang was also the supervisor of Guangzhou Zhengxing Chemical Engineering Co., Ltd.\* (廣州正興化工科技有限公司) immediately before its deregistration. This company was established in the PRC and engaged in the wholesale and trading business. The business license of the company was cancelled on 18 July 2007 as the company has ceased to conduct business.

As confirmed by Mr. Tang, to the best of his knowledge and belief, the above companies were solvent at the time of their revocation or deregistration. Mr. Tang has confirmed that there is no fraudulent act or misfeasance on his part leading to the revocation or deregistration of the abovementioned companies and he is not aware of any actual or potential claim which has been or will be made against him as a result of the revocation or deregistration of such companies.

Save as disclosed above, Mr. Tang has not held any directorship in any public company or the securities of which are listed on any stock exchange in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Richard Antony Bennett** (“**Mr. Bennett**”), aged 51, was appointed as one of our directors in March 2011 and redesignated as our non-executive Directors (independent) in May 2011 and the chairman of our audit committee under the AIM regime. For the purpose of our Listing, Mr. Bennett will be redesignated as an independent non-executive Director on the Listing Date. He is primarily responsible for providing independent advice to our Board. As confirmed by Mr. Bennett, he is not involved in the day-to-day management of our Company and has satisfied the independence requirement under Rule 3.13 of the Listing Rules. Our Board considers that his role in our Company is, has always been and will be upon the Listing, that of an independent non-executive Director.

---

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

---

Mr. Bennett has over 26 years of experience in the technology sector. Prior to joining our Group, from January 1994 to June 1999, Mr. Bennett was a director and a co-founder and later a consultant of FAI Inc. (currently known as J2 Global Inc.), where he was responsible for international business development. From January 1999 to December 2001, Mr. Bennett was a director of Virtual Internet plc. (LSE: VET), where he assisted with its initial public offering and admission to AIM. From November 2005 to January 2013, Mr. Bennett was a corporate development director at Coms plc., and later promoted as the chief executive officer where he was responsible for its initial public offering and executive management functions.

Since February 2013, Mr. Bennett has also been a director of MTI Wireless Edge Ltd. (LSE: MWE), where he has been responsible for its corporate development, as well as its audit and remuneration matters. In April 2014, Mr. Bennett founded Sunbird Bioenergy Africa Limited, where he has been its director and the chief executive officer since then. He has been mainly responsible for overseeing and developing large-scale bioenergy projects in Sub-Saharan Africa. Mr. Bennett has also been a director of the subsidiaries and/or related investment companies of Sunbird Bioenergy Africa Limited, namely Grey Reach Investments Limited, Sunbird Bioenergy Management Services, Sunbird Bioenergy Sierra Leone Limited, Sunbird Bioenergy Zambia Limited and Sunbird Bioenergy Zimbabwe (Private) Limited since their incorporation respectively.

Mr. Bennett was previously a director of the following dormant and solvent companies incorporated in the UK prior to them being dissolved as the companies have ceased to conduct business:

<u>Name of company</u>	<u>Principal business activity</u>	<u>Date of dissolution</u>
Cogito Associates Ltd	Digital media	12 October 2010
Coms.com Limited	Wired telecommunications activities	4 January 2018
Coms Mobile Limited	Wireless telecommunications activities	14 May 2017
Coms Enterprise Limited	Internet telephony (VOIP)	25 April 2017
MRJ Bioenergy Ltd.	Ethanol	23 January 2018
Structured Knowledge Limited	Software consultancy and supply	3 May 2005
Superline Telecommunications Limited	Internet telephony (VOIP)	5 July 2016
Seamwell Energy Limited	Renewable energy	22 December 2015
The Carbon Advisory Limited	Renewable energy	15 September 2009

As confirmed by Mr. Bennett, to the best of his knowledge and belief, the above companies were solvent at the time of their dissolution. Mr. Bennett has confirmed that there was no fraudulent act or misfeasance on his part leading to the dissolution of the abovementioned companies and he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution of such companies.

Saved as disclosed above, Mr. Bennett has not held any directorship in any public company or the securities of which are listed on any stock exchange in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

---

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

---

**Chan Shing Fat Heron (陳盛發)** (“**Mr. Heron Chan**”), aged 57, will be appointed as our independent non-executive Director on 16 June 2020 with effect from the Listing Date. Mr. Chan is primarily responsible for providing independent advice to our Board.

Mr. Heron Chan has over 20 years of experience in marketing and sales management. From December 1985 to May 1995, he held various positions at IBM China/HK Corporation where he was responsible for account management and marketing. From March 1997 to June 1999, he was a sales manager and later a consultant at Xerox Hong Kong Ltd, where he was responsible for managing sales and marketing activities. From March 2001 to October 2001, he was a director of sales and marketing at the SAS Institute Ltd where he was responsible for managing sales and marketing activities. From September 2004 up to its dissolution in September 2014, Mr. Heron Chan was a director of Federation of International SME Limited, where he was responsible for connecting businesses to various entities and business associations. From May 2005 up to its dissolution in April 2013, Mr. Heron Chan was a director of Institute of Systems Management (China) Limited, where he was responsible for marketing the entity for project partnership. Since May 2007, Mr. Heron Chan has been the managing director of IC Strategy Co. Ltd., where he has been responsible for organizing education and business related projects, and the business development of the trading business in China and the international market.

Mr. Heron Chan obtained a bachelor’s degree in Public Administration and Mathematics from the University of Saskatchewan in Canada in October 1983. He then obtained a master’s degree in Business Administration from Oklahoma City University in the United States in August 1989 and also obtained a doctorate degree in Business Administration from The Hong Kong Polytechnic University in Hong Kong in November 2003.

Mr. Heron Chan was previously a director of the companies incorporated in Hong Kong as shown in the table below which have been deregistered/dissolved in Hong Kong:

Name of company	Principal business activity	Date of deregistration/dissolution
Federation of International SME Limited (Note 1)	Providing companies with a platform to work with various government bodies	19 September 2014
Fonic Data System Limited (Note 2)	Data management	18 May 2012
Institute of Systems Management (China) Limited (Note 3)	Developing education platforms	26 April 2013
Kaizen Institute Limited (Note 2)	Providing consulting service	4 November 2011
Sunshine Winery Limited (Note 2)	Marketing and sale of wine	30 September 2011
Thinktank (China) Limited (Note 2)	Providing consulting services to companies	5 November 2010
Digi-International Exhibitions Company Limited (Note 3)	Providing exhibition organisation services	26 November 2010

Notes:

- Federation of International SME Limited was struck off by the Registrar of Companies in Hong Kong pursuant to section 746 of the Companies Ordinance on 19 September 2014. Under section 746 of the Companies Ordinance, (1) after publishing a notice under section 744(3) or 745(2)(b), the Registrar of Companies may, unless cause is shown to the contrary, strike the company’s name off the Companies Register at the end of three months after the date of the notice; (2) the Registrar of Companies must publish in the Gazette a notice indicating that the company’s name has been struck off the Companies Register; and (3) on publication of the notice under subsection (2), the company is dissolved.*

---

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

---

2. *Fonic Data System Limited, Kaizen Institute Limited, Sunshine Winery Limited and Thinktank (China) Limited were deregistered under section 291AA of the predecessor Companies Ordinance (Cap. 32) on 18 May 2012, 4 November 2011, 30 September 2011 and 5 November 2010, respectively. Under section 291AA of the predecessor Companies Ordinance (Cap. 32), an application for deregistration can only be made if: (a) all members of the company agree to such deregistration; (b) the company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than three months immediately before the application; and (c) such company has no outstanding liabilities.*
3. *Institute of Systems Management (China) Limited and Digi-International Exhibitions Company Limited were struck off by the Registrar of Companies in Hong Kong pursuant to section 291 of the predecessor Companies Ordinance (Cap. 32) on 26 April 2013 and 26 November 2010, respectively. Under section 291 of the predecessor Companies Ordinance (Cap. 32), (1) after publishing a notice under section 291(5), the Registrar of Companies may, unless cause is shown to the contrary, strike the company's name off the Companies Register at the end of three months after the date of the notice; (2) the Registrar of Companies must publish in the Gazette a notice indicating that the company's name has been struck off the Companies Register; and (3) on publication of the notice under subsection (2), the company is dissolved.*

As confirmed by Mr. Heron Chan, to the best of his knowledge and belief, the above companies were solvent at the time of their deregistration or dissolution. Mr. Heron Chan has confirmed that there was no fraudulent act or misfeasance on his part leading to the deregistration or dissolution of the abovementioned companies and he is not aware of any actual or potential claim which has been or will be made against him as a result of the deregistration or dissolution of such companies.

Mr. Heron Chan has not held any directorship in any public company or the securities of which are listed on any stock exchange in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

**Chan Siu Shan Sam (陳少山) (“Mr. Sam Chan”)**, aged 54, will be appointed as one of our independent non-executive Directors on 16 June 2020 with effect from the Listing Date. Mr. Sam Chan is responsible for supervising and providing independent judgement to the Board.

Mr. Sam Chan has over 20 years of experience in accounting, business operations and financial management. From October 1999 to March 2003, Mr. Sam Chan was the finance and administration manager of Wide Loyal Industries Limited, where he was responsible for supervising the accounting and administration department. From June 2003 to April 2004, Mr. Sam Chan was an audit manager at TBW Accountancy Limited, where he was responsible for conducting audit work for the firm's clients. Since June 2004, Mr. Sam Chan has been a director of Suntech Management Limited, where he is responsible for accounting, tax and consultancy matters. Since May 2014, Mr. Sam Chan has also been a managing director of HPIL Limited, where he has been responsible for a hotel construction project in Saipan, Northern Mariana Islands (a commonwealth of the United States). Since March 2018, Mr. Sam Chan has also been a director of CKIT Services Limited, where he has been responsible for providing advisory services on company secretarial matters.

Mr. Sam Chan obtained a bachelor of science in Biochemistry with Pharmacology from the University of Southampton in June 1988. He then obtained a master's degree in Business Administration (General Management) from the University of Lincolnshire & Humberside in December 2000. Mr. Sam Chan has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants since April 2002 and a fellow member of the Association of Chartered Certified Accountants since October 2006.



---

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

---

Mr. Sam Chan was previously a director of American Electronic Limited immediately before it was dissolved, a company incorporated in Hong Kong pursuant to an order by the High Court of Hong Kong on 15 May 2018 under section 168A and 177(1)(f) of the predecessor Companies Ordinance (Cap. 32) as a result of a petition by one of its shareholders on 21 December 2012. Immediately prior to its dissolution, American Electronic Limited was principally engaged in property investment. Mr. Sam Chan confirmed that there is no fraudulent act or misfeasance on his part leading to the dissolution of such company and he is not aware of any actual or potential claim which has been or will be made against him as a result of the dissolution of such company.

In addition, Mr. Sam Chan was previously a director of the following companies incorporated in Hong Kong as shown in the table below which have been deregistered in Hong Kong pursuant to section 751 of the Companies Ordinance (Cap. 622) or section 291AA of the predecessor Companies Ordinance (Cap. 32):

Name of company	Principal business activity	Date of deregistration
C-P Media (HK) Limited	Trading	7 August 2009
Doctor Beauty Cosmetic Surgery and Health Company Limited	Trading	16 May 2008
Fortress Joy Limited	Investment holding	12 July 2019
Free Dimensions (HK) Limited	Trading of healthy foods	20 January 2012
GHS Siahaf Limited	Investment holding	31 December 2015
Grand Luck Trading Limited	Trading	12 February 2010
Huge Wise Corporation Limited	Investment holding	9 November 2018
Icube (China) Charity Fund Management Company Limited	Promotion and arrangement of charitable functions	22 December 2017
Lead Pacific Inc Limited	Investment holding	1 February 2019
Merit Rich Limited	Investment holding	22 February 2019
Mighty Power Limited	Investment holding	7 March 2014
New Lead Inc Limited	Trading	21 July 2017
Oasis Light Limited	Investment holding	10 August 2018
ON Project Limited	Trading	5 October 2001
Pacific Rise Inc Limited	Investment holding	23 November 2018
Pinnacle Fortune Limited	Investment holding	21 September 2018
Prospect Fair Limited	Investment holding	28 September 2018
Queens Road Holdings Limited	Investment holding	8 March 2019
Queens Road No.2 Limited	Investment holding	14 December 2018
Queens Road No.3 Limited	Investment holding	28 September 2018
Queens Road No.4 Limited	Investment holding	5 October 2018
Queens Road No.5 Limited	Investment holding	5 October 2018
Queens Road No.6 Limited	Investment holding	15 March 2019
Regal Trinity Limited	Investment holding	8 March 2019
Right Beauty Investment Limited	Investment holding	9 November 2018
Rise Lead Limited	Investment holding	30 November 2018
Sam-Tec Limited	Trading	12 July 2002
Smart Fortune Corporation Limited	Trading	4 November 2016
Spread Treasure Limited	Investment holding	9 November 2018
Stern Fast Limited	Investment holding	23 November 2018

---

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

---

Name of company	Principal business activity	Date of deregistration
Trade Ease Limited	Investment holding	9 November 2018
Trend Winner Limited	Investment holding	2 September 2011
UP Class Limited	Investment holding	30 June 2011
Wealth Joy Corporation Limited	Investment holding	25 October 2013
WEG Siahaf Limited	Investment holding	31 December 2015
World Union Inc Limited	Investment holding	1 February 2019

*Note:*

*The above companies were deregistered under section 751 of the Companies Ordinance or section 291AA of the predecessor Companies Ordinance (Cap. 32). Under section 750 of the Companies Ordinance, an application for deregistration can only be made if: (a) all members of the company agree to such deregistration; (b) the company has not commenced business or operation, or has not been in operation or carried on business during the three months immediately before the application; (c) such company has no outstanding liabilities; (d) such company is not a party to any legal proceedings; (e) such company's asset do not consist of any immovable property situated in Hong Kong; and (f) if such company is a holding company, none of its subsidiary's asset consist of any immovable property situated in Hong Kong. Under section 291AA of the predecessor Companies Ordinance (Cap. 32), an application for deregistration can only be made if: (a) all members of the company agree to such deregistration; (b) the company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than three months immediately before the application; and (c) such company has no outstanding liabilities.*

The above deregistered companies to which Mr. Sam Chan previously was a director were dormant and had no business operation prior to their deregistration. They were established solely for his own trading business or investment holding purposes for his previous clients. Those companies which have ceased operating in the trading business or never held any investment of his previous clients were dissolved by deregistration subsequently.

The business operation of the companies which Mr. Sam Chan currently holds directorship in are relatively small in scale and Mr. Sam Chan is well supported by his team of staff members in his decision making and day-to-day management of the companies. In view of the foregoing, our Directors are satisfied that, and the Sole Sponsor concurs, that Mr. Sam Chan is able to devote sufficient time to his role as our Director to fulfil his responsibilities and obligations as there is no need for him to spend much time in those companies.

As confirmed by Mr. Sam Chan, to the best of his knowledge and belief, the above companies were solvent at the time of their deregistration. Mr. Sam Chan has confirmed that there was no fraudulent act or misfeasance on his part leading to the deregistration of the abovementioned companies and he is not aware of any actual or potential claim which has been or will be made against him as a result of the deregistration of such companies.

Mr. Sam Chan has not held any directorship in any public company or the securities of which are listed on any stock exchange in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Save as disclosed in this section, each of our Directors confirms that: (a) he did not have any relationship with any other Directors, senior management or Substantial Shareholders of our Company as at the Latest Practicable Date; (b) he does not have any interests in our Shares within the meaning of Part XV of the SFO, save as disclosed in the section headed “Statutory and General Information — C. Disclosure of Interests” in Appendix IV to this prospectus; (c) he does not have any interest in any business which competes or is likely to compete, directly or indirectly, with us, which is discloseable under the Listing Rules; and (d) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no additional information relating to our Directors or senior management that was required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and no other matter with respect to their appointments that needed to be brought to the attention of our Shareholders as at the Latest Practicable Date.

### SENIOR MANAGEMENT

The following table presents certain information concerning the senior management personnel of our Group:

Name	Age	Position	Date of joining our Group	Roles and responsibilities	Relationship with other Directors
Jiang Xinchun (姜新春)	49	General manager	2 September 2006	Responsible for overseeing the overall management and daily operations of our Group	Nil
Zhou Hongcai (周宏才)	51	Deputy general manager	2 September 2006	Responsible for overseeing the overall technical design, development and management of engineering projects	Nil
Cen Delin (岑德林)	46	Finance director	20 February 2012	Responsible for overseeing the daily financial management and accounting matters of our Group	Nil
Xu Huijuan (徐惠娟)	40	Board secretary/joint company secretary	2 September 2006	Responsible for overseeing the overall securities and company secretarial matters of our Group	Nil
Ou Jingshen (區鏡深)	44	R&D department director	1 January 2007	Responsible for overseeing laboratory operations of our Group	Nil

---

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

---

**Jiang Xinchun (姜新春) (“Mr. Jiang”)**, aged 49, is our general manager. He is primarily responsible for overseeing the overall management and daily operations of our Group including providing technical support, equipment supplies, aftersales technical services and company operation management.

From June 2002 to August 2006, Mr. Jiang was a deputy general manager of Zhongke Regeneration, where he was responsible for managing projects. Mr. Jiang joined Zhongke Tianyuan in September 2006 as a deputy general manager and has been the general manager and a director of Zhongke Tianyuan since August 2016 and May 2017 respectively.

Mr. Jiang has over 26 years of experience in the engineering sector. Prior to joining our Group, from July 1993 to July 1998, Mr. Jiang was an equipment engineer at the Hunan Chemical Industry Design Institute\* (湖南省化學工業設計院), where he was responsible for the management of equipment installation and engineering projects. From August 1998 to June 2002, Mr. Jiang was the deputy general manager at Guangzhou Sixin Biochemical Technology Co., Ltd.\* (廣州思新生化科技有限公司), where he was responsible for the management of engineering projects.

Mr. Jiang obtained a bachelor’s degree in chemical machineries at Zhengzhou University (鄭州大學) (previously known as Zhengzhou Institute of Technology\* (鄭州工學院)) in Zhengzhou, China in June 1993. Mr. Jiang participated in a corporate management and strategic investment president training course\* (企業管理與戰略投資總裁研修班) at Tsinghua University (清華大學) in Beijing, China from June 2009 to August 2010.

Mr. Jiang has not held any directorship in any public company or the securities of which are listed on any stock exchange in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

**Zhou Hongcai (周宏才) (“Mr. Zhou”)**, aged 51 is our deputy general manager. He is mainly responsible for overseeing the overall technical design, development and management of engineering projects.

From April 2003 to August 2006, Mr. Zhou was a technical director at Zhongke Regeneration. From September 2006 to August 2016, Mr. Zhou became the technical director of Zhongke Tianyuan. Since August 2016, Mr. Zhou has been our deputy general manager of Zhongke Tianyuan.

Mr. Zhou has over 29 years of working experience in the engineering sector. Prior to joining our Group, Mr. Zhou has held various positions at Hunan Jintian Chemical Fertilizer Company Limited\* (湖南今天化肥化工股份有限公司). From July 1990 to July 1992, Mr. Zhou was a teacher at the company’s vocational school where he was responsible for delivering lectures. From August 1992 to December 1997, Mr. Zhou was the technical supervisor and technical factory manager of the company’s adhesive manufacturing plant where he was involved in management of the factory. From January 1998 to March 2003, Mr. Zhou was the technical supervisor of the company’s technology development centre, where he was mainly responsible for technical management.

Mr. Zhou obtained a bachelor’s degree in chemical engineering at South China University of Technology (華南理工大學) in Guangdong, China in July 1990.

Mr. Zhou has not held any directorship in any public company or the securities of which are listed on any stock exchange in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

---

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

---

**Cen Delin** (岑德林) (“**Mr. Cen**”), aged 46 is our finance director. He has been responsible for overseeing the daily financial management and accounting matters of our Group. Mr. Cen joined our Group in February 2012 as the investment manager of Zhongke Tianyuan.

Mr. Cen has over 17 years of experience in finance and accounting. Prior to joining our Group, from August 2002 to June 2003, Mr. Cen was the finance officer of Saiwo Naru (Guangzhou) Shoes Materials Co., Ltd.\* (賽沃納如(廣州)鞋材有限公司) where he was responsible for overseeing financial matters. He was also the finance manager at Guangzhou Guangzhong Electromechanical Equipment Engineering Company Limited\* (廣州廣重機電設備工程公司) and Guangzhou Deji Aquarium Company Ltd\* (廣州德技水族有限公司) from August 2006 to November 2010, and from December 2010 to December 2011 respectively, where he was mainly involved in overseeing daily financial and accounting matters respectively.

Mr. Cen completed a finance and accounting program at the Wuzhou Branch of Guangxi University\* (廣西大學梧州分校) in Guangxi, China in July 1995. Mr. Cen also studied a part-time course in professional English at Sun Yat-Sen University (also known as Zhongshan University)\* (中山大學) in Guangzhou, China from August 2005 to January 2008.

Mr. Cen has not held any directorship in any public company the securities of which are listed on any stock exchange in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

**Xu Huijuan** (徐惠娟) (“**Ms. Xu**”), aged 40 is our Board secretary/joint company secretary. Ms. Xu joined our Group in September 2006. She is primarily responsible for equities management and company secretarial matters of our Group.

Ms. Xu has over 16 years of experience in finance, accounting and company secretary. Ms. Xu has held various positions in our Group since joining us in September 2006. From September 2006 to December 2007, she was the deputy office supervisor of Zhongke Tianyuan. Ms. Xu has been the board secretary of Zhongke Tianyuan since May 2011. She has also been the finance manager of our Company since January 2008 and our Board secretary since May 2011.

Before joining our Group, from July 2003 to September 2006, she was an accounting assistant and an asset management manager at Zhongke Environment, where she was primarily responsible for accounting matters, asset management and equities management, respectively.

Ms. Xu obtained her bachelor’s degree in Accounting at Guangdong University of Foreign Studies\* (廣東外語外貿大學) in Guangdong, China in June 2003. She obtained an intermediate economist qualification issued by the Human Resources and Social Security Department of Guangdong Province\* (廣東省人力資源和社會保障廳) in January 2011. Ms. Xu also obtained a master’s degree in Professional Accounting from Sun Yat-sen University (also known as Zhongshan University)\* (中山大學) in Guangdong, China in December 2013.

Ms. Xu has not held any directorship in any public company or the securities of which are listed on any stock exchange in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

---

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

---

**Ou Jingshen** (區鏡深) (“**Dr. Ou**”), aged 44 is the deputy director of our research and development department. He is primarily responsible for overseeing laboratory operations of our Group.

Dr. Ou joined our Group in 2007. From January 2007 to August 2007, Dr. Ou was a researcher of Zhongke Tianyuan, where he was responsible for the operation of laboratories and experiments. Since November 2015, he has been our deputy director of the biofuel engineering technology research center of Zhongke Tianyuan, where he has been responsible for its daily operations, developing research and development plans, and providing technical support to other departments in Zhongke Tianyuan.

Dr. Ou has over 5 years of experience in laboratory operations. Prior to joining our Group, from July 1999 to February 2001, Dr. Ou was an assistant of Guangdong Huaning Group Co. Ltd.\* (廣東華靈集團有限公司), where he was responsible for the operation of laboratory tests.

Dr. Ou obtained a bachelor’s degree in biopharmaceutical at South China University of Technology (華南理工大學) in Guangdong, China in July 1999. He then obtained a master degree in engineering at South China University of Technology (華南理工大學) in Guangdong, China in June 2006. He also obtained a doctor of science degree at South China University of Technology (華南理工大學) in Guangdong, China in December 2014. He has published various articles such as “*The Specific siRNA Plasmids Construction and their Inhibition Effect on Expression of mcl-1 Protein in Liver Cancer Cell*” and “*Incorporation of Endoglucanase E4 into Minicellulosomes by In-Vitro Assembly*” on the Modern Food Science and Technology and the Journal of South China University of Technology (華南理工大學) in 2010 and 2013, respectively.

Dr. Ou has not held any directorship in any public company or the securities of which are listed on any stock exchange in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

### JOINT COMPANY SECRETARIES

**Mr. Sin Chi Yuen Edward** (單智遠), aged 43, is a joint company secretary of the Company. Mr. Sin is responsible for the corporate secretarial functions of our Group. He has been an associate of the Chartered Governance Institute and the Hong Kong Institute of Chartered Secretaries since 21 October 2008. He also holds a bachelor degree in Business Administration awarded by the Open University of Hong Kong in December 2003. He is currently the manager of Gladson Secretaries Limited, a corporate secretarial services provider firm in Hong Kong.

**Ms. Xu Huijuan** (徐惠娟), aged 40, is a joint company secretary of our Company. Ms. Xu’s biographical details are set forth in the paragraph headed “Senior Management” above.

---

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

---

### BOARD COMMITTEES

#### Audit Committee

Our Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules. Written terms of reference in compliance with paragraph C3.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules has been adopted. Among other things, the primary duties of the Audit Committee are to review and supervise the financial reporting process of our Group and to oversee the audit process and the audits of the financial statements of our Group.

The Audit Committee consists of all of our independent non-executive Directors, namely Mr. Sam Chan, Mr. Bennett and Mr. Heron Chan. Mr. Sam Chan is the chairman of the Audit Committee.

#### Remuneration Committee

Our Company has established a Remuneration Committee in compliance with Rule 3.25 of the Listing Rules with written terms of reference in compliance with paragraph B.1.2 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to review, determine and make recommendations to our Board on the policy and structure or the remuneration payable to our Directors and senior management and making recommendations on employee benefit arrangements.

The Remuneration Committee consists of three members, namely Mr. Heron Chan, Mr. Bennett and Mr. Yu. Mr. Heron Chan is the chairman of the Remuneration Committee.

#### Nomination Committee

Our Company has established a Nomination Committee with written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to our Board regarding the candidates to fill vacancies on our Board and to review the structure, size and composition of our Board and the board diversity policy adopted by our Company on a regular basis.

The Nomination Committee consists of three members, namely Mr. Yu, Mr. Bennett and Mr. Heron Chan. Mr. Yu is the chairman of the Nomination Committee.

#### Risk Management Committee

Our Group has established a risk management committee. The primary duties of the risk management committee are to monitor our exposure to sanctions risks and to oversee our implementation of the related internal control procedures. Our risk management committee will hold at least two meetings each year to monitor our exposure to sanctions risks.

The risk management committee consists of three members, namely Mr. Yu, Mr. Bennett and Mr. Sam Chan. Mr. Yu is the chairman of the risk management committee.

---

## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

---

### **BOARD DIVERSITY**

We have adopted the policy on Board diversity which sets out the objective and approach to achieve and maintain diversity on our Board in order to enhance its effectiveness. The policy provides that our Company should endeavour to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of our business strategy. Pursuant to our policy, we seek to achieve Board diversity through the consideration of a number of factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural background, education, ethnicity, length of service, personal integrity and time commitments of the proposed candidates. Our Board diversity policy further provides that the ultimate decision is based on merit and contribution that the selected candidates will bring to our Board and will be considered against objective criteria, having due regard for the benefits of diversity on our Board. Taking into account our business model and the backgrounds and experience of our Directors, the composition of our Board satisfies the Board diversity policy, despite the lack of gender diversity.

With regards to gender diversity on our Board, our Board diversity policy further provides that our Board shall take opportunity to increase the proportion of female members over time when selecting and making recommendation on suitable candidates for Board appointments so as to achieve an appropriate balance of gender diversity with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing our Board to gender parity. Our Nomination Committee is delegated by our Board to be responsible for compliance with relevant code governing Board diversity under the Corporate Governance Code. After Listing, our Nomination Committee will review our policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of our policy on annual basis.

Our Group has intended to offer all-rounded trainings to female senior management who have experience in our operation and business, including but not limited to accounting and finance, legal, secretary and compliance and research and development, and our Board has planned to appoint at least one female member to our Board within three years after Listing. Our Directors are of the view that such strategy will offer chances for our Board to identify capable female senior management to be nominated as a member of the Board with an aim to providing our Board with a pipeline of female candidates to achieve gender diversity in our Board in the long run.

### **REMUNERATION POLICY**

Our Directors' remuneration is determined with reference to the prevailing market practice, our Company's remuneration policy, seniority, their experiences and their duties and responsibilities with our Group. The Directors are entitled to statutory benefits as required by law from time to time such as pension. During the three years ended 31 December 2019, the aggregate of the remuneration paid and benefits in kind granted to the Directors by any member of our Company were approximately RMB1.90 million, RMB1.65 million and RMB1.12 million, respectively.



---

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

---

Each of our executive Directors has entered into a service agreement with our Company for an initial term of three years commencing from the Listing Date subject to termination provisions contained therein. Each of our executive Directors is entitled to a basic salary. Under the service agreements, the basic annual remunerations (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Company to the executive Directors are set out below:

**Executive Directors**

Mr. Yu Weijun	HK\$635,000
Mr. Tang Zhaoxing	HK\$575,000

Each of our independent non-executive Directors has signed an appointment letter with our Company with an initial term of three years commencing from the Listing Date subject to termination provisions contained therein. Under the appointment letters, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Company to the independent non-executive Directors are as follows:

**Independent non-executive Directors**

Mr. Bennett	£20,000
Mr. Heron Chan	HK\$120,000
Mr. Sam Chan	HK\$120,000

Director's fee for each of our independent non-executive Directors during the three-year term is initially fixed, subject to the Board's review from time to time in its discretion after taking into account the recommendation of the Remuneration Committee.

Save as disclosed above, no other remuneration has been made or are payable by our Group to the Directors during the Track Record Period. Our Directors estimate that under the current proposed arrangement, the aggregate basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Company to each executive Director during the year ending 31 December 2020 will be approximately HK\$1.63 million.

The remuneration policy of our Group to reward our employees and Directors is based on their performance, qualifications, competence displayed and market comparables. A remuneration package typically comprises salary, contribution to pension schemes and discretionary bonuses relating to the profit of the relevant company.

The remuneration package of the executive Director and the senior management will be linked more to the performance of our Group and the return to our Shareholders. The Remuneration Committee will review annually the remuneration of all our Directors to ensure that it is attractive enough to attract and retain a competent team of executive members.

---

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

---

### COMPLIANCE ADVISER

Our Group has appointed Dongxing Securities as our compliance adviser in accordance with Rule 3A.23 of the Listing Rules from the Listing Date. The compliance adviser will advise our Group on on-going compliance requirements and other issues under the Listing Rules and other applicable laws and regulations in Hong Kong after the Listing.

Save for Dongxing Securities' obligations under the Underwriting Agreement as disclosed in the section headed "Underwriting" in this prospectus, Dongxing Securities does not have any shareholding interest in our Group nor any right to subscribe for or to nominate any person to subscribe for securities in our Company or any member of our Group.

Services to be provided by the compliance adviser under the compliance adviser agreement between our Group and the compliance adviser include:

- to advise our Company with regard to its obligations under various rules and regulations of the Stock Exchange and the SFC, and to provide our Company with proper guidance and advice with due care and skill as to compliance with the requirements under the Listing Rules and all other applicable laws, rules, codes and guidelines;
- upon the request of our Company, to accompany our Group to any meetings with the Stock Exchange, unless otherwise declined by the Stock Exchange;
- to advise our Company before the publication of any regulatory announcement, circular or financial report;
- to advise our Company where we propose to use the net proceeds from the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus;
- to advise our Company where the Stock Exchange makes an inquiry to our Company under Rule 13.10 of the Listing Rules;
- to assess the understanding of all new appointees to our Board regarding the nature of their responsibilities and fiduciary duties as a director of a listed company, and, to the extent the compliance adviser forms an opinion that the new appointees' understanding is inadequate, discuss the inadequacies with our Board and make recommendations to our Board regarding appropriate remedial steps such as training; and
- to discharge such duties and functions as may be required to be performed by the compliance adviser under the Listing Rules from time to time and as reasonably requested by our Company.

The term of the appointment shall commence on the Listing Date and end on the date of which our Group complies with the Listing Rules in respect of its financial results for the first full financial year after the date of the Listing, which, for the avoidance of doubt, shall mean the financial year ending 31 December 2021.

---

## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

---

### **STAFF RELATIONS**

Our Group believes that the employee relations are satisfactory in general. Our Group believes that the management policies, working environment, career prospects and benefits extended to the employees have contributed to employee retention and building of amicable employee relations.

### **PRE-IPO SHARE OPTION SCHEMES**

Our Company has adopted the Pre-IPO Share Option Schemes on 17 October 2017, details of which are set out in the paragraph headed “History, reorganisation and corporate structure — Pre-IPO share option schemes” in this prospectus. A summary of the principal terms is set forth in the paragraphs under “D. Pre-IPO Share option schemes — The Pre-IPO Share Option Schemes” in Appendix IV to this prospectus.

## SUBSTANTIAL SHAREHOLDERS

So far as it is known to our Directors and save as disclosed in this prospectus, immediately following the completion of the Global Offering (taking no account of any Shares which may be allotted and issued pursuant to the exercise of options which have been granted under the Pre-IPO Share Option Schemes), the following persons (not being a Director or chief executive of our Company) will have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity/Nature of interest	As at the Latest Practicable Date		Immediately after the completion of the Global Offering	
		Number of Shares	Approximate percentage of shareholding interests (%)	Number of Shares	Approximate percentage of shareholding interests (%)
Tewin Capital	Beneficial interest <sup>(Note 1)</sup>	99,012,168 (L)	22.28	99,012,168 (L)	17.97
Mr. Yu	Interest in a controlled corporation <sup>(Note 1)</sup>	99,012,168 (L)	22.28	99,012,168 (L)	17.97
Ms. Tan Fengqiao (譚鳳俏)	Interest of spouse <sup>(Note 2)</sup>	99,012,168 (L)	22.28	99,012,168 (L)	17.97
Tonzest Capital	Beneficial interest <sup>(Note 3)</sup>	48,000,000 (L)	10.80	48,000,000 (L)	8.71
Mr. Tang	Interest in a controlled corporation <sup>(Note 3)</sup>	48,000,000 (L)	10.80	48,000,000 (L)	8.71
Ms. Zeng Fanghua (曾芳華)	Interest of spouse <sup>(Note 4)</sup>	48,000,000 (L)	10.80	48,000,000 (L)	8.71
Best Full	Beneficial interest <sup>(Note 5)</sup>	48,000,000 (L)	10.80	48,000,000 (L)	8.71
Mr. Liang Hongtao	Interest in a controlled corporation <sup>(Note 5)</sup>	48,000,000 (L)	10.80	48,000,000 (L)	8.71
Ms. Han Jing (韓菁)	Interest of spouse <sup>(Note 6)</sup>	48,000,000 (L)	10.80	48,000,000 (L)	8.71
Kapok Capital Management Limited	Beneficial interest <sup>(Note 7)</sup>	44,652,107 (L)	10.05	44,652,107 (L)	8.10
Ms. Chen Wai Ling	Interest in a controlled corporation <sup>(Note 7)</sup>	44,652,107 (L)	10.05	44,652,107 (L)	8.10
Jojo	Beneficial interest <sup>(Note 8)</sup>	32,100,000 (L)	7.22	32,100,000 (L)	5.83
Mr. Jiang	Interest in a controlled corporation <sup>(Note 8)</sup>	32,100,000 (L)	7.22	32,100,000 (L)	5.83

## SUBSTANTIAL SHAREHOLDERS

Name	Capacity/Nature of interest	As at the Latest Practicable Date		Immediately after the completion of the Global Offering	
		Number of Shares	Approximate percentage of shareholding interests (%)	Number of Shares	Approximate percentage of shareholding interests (%)
Ms. Wang Yan (王研)	Interest of spouse <sup>(Note 9)</sup>	32,100,000 (L)	7.22	32,100,000 (L)	5.83

*Notes:*

1. *Tewin Capital was wholly owned by Mr. Yu. Therefore, Mr. Yu is deemed, or taken to be, interested in 99,012,168 Shares held by Tewin Capital for the purpose of the SFO.*
2. *Ms. Tan Fengqiao (譚鳳俏) is the spouse of Mr. Yu. Ms. Tan Fengqiao is deemed to be interested in all our Shares in which Mr. Yu is interested in for the purpose of the SFO.*
3. *Tonzest Capital was wholly owned by Mr. Tang. Therefore, Mr. Tang is deemed, or taken to be, interested in 48,000,000 Shares held by Tonzest Capital for the purpose of the SFO.*
4. *Ms. Zeng Fanghua (曾芳華) is the spouse of Mr. Tang. Ms. Zeng Fanghua is deemed to be interested in all our Shares in which Mr. Tang is interested in for the purpose of the SFO.*
5. *Best Full was wholly owned by Mr. Liang Hongtao. Therefore, Mr. Liang Hongtao is deemed, or taken to be, interested in 48,000,000 Shares held by Best Full for the purpose of the SFO.*
6. *Ms. Han Jing (韓菁) is the spouse of Mr. Liang Hongtao. Ms. Han Jing is deemed to be interested in all our Shares in which Mr. Liang Hongtao is interested in for the purpose of the SFO.*
7. *Kapok Capital Management Limited was wholly owned by Ms. Chen Wan Ling. Therefore, Ms. Chen Wan Ling is deemed, or taken to be interested in 44,652,107 Shares held by Kapok Capital Management Limited for the purpose of the SFO. To the best knowledge of our Directors, Kapok Capital Management Limited and Ms. Chen Wan Ling are Independent Third Parties.*
8. *Jojo was wholly owned by Mr. Jiang. Therefore, Mr. Jiang is deemed, or taken to be interested in 32,100,000 Shares held by Jojo for the purpose of the SFO.*
9. *Ms. Wang Yan (王研) is the spouse of Mr. Jiang. Ms. Wang Yan is deemed to be interested in all our Shares in which Mr. Jiang is interested in for the purpose of the SFO.*
10. *The letter “L” denotes a person’s long “position” (as defined under Part XV of the SFO) in such voting Shares.*

---

## SHARE CAPITAL

---

### SHARE CAPITAL

All of the issued Shares in our Company comprise fully paid ordinary Shares. The share capital of our Company immediately following the Global Offering will be as follows:

Authorised:		£
<u>40,000,000,000</u>	Shares of £0.00025 each	<u>10,000,000.00</u>
Issued or to be issued, fully paid or credited as fully paid:		
444,447,541	Shares in issue as at the date of this prospectus	111,111.89
23,924,502	Shares to be issued under the pre-HKIPO investment	5,981.13
<u>82,600,000</u>	Shares to be issued pursuant to the Global Offering	<u>20,650.00</u>
<u>550,972,043</u>	Shares	<u>137,743.01</u>

### Assumptions

The above table assumes the Global Offering become unconditional and the issue of Shares pursuant thereto are made as described herein. It does not take into account any Shares which may be allotted and issued pursuant to the exercise of any options which have been granted under the Pre-IPO Share Option Schemes or any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to in the paragraph headed “General mandate to issue Shares” or the paragraph headed “General mandate to repurchase Shares” in this section (as the case may be).

### PAST TRADING INFORMATION

The following table sets forth the periods indicated the reported high, low, month end and monthly average of the trading prices on AIM for our Shares during the Track Record Period until the Latest Practicable Date. Historical Share prices may not be indicative of the price at which our Shares will be traded on the Stock Exchange following the Listing.

## SHARE CAPITAL

Calendar Period	Average <sup>(Note 1)</sup>	High	Low	Month end	Volume	Volume over total issued Shares <sup>(Note 2)</sup>
Monthly	p/Share <sup>(Note 2)</sup>	p/Share <sup>(Note 2)</sup>	p/Share <sup>(Note 2)</sup>	p/Share <sup>(Note 2)</sup>	Shares <sup>(Note 2)</sup>	Approximate percentage
<b>2017</b>						
January	1.46	1.66	1.32	1.33	20,682,214	4.65%
February	1.34	1.50	1.20	1.23	15,251,779	3.43%
March	1.30	1.68	1.17	1.23	64,912,781	13.21%
April	1.20	1.28	1.15	1.19	12,172,514	2.48%
May	1.51	1.73	1.10	1.53	47,980,834	9.77%
June	1.31	1.84	1.18	1.38	67,880,919	13.82%
July	1.25	1.42	1.12	1.25	20,057,195	4.08%
August	1.28	1.49	1.16	1.20	20,481,294	4.17%
September	1.24	1.36	1.16	1.25	15,202,791	3.09%
October	1.37	1.49	1.20	1.45	15,799,569	3.22%
November	1.35	1.51	1.25	1.25	5,424,319	1.10%
December	1.44	1.68	1.27	1.50	16,751,790	3.41%
<b>2018</b>						
January	1.56	1.99	1.40	1.68	36,341,958	7.40%
February	1.55	1.70	1.45	1.53	7,146,136	1.45%
March	1.36	1.60	1.21	1.30	7,637,935	1.55%
April	1.28	1.35	1.20	1.30	9,840,202	2.00%
May	1.29	1.32	1.23	1.30	2,884,730	0.59%
June	1.53	2.25	1.27	1.55	20,988,041	4.27%
July	1.29	1.54	1.15	1.17	15,320,128	3.12%
August	1.20	1.23	1.15	1.18	5,555,835	1.13%
September	1.27	1.39	1.15	1.30	14,353,455	2.92%
October	1.22	1.25	1.05	1.18	2,134,837	0.43%
November	1.20	1.24	1.15	1.20	2,008,937	0.41%
December	1.18	1.25	1.15	1.18	2,582,336	0.53%
<b>2019</b>						
January	1.14	1.18	1.05	1.18	2,347,057	0.48%
February	1.07	1.40	0.90	1.10	19,969,723	4.07%
March	1.11	1.20	0.93	1.00	5,183,843	1.06%
April	1.13	1.20	1.10	1.15	4,442,518	0.90%
May	1.21	1.28	1.08	1.13	5,559,601	1.13%
June	1.48	1.94	1.10	1.20	22,122,683	4.50%
July	1.33	1.50	1.15	1.43	5,462,800	1.11%
August	1.62	2.00	1.20	1.25	12,328,000	2.51%
September	2.41	3.20	1.84	1.90	34,720,500	7.07%
October	2.46	3.20	1.80	2.95	29,222,401	6.57%
November	2.82	3.12	2.34	2.45	17,019,073	3.83%
December	2.67	2.95	2.50	3.00	3,637,990	0.82%

## SHARE CAPITAL

Calendar Period	Average <sup>(Note 1)</sup>	High	Low	Month end	Volume	Volume over total issued Shares <sup>(Note 2)</sup>
Monthly	p/Share <sup>(Note 2)</sup>	p/Share <sup>(Note 2)</sup>	p/Share <sup>(Note 2)</sup>	p/Share <sup>(Note 2)</sup>	Shares <sup>(Note 2)</sup>	Approximate percentage
<b>2020</b>						
January	2.90	3.19	2.50	2.85	9,132,619	2.05%
February	2.42	2.75	2.02	2.15	3,998,059	0.90%
March	2.37	3.25	2.00	2.75	16,431,433	3.70%
April	2.52	2.80	2.20	2.50	11,177,176	2.51%
May	2.64	2.99	2.30	2.70	9,921,103	2.23%
June <sup>(Note 3)</sup>	4.58	5.80	2.70	5.70	28,906,286	6.50%

*Notes:*

- 1 The monthly average is calculated by dividing the sum of the daily closing price of our Shares in a month by the number of trading days in the relevant month.
- 2 The total number of issued Shares for the periods, between January 2017 to March 2017, between April 2017 to September 2019 and October 2019 to June 2020 are 444,447,541, 491,256,350 and 444,447,541, respectively.
- 3 Up to the trading day immediately before the Latest Practicable Date.

### MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08 of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the issued share capital of our Company in the hands of the public (as defined in the Listing Rules).

### RANKING

The Offer Shares will rank *pari passu* with all Shares now in issue or to be allotted and issued and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus.

### GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot and issue and deal with the unissued Shares of not more than:

- (a) 20% of the aggregate number of issued Shares immediately following completion of the Global Offering (excluding any Shares that may be allotted and issued pursuant to the exercise of options that have been granted under the Pre-IPO Share Option Schemes); and
- (b) the aggregate number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares as described below.



---

## SHARE CAPITAL

---

Our Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in Shares pursuant to a rights issue, the exercise of subscription rights attaching to any warrants of our Company, scrip dividends or similar arrangements providing for the allotment of Shares in lieu of the whole or in part of any cash dividends or options granted under the Pre-IPO Share Option Schemes or any other option scheme or similar arrangement for the time being adopted.

Please refer to the section headed “A. Further information about our Company — 4. Resolutions of our Shareholders passed at the general meeting” in Appendix IV in this prospectus for further details of this general mandate.

### **GENERAL MANDATE TO REPURCHASE SHARES**

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares of not more than 10% of the number of Shares in issue immediately following completion of the Global Offering (excluding any Shares that may be allotted and issued pursuant to the exercise of options that have been granted under the Pre-IPO Share Option Schemes).

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 all applicable laws and the requirements of the Listing Rules. Please refer to the paragraph headed “A. Further information about our Company — 6. Repurchase of our Shares” in Appendix IV in this prospectus for a summary of the relevant Listing Rules.

The abovementioned general mandate to issue and repurchase Shares will expire:

- (a) at the conclusion of the next annual general meeting of our Company;
- (b) at the expiration of the period within which the next annual general meeting of our Company is required by any applicable law of the Jersey or the Articles to be held; or
- (c) when varied, revoked or renewed by special resolution of the Shareholders in general meeting;

whichever is the earliest.

Please refer to the sections headed “A. Further information about our Company — 4. Resolutions of our Shareholders passed at the general meeting” and “A. Further information about our Company — 6. Repurchase of our Shares” in Appendix IV in this prospectus for further details of these general mandates.

---

## SHARE CAPITAL

---

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

Our Company only has one class of Shares.

Pursuant to the Jersey Companies Law, our Company may vary rights attached to a class of shares of our Company in accordance with the Articles or, where this is not specified in the Articles, with the consent in writing of holders of not less than two-thirds in nominal value of the issued shares of that class or by a special resolution of the members of that class. According to the Articles, a written consent by holders of three-fourths of the issued shares of a class is required.

According to the Articles, we shall in each calendar year hold a general meeting as our annual general meeting at such time and place as may be determined by our Directors. No more than 15 months (or such longer period as the Stock Exchange or the Jersey Companies Law may allow) shall elapse between subsequent annual general meetings.

---

## FINANCIAL INFORMATION

---

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial information for each of the three years ended 31 December 2017, 2018 and 2019, including the notes thereto, as set out in the Accountant's Report in Appendix I to this prospectus. Our financial information has been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board.*

*The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that may cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed elsewhere in this prospectus, particularly in the sections headed "Risk Factors" and "Forward-looking Statements".*

### OVERVIEW

Founded in 2006, we are a leading ethanol production system producer in the PRC. We primarily provide integrated services including engineering design, equipment manufacturing, installation and commissioning and subsequent maintenance for the core system of ethanol production system in the ethanol fuel and alcoholic beverage industries in the PRC. During the Track Record Period, we also provided our technology integrated services for other chemical production systems in Canada, Russia, Indonesia, and other countries. With 13 years of operating history, we have gained substantial experience and established a solid reputation in terms of advanced technology skills and proven track records in ethanol production system industry in the PRC. According to the CIC Report, we ranked the first in terms of revenue with a market share of approximately 10.8%, in the ethanol production system industry in the PRC in 2019.

According to the CIC Report, in 2016, the PRC government implemented the 13th Five-Year Plan for Renewable Energy Development, pursuant to which the PRC government proposed to expand ethanol fuel production capacity in consideration of environment protection and improving energy consumption structure. Further, in September 2017, NEA announced the E10 Mandate that was designed to expand the mandatory use of E10 fuel from 12 trial provinces to the entire country by 2020. In 2018, State Council of the PRC (中華人民共和國國務院) executive meeting decided to promote the usage of ethanol fuel in another 14 provinces in addition to the original 12 trial provinces. We believe that, with our extensive experience and expertise in ethanol production system industry, we are well positioned to capture growth opportunities in the PRC.

During the years ended 31 December 2017, 2018 and 2019, our revenue amounted to RMB257.1 million, RMB250.0 million and RMB398.6 million, respectively, and our net profit amounted to RMB45.7 million, RMB45.8 million and RMB59.2 million, respectively.

---

## FINANCIAL INFORMATION

---

### **BASIS OF PRESENTATION**

The financial information of our Group has been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board and under the historical cost convention.

### **Impact of adoption of certain accounting policies and amendments**

#### **IFRS 9 and IFRS 15**

IFRS 9 “Financial instruments” and IFRS 15 “Revenue from Contracts with Customers” have been adopted by us in the preparation of the Historical Financial Information throughout the Track Record Period.

We have assessed the effects of the adoption of IFRS 9 and IFRS 15 on our financial statements and identified the following areas that have been affected:

Adoption of new impairment model: IFRS 9 requires the recognition of impairment provisions of financial assets measured at amortized cost based on expected credit losses. We assessed that the adoption of the new impairment methodology would not result in significant difference on bad debt provision.

Presentation of contract liabilities in the consolidated statements of financial position: IFRS 15 requires separate presentation of contract liabilities in the consolidated balance sheets. This has resulted in some reclassification in relation to our unsatisfied performance obligations. As of 31 December 2017, 2018 and 2019, contract liabilities of RMB33,234,000, RMB21,028,000 and RMB15,140,000, respectively, should have been presented as “Advances from customers” if IAS 18 was applied throughout the Track Record Period.

Timing of revenue recognition: Revenue is recognized when or as the control of the asset is transferred to the customer. Depending on the terms that applied to the contract, control of the asset may transfer over time or at a point in time. Based on our assessment, the adoption of IFRS 15 would not result in significant differences in our amount of revenue recognized during the Track Record Period as the timing of revenue recognition under IFRS 15 is the same under IAS 18.

Based on our above assessment, we consider that the adoption of IFRS 9 and IFRS 15 did not have significant impact on our financial position and performance during the Track Record Period.

#### **IFRS 16**

Our Group has adopted IFRS 16 from 1 January 2019. The adoption of IFRS 16 does not have any significant impact on our Group’s financial position, performances and key ratios as detailed in the paragraph headed “Key Financial Ratios” in this section below during the Track Record Period when compared with IAS 17.

---

## FINANCIAL INFORMATION

---

### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our financial condition and results of operations are affected by a number of factors, including those set out below:

#### **Demand for ethanol production systems and influence of government policies**

Our business is affected by the general market demand for ethanol production systems, in particular demand from ethanol fuel producers and alcoholic beverage producers. Since a majority of our income during the Track Record Period was generated in the PRC and our customers are mainly based in the PRC, their demand for ethanol production systems are largely affected by the relevant PRC government policies towards the ethanol industry. For the years ended 31 December 2017, 2018 and 2019, our revenue amounted to RMB257.1 million, RMB250.0 million and RMB398.6 million, respectively, representing a slight decrease of 2.8% for the year ended 31 December 2018 and a growth of 59.4% for the year ended 31 December 2019. We believe such growth for the year ended 31 December 2019 was attributable to the increasing customer demand for ethanol production systems, which we believe has been mainly driven by the relevant PRC government policies such as (i) the 13th Five Year Plan for Renewable Energy Development implemented by the PRC government in 2016 to expand ethanol fuel production capacity, which drove demand for ethanol production systems in the ethanol fuel industry, and (ii) the initiative of the PRC government ordering for the close down of small-scale ethanol plants to promote centralized mass production, and advanced ethanol production systems and technology upgrade needed to support the new large ethanol plants, which increased the demand for new ethanol production systems. In September 2017, NEA announced the E10 Mandate that was designed to expand the mandatory use of E10 fuel from 12 trial provinces to the entire country by 2020. In 2018, State Council of the PRC (中華人民共和國國務院) executive meeting decided to promote the usage of ethanol fuel in another 14 provinces in addition to the original 12 trial provinces. We believe our customers' demands for ethanol production systems have been, and may likely continue to be, driven by PRC government policies governing the ethanol industry. Our results of operations will be affected by our ability to seize opportunities from, and respond timely and competitively to, potential changes in government policies.

Prior to the Track Record Period, our Group recorded net losses, resulting in an accumulated losses of RMB101.7 million and RMB89.8 million as at 1 January 2016 and 2017, respectively. However, our financial performance turned around from losses to profits since 2016.

Prior to the Track Record Period, we recorded bad debt provisions due to the default of our customers during the material downturn period of the ethanol production system industry in the PRC; and an impairment loss on investment for the year ended 31 December 2013 due to the impairment made in 2013 in respect of our investment in a customer which we subscribed for 4.63% share capital of the customer in 2012 as part of the settlement of the project fees of RMB30 million owed by the customer to us. In 2013, taking into consideration of the customer's accumulated trading loss and limited ability to return to profitability in the future, our Directors consider that the investment in the customer carried zero intrinsic value and full impairment loss was made in respect of the investment in the customer.

According to CIC, before 2016, in order to ensure corn price, food security and enhance farmers' enthusiasm for growing grain, the PRC government implemented the corn stock policy under which the PRC government limited the amount of corn used for ethanol fuel production due to the concern over food price and safety. As corn is one of the major raw materials for producing ethanol, the approval of ethanol production plant construction was strictly controlled. Due to the overcapacity in the alcoholic beverage

---

## FINANCIAL INFORMATION

---

industry and strict control over the ethanol fuel industry, there were only a few newly-built ethanol production plants between 2013 and 2016. During that period, ethanol production systems were mainly applied in reconstruction projects, capacity expansion projects, and technology upgrade projects. Due to the inactive market environment during the period from 2013 to 2015, the aggregate value of the contracts we secured during 2013 to 2015 was generally smaller as compared with the contracts secured during the Track Record Period.

Excessive corn stock leads to food waste problem and high storage costs. Consequently, in 2016, the PRC government eliminated the corn stock policy and encouraged the development of the ethanol fuel industry, in order to address the excessive corn stock problem. The elimination of the corn stock policy has boosted the development of the ethanol production industry. Moreover, the 13th Five-Year Plan for Renewable Energy Development implemented in December 2016 proposed to expand ethanol fuel production capacity in consideration of environment protection and improving energy consumption structure. To seize market opportunity raised by government supportive policies, many ethanol producers begin to either invest in new ethanol fuel plant construction or upgrade ethanol production systems, which in turn drove demand for ethanol production systems. During the year ended 31 December 2016, we had been awarded with 33 new contracts with a total contract value (exclusive of VAT) of RMB69.7 million. Leveraging our industry experience in ethanol production technology system projects and our advanced technology skills and proven track records as shown from patents researched, developed and owned by us, we started to turnaround our business starting from 2016.

Our financial performance may be subject to material fluctuation depending on the nature of the government policies as may be promulgated by the PRC government from time to time.

### **Pricing of our ethanol production system technology integrated services**

Our results of operations are affected by our ability to price our ethanol production system technology integrated services at desired levels. We need to estimate the total costs involved in a project in order to determine our project price. Our pricing is determined on a case-by-case basis. Factors that we take into account in determining our project price generally include: the availability and costs of raw materials, project schedule, subcontracting costs, labour costs, geographical location, condition of the project site, as well as the complexity and scale of the project. Failure to balance the various factors in determining the project price will adversely affect our financial performance and operation results. In addition, our estimate of the time and costs involved in a project in determining the project price is based on our experience and factors that we believe to be relevant and reasonable and there is no assurance that the actual amount of time and costs would not exceed our estimation during the performance of our projects.

### **Costs of raw materials and equipment**

Our results of operations are affected by the fluctuation in our costs of raw materials and equipment. We incur raw materials and equipment costs when we purchase such items in accordance with and as part of the performance of the contracts under our ethanol production system technology integrated service projects. For the years ended 31 December 2017, 2018 and 2019, the costs of raw materials and equipment amounted to RMB132.6 million, RMB140.2 million and RMB229.2 million, representing 73.7%, 79.0% and 79.3% of our total cost of sales, respectively. Therefore, changes in the market prices of our raw materials and equipment, which constitute a substantial part of our cost of sales, may also affect our profitability if we cannot or do not pass on all or any of such cost increment to our customers.

---

## FINANCIAL INFORMATION

---

### **Time gap between receipt of payment from our customers and payments to our suppliers**

In accordance with the contracts entered into between us and our customers, our customers generally pay us on a progressive basis. The milestones on which our customers pay us include (i) the signing of the contract, (ii) before delivery of the equipment to the project site of our customer, (iii) after completion of installation of the equipment, (iv) issuance of project completion report and (v) the expiry of the defect liability period, which is generally 12 months from the date of project completion report issued by our customer. Depending on the needs of each project, we may agree with our customers to pay us progress payments between each milestone. From time to time, we may be required to commit cash and other resources to the projects prior to receiving payments from each milestone from project owners to cover certain expenditures on the projects as they incur. In case of a timing mismatch between receipt of payments from our customers and payments to our suppliers, we have to rely on our own resources to fund our daily operations. Accordingly, our results and cash flows may be affected by the difference in timing of our expenditures on the projects and the timing of receipt of payment from our customers.

### ***Hypothetical analysis of the impact of persistent drop in and long-term low level of ethanol fuel price on our Group:***

The following hypothetical analysis about the impact of ethanol fuel price on our Group is made based on the following assumptions:

- the minimum oil trading price of USD40.0/barrel set by the National Development and Reform Commission has been abolished and in turn, there will be no more price stabilisation to ethanol fuel;
- there has been a persistent drop in and long term low-level of ethanol fuel price;
- other factors that may affect gasoline price and ethanol fuel price remain unchanged;
- the profit margin of ethanol fuel production in the recent year generally ranges from 10% to 25%;
- ethanol fuel producers with profit margins 10% to 25% are evenly distributed; and the hypothetical change in ethanol fuel price is made reference to such profit margin range;
- production cost of ethanol fuel remains unchanged;
- ethanol fuel producer can only sell ethanol fuel at market price;
- ethanol fuel producers will continue to produce ethanol fuel so long as the ethanol fuel production is profitable and hence there will be no impact on the net profit of our ethanol production system segment;
- no change to the key terms and profit margins of the contracts of ethanol fuel production systems;
- our Group has completed all backlog projects of ethanol fuel production system but has not been awarded any new contract of ethanol fuel production system;

## FINANCIAL INFORMATION

- ethanol fuel price drop will only affect the ethanol fuel production system segment of our Group;
- other expenses incurred by our Group remain unchanged; and
- preferential EIT rate of 15% has been taken into account when determining the impact on our net profit.

Hypothetical change in ethanol fuel price (Note 1)	Hypothetical impact on our ethanol fuel production system segment (Note 2)	Hypothetical change in our net profit during the Track Record Period		
		For the year ended 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
-15.0%	-33.3%	(18,803)	(13,129)	(27,304)
-20.0%	-66.7%	(37,607)	(26,259)	(54,607)
-25.0%	-100.0% (Note 3)	(56,410)	(39,388)	(81,911)

*Notes:*

1. *During the Track Record Period, the average ethanol fuel price was approximately USD800.0/tonne, USD1,000.0/tonne and USD900.0/tonne, respectively.*
2. *Since the profit margins of the ethanol fuel producers generally range from 10% to 25%, any decrease in ethanol fuel price beyond 10% will start to impact on certain ethanol fuel producers becoming unable to maintain a positive profit margin which in turn will impact the demand of our ethanol fuel production system service. Assuming these ethanol fuel producers are evenly distributed, for illustrative purpose, a decrease of 15%, 20% and 25% in the ethanol fuel price (i.e. beyond 10% decrease, there are three intervals with every 5% decrease) will render approximately 33.3%, 66.7% and 100.0% of ethanol fuel producers unable to maintain positive profit margin, respectively. Accordingly, the demand of our service, as well as our net profit (calculated as the gross profit net of the preferential EIT rate of 15%) of our ethanol fuel production system segment will decrease by the same percentage provided other factors remain unchanged.*
3. *In case where the ethanol fuel price decreases by more than 25%, hypothetically, the ethanol fuel production will become no longer profitable for those ethanol fuel producers even with the highest profit margin of 25% and in such extreme hypothetical case, all ethanol fuel producers will terminate all investment in the construction or upgrade in ethanol fuel production system and our Group cannot generate any net profit from our ethanol fuel production system segment.*
4. *During the early 2020, there was no persistent drop in ethanol fuel price and the ethanol fuel price has already rebounded from USD630.0/tonne in mid-May 2020 to USD680.0/tonne in early June 2020. Since there was no persistent drop in ethanol fuel price nor long-term low level of ethanol fuel price, the above hypothetical case has not happened to our Group. For details of our Group's latest development, please refer to the paragraph headed "Recent Development" in the "Summary" section of this prospectus. According to CIC, based on the historical movement of ethanol fuel price, ethanol fuel price generally rebounded within six to 12 months, therefore, even ethanol fuel production becomes non-profitable, the ethanol fuel producers will observe the oil price for six to 12 months before they will consider to cease their production, and in case these ethanol fuel producers cease their production, the net profit of our ethanol fuel production system segment will be decreased in the same proportion accordingly.*

The above hypothetical analysis, based on the abovementioned assumptions and without taking into account any impact on the industry of any supportive government policies, is for illustrative purpose only and does not reflect the actual situation, the historical nor future operations and financial performance of our Group.



---

## FINANCIAL INFORMATION

---

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial information. The preparation of our consolidated financial information also requires management to make judgments, estimates and assumptions based on historical experience and various other factors that management believes to be reasonable under the circumstances. Our significant accounting policies and critical accounting estimates and judgments, which are important for an understanding of our financial condition and results of operations, are set out in notes 2 and 4 to the Accountant's Report included in Appendix I to this prospectus. We set out below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgments used in the preparation of our financial statements:

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for services provided or goods sold, stated net of discounts, returns and sales related taxes. Our Group generates revenue principally through the provision of ethanol production system technology integrated services.

Our Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met. Revenue is recognized in accordance with the percentage of completion as at the balance sheet date. We use the "percentage-of-completion" method to determine the appropriate amount to recognise in a given period. The percentage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Changes in cost estimates in future periods can have effect on the revenue recognised. Significant judgments and estimation are required in determining the completeness of the estimated total costs and accuracy of the "percentage of completion" at the reporting date.

#### Impairment of receivables

The loss allowances for receivables are based on assumptions about risk of default and expected loss rates. We use judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

#### Capitalisation and amortisation of internal development costs

We capitalise costs incurred on patent development projects as intangible assets when recognition criteria are met. Significant judgment is involved in assessing whether the criteria set out in the accounting standards required for capitalisation of such costs have been met, including the likelihood of the project delivering sufficient future economic benefits, and whether costs, including employment costs, were directly attributable to relevant projects.

Capitalised development costs are amortised from the point at which the asset is ready for use on a straight-line basis over their estimated useful lives. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the expectation is different from the original estimate, such difference will impact both the carrying value of intangible assets and the impairment charge in the period in which such estimate has been changed.

## FINANCIAL INFORMATION

### Taxation

Income tax expense for a period comprises current income tax and deferred income tax.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where our subsidiaries operate and generate taxable income. We periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. We establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### DESCRIPTION OF SELECTED CONSOLIDATED INCOME STATEMENT LINE ITEMS

#### Revenue

Revenue represents our income derived mainly from the provision of ethanol production system technology integrated services to our customers. During the Track Record Period, we derived revenue mainly from the following industries: (i) ethanol fuel; and (ii) alcoholic beverage.

During the Track Record Period, we derived the majority of our revenue from the provision of ethanol production system technology integrated services to customers in the PRC. The following table sets out the breakdown of our revenue by industry and geographical location in terms of absolute amount and as a percentage of total revenue for the periods indicated:

#### Revenue by industry:

	For the year ended 31 December					
	2017		2018		2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
– Ethanol fuel	212,378	82.6	145,273	58.1	347,184	87.1
– Alcoholic beverage	42,210	16.4	88,697	35.5	45,080	11.3
– Others <sup>(Note 1)</sup>	2,521	1.0	16,008	6.4	6,294	1.6
Total	<u>257,109</u>	<u>100.0</u>	<u>249,978</u>	<u>100.0</u>	<u>398,558</u>	<u>100.0</u>

Note:

1. "Others" refers to revenue generated from (i) the provision of services for pharmaceutical alcohol, (ii) sales of component and (iii) sales of other chemical production systems such as ethyl acetate (乙酸乙酯) and vital fiber oligosaccharide (維他纖維低聚糖).

## FINANCIAL INFORMATION

### Revenue by geographical location:

	For the year ended 31 December					
	2017		2018		2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
PRC	254,427	99.0	233,945	93.6	379,852	95.3
Canada	2,521	0.9	–	–	–	–
Russia	–	–	16,008	6.3	187	0.1
Indonesia	–	–	–	–	14,601	3.7
Other countries <i>(Note)</i>	161	0.1	25	0.1	3,918	0.9
Total	<u>257,109</u>	<u>100.0</u>	<u>249,978</u>	<u>100.0</u>	<u>398,558</u>	<u>100.0</u>

*Note: "Other countries" refer to Thailand and Myanmar.*

### ***Ethanol fuel industry***

Revenue generated from ethanol production system technology integrated services in the ethanol fuel industry decreased by 31.6% from RMB212.4 million for the year ended 31 December 2017 to RMB145.3 million for the year ended 31 December 2018. Such decrease was mainly attributable to the completion of the major stages of the aforesaid Projects 094, 072, 066 and 106 in 2017. The aggregate amount of revenue generated from these four projects for the year ended 31 December 2017 amounted to RMB178.1 million, representing 83.9% of the revenue generated from ethanol production system technology integrated services in the ethanol fuel industry for the year ended 31 December 2017 and has decreased to RMB12.4 million for the year ended 31 December 2018. Further, according to CIC, the growth rate of the ethanol production system market has slowed down due to the Chinese government ordered not to approve applications of small-sized ethanol production plant construction, which in turn caused the decrease in our revenue in ethanol fuel industry in 2018. This was partially offset by the revenue in the amount of RMB85.7 million recognized in 2018 from Project 114, which accounted for 34.3% of our revenue for the year ended 31 December 2018. Project 114 was an integrated service project for corn-based ethanol fuel devices in Heilongjiang Province entered into in February 2018 with contract value (exclusive of VAT) of RMB238.0 million.

Due to growing demand for ethanol production system and our ability in securing large ethanol fuel projects as mentioned above, revenue generated from ethanol production system technology integrated services in the ethanol fuel industry increased by 139.0% from RMB145.3 million for the year ended 31 December 2018 to RMB347.2 million for the year ended 31 December 2019. Such increase was mainly attributable to the following sizable projects in 2019:

- (i) Project 138, an integrated service project for ethanol fuel equipment (corn raw materials) in Heilongjiang Province entered into in March 2019 with contract value (exclusive of VAT) of RMB212.4 million, which generated revenue of RMB133.6 million and accounted for 33.5% of our revenue for the year ended 31 December 2019;

---

## FINANCIAL INFORMATION

---

- (ii) Project 136, an integrated service project for ethanol fuel device in Inner Mongolia Autonomous Region entered into in June 2019 with contract value (exclusive of VAT) of RMB330.8 million, which generated revenue of RMB121.3 million and accounted for 30.4% of our revenue for the year ended 31 December 2019;
- (iii) Project 121, a technical system upgrade project for premium grade edible alcohol and dehydrated alcohol devices (corn raw materials) in Jilin Province entered into in August 2018 with contract value (exclusive of VAT) of RMB48.1 million, which generated revenue of RMB42.1 million, half of which was attributable to ethanol fuel and accounted for 5.3% of our revenue for the year ended 31 December 2019; and
- (iv) Project 125, an integrated service project for ethanol fuel distillation and dehydration equipment in Heilongjiang Province entered into in December 2018 with contract value (exclusive of VAT) of RMB61.3 million, which generated revenue of RMB48.4 million and accounted for 12.1% of our revenue for the year ended 31 December 2019.

### *Alcoholic beverage industry*

Revenue generated from ethanol production system technology integrated services in the alcoholic beverage industry increased by 110.1% from RMB42.2 million for the year ended 31 December 2017 to RMB88.7 million for the year ended 31 December 2018 due to the demand for upgrading and enhancing the efficiency of the ethanol production system in the alcoholic beverage industry. Such increase was mainly attributable to the completion in 2018 of the major stage of Project 119. Project 119, a distillation section technology system upgrade project in Jilin Province, was entered into in June 2018 with contract value (exclusive of VAT) of RMB47.2 million and generated revenue of RMB44.6 million, which accounted for 17.8% of our revenue for the year ended 31 December 2018.

Revenue generated from ethanol production system technology integrated services in the alcoholic beverage industry decreased by 49.2% from RMB88.7 million for the year ended 31 December 2018 to RMB45.1 million for the year ended 31 December 2019. Such decrease was mainly attributable to the completion of the major stage of Project 119. For the year ended 31 December 2018, the revenue generated from Project 119 amounted to RMB44.6 million, representing 17.8% of our revenue for the year ended 31 December 2018, and has decreased to RMB2.7 million for the year ended 31 December 2019.

For details of the aforesaid projects referred to in this section, please refer to the section headed “Business — Our projects — Major projects” in this prospectus.

## FINANCIAL INFORMATION

### *Other industries*

Revenue generated from projects in other industries increased by 535.0% from RMB2.5 million for the year ended 31 December 2017 to RMB16.0 million for the year ended 31 December 2018. Such increase was mainly attributable to the completion of a project in Russia in 2018, of which revenue of RMB16.0 million was recognized.

Revenue generated from projects in other industries decreased by 60.7% from RMB16.0 million for the year ended 31 December 2018 to RMB6.3 million for the year ended 31 December 2019. Such decrease was mainly due to the completion of the major works and recognition of a substantial portion of revenue of the aforesaid project in Russia in 2018, and was partially offset by the revenue in the amount of RMB5.5 million generated from a technical system upgrade project for pharmaceutical alcohol in Indonesia in 2019.

### **Cost of sales**

Cost of sales mainly represents costs and expenses attributable to the provision of our technology integrated services and consist of (i) costs of raw materials and equipment, (ii) subcontracting costs, (iii) travelling and transportation costs, (iv) staff costs, (v) depreciation, (vi) amortisation, (vii) inventory impairment, (viii) rental expenses and (ix) others. The following table sets out the breakdown of cost of sales in terms of absolute amount and as a percentage of total cost of sales for the periods indicated:

	For the year ended 31 December					
	2017		2018		2019	
	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales	RMB'000	% of total cost of sales
Raw materials and equipment	132,585	73.7	140,188	79.0	229,223	79.3
Subcontracting costs	36,126	20.1	28,247	15.9	52,256	18.1
Travelling and transportation costs	4,353	2.4	2,894	1.6	1,667	0.6
Staff costs	1,942	1.1	2,031	1.1	1,685	0.6
Depreciation	1,510	0.8	1,407	0.8	2,007	0.7
Amortisation	591	0.3	618	0.3	805	0.3
Inventory impairment	553	0.3	435	0.2	–	–
Rental expenses	980	0.5	–	–	–	–
Others	1,148	0.8	1,554	1.1	1,498	0.4
<b>Total</b>	<b>179,788</b>	<b>100.0</b>	<b>177,374</b>	<b>100.0</b>	<b>289,141</b>	<b>100.0</b>

---

## FINANCIAL INFORMATION

---

Cost of sales primarily comprises:

- (i) costs of raw materials and equipment, which include costs for raw materials such as steel plates, steel pipes etc. for the production of key components and the costs for equipment such as molecular sieve filling, flowmeters, grinders and heat exchangers, for the provision of our services;

our cost of raw materials and equipment increased slightly by 5.7% from RMB132.6 million for the year ended 31 December 2017 to RMB140.2 million for the year ended 31 December 2018. The increase in costs of raw materials and equipment for the year was mainly attributable to Project 114 in 2018, which is our largest ethanol fuel project in terms of revenue in 2018 and such project was at the beginning stage in 2018 which required significant inputs on raw materials and equipment;

costs of raw materials and equipment increased by 63.5% from RMB140.2 million for the year ended 31 December 2018 to RMB229.2 million for the year ended 31 December 2019. Such increase was mainly attributable to the commencement or completion of the major stages of Projects 138, 136, 125, 124 and 121 and was generally in line with our revenue growth;

- (ii) subcontracting costs, which are costs for engaging the labour subcontractors to undertake manual and ancillary works such as production, assembling and installation of components for our projects based on our project plans and design during the project execution, details of which are set out in the paragraph headed “Business — Suppliers — Labour subcontractors” in this prospectus;

subcontracting costs decreased by 21.8% from RMB36.1 million for the year ended 31 December 2017 to RMB28.2 million for the year ended 31 December 2018. We recorded higher subcontracting cost in 2017 mainly due to the unsatisfactory work quality of labour subcontractors in relation to installation and assembling works for two ethanol fuel projects (one of which was Project 066) in 2016, resulting in the change of labour subcontractors for those projects and delay in the timetable of completion and an increase in the subcontracting cost in 2017;

subcontracting costs increased by 85.0% from RMB28.2 million for the year ended 31 December 2018 to RMB52.3 million for the year ended 31 December 2019. Such increase was mainly attributable to the commencement or completion of the major stages of Projects 138, 136, 125, 124 and 121 as discussed above, resulting in an increase in the subcontracting cost for the year ended 31 December 2019;

---

## FINANCIAL INFORMATION

---

- (iii) travelling and transportation costs, which are primarily the costs for delivery of the finished products from our processing plant in Boluo to the customers' sites;

travelling and transportation costs decreased by 33.5% from RMB4.4 million for the year ended 31 December 2017 to RMB2.9 million for the year ended 31 December 2018. During the year, we shifted part of the processing works to be performed on-site, such as building the stand for ethanol fuel production systems. Therefore, the transportation costs for the delivery of work-in-progress to the customers' sites from Boluo is lowered;

travelling and transportation costs decreased by 42.4% from RMB2.9 million for the year ended 31 December 2018 to RMB1.7 million for the year ended 31 December 2019. Such decrease was mainly attributable to that we had carried out more projects during 2018 than 2019, resulting in a decrease in the travelling and transportation costs during the year ended 31 December 2019;

- (iv) staff costs, which are the salaries and benefits provided to our staff such as project managers, who are directly involved in carrying out our projects;

staff costs decreased by 17.0% from RMB2.0 million for the year ended 31 December 2018 to RMB1.7 million for the year ended 31 December 2019. Such decrease was mainly due to that we had carried out fewer projects in 2019 than 2018 and therefore the costs of the project personnel which had not been assigned to projects in 2019 were recorded under selling and marketing expenses instead of cost of sales;

- (v) inventory impairment, which refers to the impairment for each of the years ended 31 December 2017 and 2018 on the recoverable amount of the equipment which shall be returned by a customer pursuant to a court order in June 2015 over a dispute on a project (the “**Dispute**”), details of which are set out below:

in April 2010, Zhongke Tianyuan was engaged by a customer for the design and construction of two sets of equipment in the aggregate contract amount of RMB15 million. Due to inadvertent use of materials with different standard as requested by customers for producing the equipment, the equipment (the “**Equipment**”) did not meet the requisite standard after undergoing final inspection. The customer requested our Group to compensate the economic loss suffered in the aggregate amount of RMB30 million. Pursuant to the rulings of the PRC court, Zhongke Tianyuan was ordered to uninstall the Equipment from the customer's site, return the equipment fee of RMB11.2 million and compensate the customer for RMB6.6 million. Impairment test is performed on the Equipment annually and an impairment loss is recognized for the amount by which the Equipment's carrying amount exceeds its recoverable amount. Please refer to note 24 to the Accountant's Report in Appendix I to this prospectus for the accumulated impairment for the Equipment as at 31 December 2017 and 2018;

the Equipment was sold to an Independent Third Party in August 2019 at the consideration of RMB4.9 million, which was determined based on commercial negotiation and at a discount of 20% to the recoverable value of the Equipment as at 31 December 2018 as assessed by a PRC valuer;

## FINANCIAL INFORMATION

- (vi) rental expense refers to the rents payable for the leasing of a temporary storage site in the north-eastern region in the PRC in May 2017. We were carrying out 17 projects in the north-eastern regions in 2017 and leased such site to serve as a temporary storage site for raw materials such that we could arrange bulk purchase of the raw materials from other areas and store the same in the north-eastern regions. Subsequently, we were able to make prompt orders from nearby suppliers in the north-eastern regions instead of making bulk purchases and therefore the temporary lease arrangement was terminated in December 2017;
- (vii) other costs, which include other miscellaneous project expenses, such as electricity and water charges, project design fees and inspection fees.

For the years ended 31 December 2017, 2018 and 2019, the costs of raw materials and equipment amounted to RMB132.6 million, RMB140.2 million and RMB229.2 million, representing 73.7%, 79.0% and 79.3% of our total cost of sales, respectively. The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the costs of raw materials and equipment on our profit before taxation during the Track Record Period. Fluctuations are assumed to be 10%, 15% and 20% for the years indicated, which correspond to the range of historical fluctuations in the price of raw materials and equipment during the Track Record Period.

Decrease/Increase in our profit before taxation		
For the year ended 31 December		
2017	2018	2019
RMB'000	RMB'000	RMB'000

### Hypothetical fluctuation of costs of raw materials and equipment:

Increase/decrease of 10%	-/+13,259	-/+14,019	-/+22,922
Increase/decrease of 15%	-/+19,888	-/+21,028	-/+34,383
Increase/decrease of 20%	-/+26,517	-/+28,038	-/+45,845

### Gross profit and gross profit margin

Set out below is our gross profit and gross profit margin by industry during the Track Record Period:

	For the year ended 31 December					
	2017		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB'000)	%	(RMB'000)	%	(RMB'000)	%
Ethanol fuel	66,365	31.2	46,339	31.9	96,366	27.8
Alcoholic beverage	9,890	23.4	18,772	21.2	11,181	24.8
Others	1,066	42.3	7,493	46.8	1,870	29.7
Overall	77,321	30.1	72,604	29.0	109,417	27.5



## FINANCIAL INFORMATION

Our gross profit margin for projects in ethanol fuel industry remained relatively stable at 31.2% and 31.9% for the years ended 31 December 2017 and 2018 respectively.

Our gross profit margin for projects in ethanol fuel industry was 27.8% for the year ended 31 December 2019, which was lower than the gross margin for projects in ethanol fuel industry for the rest of the years during the Track Record Period, mainly due to the lower gross profit margin of some of our major projects in 2019, namely Project 138 and Project 136. We offered competitive price in order to secure the aforesaid contracts with large contract sums and therefore the contracts were of lower gross profit margin. The aggregate revenue generated from those two projects contributed to 73.4% of the total revenue generated from ethanol fuel projects in 2019.

Our gross profit margin for projects in alcoholic beverage industry for the year ended 31 December 2018 was 21.2%. We recorded higher gross profit margin for projects in alcoholic beverage industry in 2017 than in 2018 because the total actual costs of raw materials and equipment and subcontracting costs for two projects (one of which was Project 093) were lower than the estimated costs for those projects which were prepared based on preliminary assessment. The aggregate revenue generated from those two projects contributed to 46.9% of the total revenue generated from alcoholic beverage projects in 2017.

Our gross profit margin for projects in alcoholic beverage industry for the year ended 31 December 2018 was 21.2%, which was lower than the gross profit margin for projects in alcoholic beverage industry compared to the rest of the years during the Track Record Period, mainly due to a substantial portion of Project 111, which had a relatively low gross margin, was completed in 2018.

We recorded higher gross profit margin of 24.8% for the projects in alcoholic beverage industry during the year ended 31 December 2019 mainly due to higher profit margins we secured from Project 121.

### Selling and marketing expenses

Our selling and marketing expenses amounted to RMB5.6 million, RMB5.8 million and RMB8.6 million for the years ended 31 December 2017, 2018 and 2019, respectively. The following table sets out the breakdown of selling and marketing expenses for the periods indicated:

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Salaries and welfare expenses	2,522	2,473	4,100
Travel and transportation and business development expenses	2,007	2,280	2,616
Office and utilities expenses	802	841	1,683
Depreciation expense	214	100	114
Others	28	107	104
<b>Total</b>	<b>5,573</b>	<b>5,801</b>	<b>8,617</b>

## FINANCIAL INFORMATION

Our salaries and welfare expenses remained relatively stable for the years ended 31 December 2017 and 2018. Our salaries and welfare expenses increased by 65.8% from RMB2.5 million for the year ended 31 December 2018 to RMB4.1 million for the year ended 31 December 2019 as we had carried out fewer projects in 2019 than 2018 and therefore the costs of the project personnel which had not been assigned to projects in 2019 were recorded under selling and marketing expenses instead of cost of sales.

Travel and transportation and business development expenses increased by 13.6% from RMB2.0 million for the year ended 31 December 2017 to RMB2.3 million for the year ended 31 December 2018. Such increase is mainly due to the increase in the number of travel for the projects in various regions of the PRC and has further increased by 14.7% from RMB2.3 million for the year ended 31 December 2018 to RMB2.6 million for the year ended 31 December 2019 as we had increased our marketing effort to source and negotiate for potential projects in 2019.

Office and utilities expenses mainly comprised the expenses for the internal preparation works for the purpose of securing new projects from customers. Our office and utilities expenses remained relatively stable at RMB0.8 million and RMB0.8 million for the years ended 31 December 2017 and 2018 respectively. Office and utilities expenses increased by 100.1% from RMB0.8 million for the year ended 31 December 2018 to RMB1.7 million for the year ended 31 December 2019 mainly due to the engagement of consultants on provision of supporting services for projects negotiation, tendering and implementation in 2019.

### Administrative expenses

Our administrative expenses amounted to RMB14.4 million, RMB20.2 million and RMB27.7 million for the years ended 31 December 2017, 2018 and 2019, respectively. The following table sets out the breakdown of administrative expenses for the periods indicated:

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Employee benefit expenses	7,458	6,590	6,896
Office expenses	1,263	2,139	1,772
Depreciation	463	809	67
Amortisation	–	–	1,048
Travel and transportation and business development expenses	1,394	1,444	1,337
Legal and professional fees	945	295	1,305
Rental expense	1,058	693	134
Raw materials and consumables used for research and development	111	332	632
Listing expenses	–	5,130	11,665
Auditors' remuneration	274	913	1,584
Other expenses <sup>(note)</sup>	1,464	1,873	1,260
<b>Total</b>	<b>14,430</b>	<b>20,218</b>	<b>27,700</b>

*Note: Other expenses mainly comprised the deferred expenses, maintenance fees, insurance expenses, training expenses and other miscellaneous expenses.*

---

## FINANCIAL INFORMATION

---

Employee benefit expenses mainly represented the expenses on the salary and benefits paid to our staff including our Directors.

Our employee benefit expenses decreased by 11.6% from RMB7.5 million for the year ended 31 December 2017 to RMB6.6 million for the year ended 31 December 2018 due to the capitalization of the expenses of the research and development personnel for certain patent projects, thereby lowering the employee benefit expenses in profit or loss. Our employee benefit expenses remained relatively stable at RMB6.6 million and RMB6.9 million for the years ended 31 December 2018 and 2019, respectively.

Our office expenses increased by 69.4% from RMB1.3 million for the year ended 31 December 2017 to RMB2.1 million for the year ended 31 December 2018 mainly due to (i) the increase in RMB0.2 million for the fees paid to service agents for patents registration, and (ii) the amount of other receivables of RMB0.6 million being impaired and recognized as an expense in 2018 as such receivables were not recovered after a period of three years. Our office expenses remained relatively stable at RMB2.1 million and RMB1.8 million for the years ended 31 December 2018 and 2019, respectively.

We recorded amortisation charges of RMB1.0 million for the year ended 31 December 2019 in relation to the lease of our office premises. We recorded such amortisation charges in 2019 due to the impact of “IFRS 16 Leases” which became effective for reporting period beginning on or after 1 January 2019, which provides that leases shall be categorised as right-of-use assets and the amortisation charges relating to the leases were recorded under administrative expenses.

Our rental expenses decreased by 80.7% from RMB0.7 million for the year ended 31 December 2018 to RMB0.1 million for the year ended 31 December 2019 due to the impact of “IFRS 16 Leases” which became effective for reporting period beginning on or after 1 January 2019, which provides that the lease of our office premises, which has a term of more than 12 months, shall be recognized as an asset of the lessee, such that the lease payments are recorded as depreciation expense instead of rental expenses.

Legal and professional expenses increased by 342.4% from RMB0.3 million for the year ended 31 December 2018 to RMB1.3 million for the year ended 31 December 2019. Such increase was mainly attributable to the arrangement fee paid in 2019 for the pre-IPO investment by Double River, details of which are set out in the paragraph headed “History, Reorganisation and Corporate Structure — Pre-HKIPO Investments” in this prospectus.

Other expenses increased by 27.9% from RMB1.5 million for the year ended 31 December 2017 to RMB1.9 million for the year ended 31 December 2018. Such increases were mainly due to the writing off of excess amount of value-added tax invoice issued to customers and uncollectible amount of value-added tax invoice outstanding from suppliers. Other expenses decreased by 32.7% from RMB1.9 million for the year ended 31 December 2018 to RMB1.3 million for the year ended 31 December 2019 mainly due to the decrease in various miscellaneous expenses such as training fees.

## FINANCIAL INFORMATION

### Net impairment losses on financial assets and contract assets

Net impairment losses on financial assets and contract assets include the provisions for impairment on trade and bills receivables and contract assets and the reversal of such amount subsequently determined to be recoverable. The following table sets out our net impairment losses on financial assets and contract assets for the periods indicated:

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Impairment losses made for the year	(9,411)	(4,187)	(11,618)
Reversal of the provisions made in previous period	3,218	3,825	8,063
<b>Net impairment losses on financial assets and contract assets</b>	<b>(6,193)</b>	<b>(362)</b>	<b>(3,555)</b>

The following table sets out the breakdown of the impairment losses and reversal of impairment losses by (i) trade and bills receivables; and (ii) contract assets during the Track Record Period:

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<i>Trade and bills receivables</i>			
Impairment losses of trade and bills receivables	(7,826)	(3,109)	(7,866)
Reversal of provisions made for trade and bills receivables in previous year	2,962	3,389	7,065
(Net impairment losses)/reversal of impairment losses for trade and bills receivables	(4,864)	280	(801)
<i>Contract assets</i>			
Impairment losses of contract assets	(1,585)	(1,078)	(3,752)
Reversal of provisions made for contract assets in previous year	256	436	998
(Net impairment losses)/reversal of impairment losses for contract assets	(1,329)	(642)	(2,754)
Net impairment losses for trade and bills receivables and contract assets	(6,193)	(362)	(3,555)

Provisions for impairment on trade and bills receivables are determined on a case-by-case basis and are further discussed in the paragraph headed “Financial information — Analysis of selected items from the consolidated balance sheets — Trade and bills receivables” in this prospectus.

## FINANCIAL INFORMATION

### Other income

Our other income consists of (i) subsidy income and (ii) others. Our other income amounted to RMB1.1 million, RMB1.7 million and RMB1.8 million for the years ended 31 December 2017, 2018 and 2019, respectively. The following table sets forth a breakdown of the key components of our other income for the periods indicated:

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Subsidy income	975	1,685	1,836
Others	86	–	–
<b>Total</b>	<b>1,061</b>	<b>1,685</b>	<b>1,836</b>

Subsidy income for the year ended 31 December 2017 was mainly due to the incentive funds which we received from the PRC government authorities in relation to the recognition of our status as a “High and New Technology Enterprise”. Subsidy income for the year ended 31 December 2018 was mainly due to the incentive funds in relation to the recognition of our status as a “High and New Technology Enterprise” as well as in recognition of our economic contribution. Subsidy income for the year ended 31 December 2019 mainly represented the incentive funds in the amount of RMB0.8 million granted by the PRC government to “High and New Technology Enterprise” in Guangzhou in recognition of our financial performance and business growth in past years, and the incentive funds in the amount of RMB1.0 million granted by the PRC government in recognition of our past economic contribution.

### Other gains – net

Other gains – net include (i) disposal gains/(losses) on property, plant and equipment, (ii) reversal of litigation provisions, (iii) exchange gains, (iv) fair value losses on convertible notes, (v) gains on disposal of inventories of right to returned goods, and (vi) others. We recorded other gains of RMB2.9 million, RMB0.3 million and RMB2.4 million for the years ended 31 December 2017, 2018 and 2019, respectively. The following table sets out the breakdown of other gains/(losses) for the periods indicated:

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Disposal gains/(losses) on disposal of property, plant and equipment	20	–	(206)
Reversal of litigation provisions	1,976	–	–
Exchange gains	80	4	744
Fair value losses on convertible notes	–	–	(1,241)
Gains on disposal of inventories of right to returned goods	–	–	3,099
Others	861	259	13
<b>Total</b>	<b>2,937</b>	<b>263</b>	<b>2,409</b>

---

## FINANCIAL INFORMATION

---

Other gains – net for the year ended 31 December 2017 primarily comprise the reversal of litigation provisions of RMB2.0 million in 2017, regarding the over-provision of litigation expenses made in 2016.

Our other gains for the year ended 31 December 2019 were mainly due to the gains of RMB3.1 million on the disposal of an equipment to an Independent Third Party in August 2019, details of which are set out in the paragraph headed “Description of selected consolidated income statement line items — Cost of sales” in this section and exchange gains of RMB0.7 million, and was partially offset by the fair value losses on convertible notes of RMB1.2 million, which represented the fair value losses in relation to the convertible loan granted by Double River in February 2019, details of which are set out in the paragraph headed “History, Reorganisation and Corporate Structure — Pre-HKIPO Investments” in this prospectus.

### Finance income

Finance income represents the interest income arising from our cash deposited at banks. Our finance income amounted to RMB87,000, RMB22,000 and RMB49,000 for the years ended 31 December 2017, 2018 and 2019, respectively.

### Finance costs

Finance costs include (i) bank loan interest such as interests on bank borrowings and factoring expense on bank acceptance bills, and (ii) interests on other borrowings. The following table sets out the breakdown of finance costs for the periods indicated:

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Bank borrowings	544	841	1,095
Other borrowings	203	253	–
Lease liabilities	–	–	289
Total	<u>747</u>	<u>1,094</u>	<u>1,384</u>

Bank loan interest increased from RMB0.5 million for the year ended 31 December 2017 to RMB0.8 million for the year ended 31 December 2018. Such increase was mainly due to the increase in interests on bank borrowings arising from new bank borrowings in 2018.

Bank loan interest increased to RMB1.1 million for the year ended 31 December 2019 from RMB0.8 million for the year ended 31 December 2018. Such increase was mainly due to increase in average bank borrowings.

Other borrowing interests represent interest expense arising from borrowings from employees of our Group.

Lease liabilities for the year ended 31 December 2019 mainly represented the interest on the lease liability for our office premises arising from the adoption of “IFRS 16 Leases” for reporting period beginning on or after 1 January 2019.

---

## FINANCIAL INFORMATION

---

### **Income tax expenses**

Our Company was incorporated in Jersey as a public company with limited liability under the Jersey Companies Law and is subject to a zero tax rating under the Income Tax (Jersey) Law 1961 (as amended).

We operate our business principally through two operating subsidiaries, namely Zhongke Tianyuan and Boluo Tianyuan, both of which were established and are operated in the PRC.

Pursuant to the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), Zhongke Tianyuan and Boluo Tianyuan were subject to the PRC EIT at a standard rate of 25% on its estimated assessable profits during the Track Record Period. Zhongke Tianyuan, which was qualified as “High and New Technology Enterprise” in 2016, was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the Track Record Period. The income tax expense amounted to RMB8.8 million, RMB1.3 million and RMB13.3 million for the years ended 31 December 2017, 2018 and 2019, respectively.

Our effective tax rate was calculated by dividing income tax expense by profit before tax and was 16.2%, 2.7% and 18.3% for the year ended 31 December 2017, 2018 and 2019 respectively. Our effective tax rate of 2.7% for the year ended 31 December 2018 was relatively low as compared to the years ended 31 December 2017 and 2019 mainly due to the recognition of the deferred tax assets of RMB4.3 million arising from the temporary differences in relation to bad debt provision, accruals and prepayment.

### **Profit for the year**

During the Track Record Period, we recorded net profit for each of the years ended 31 December 2017, 2018 and 2019. Our profit for the year was RMB45.7 million, RMB45.8 million and RMB59.2 million for the years ended 31 December 2017, 2018 and 2019, respectively.

## FINANCIAL INFORMATION

### RESULTS OF OPERATIONS

The following table sets out our selected consolidated income statements data for the years indicated:

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Revenue</b>	257,109	249,978	398,558
Cost of sales	(179,788)	(177,374)	(289,141)
<b>Gross profit</b>	77,321	72,604	109,417
Selling and marketing expenses	(5,573)	(5,801)	(8,617)
Administrative expenses	(14,430)	(20,218)	(27,700)
Net impairment losses on financial assets and contract assets	(6,193)	(362)	(3,555)
Other income	1,061	1,685	1,836
Other gains – net	2,937	263	2,409
<b>Operating profit</b>	55,123	48,171	73,790
Finance income	87	22	49
Finance costs	(747)	(1,094)	(1,384)
Finance costs – net	(660)	(1,072)	(1,335)
<b>Profit before income tax</b>	54,463	47,099	72,455
Income tax expenses	(8,804)	(1,278)	(13,287)
<b>Profit for the year</b>	45,659	45,821	59,168



---

## FINANCIAL INFORMATION

---

### PERIOD TO PERIOD COMPARISON

#### Year ended 31 December 2019 compared to year ended 31 December 2018

##### *Revenue*

Revenue increased by 59.4% from RMB250.0 million for the year ended 31 December 2018 to RMB398.6 million for the year ended 31 December 2019. This increase was mainly attributable to the increase in revenue of RMB201.9 million generated from projects in the ethanol fuel industry. Such increase was mainly due to the continuous growth in demand for ethanol production system and our ability in securing sizable ethanol fuel projects.

The increase in revenue generated from projects in ethanol fuel industry was mainly attributable to Projects 138, 136, 121 and 125 in 2019 and a substantial portion of the revenue relating to those four projects amounting to RMB324.4 million (representing 81.4% of our revenue for the year ended 31 December 2019) was recognized in 2019. The increase in revenue from projects in ethanol fuel industry was partially offset by the decrease in revenue from alcoholic beverage projects of RMB43.6 million. Such decrease was mainly due to the completion of the major stage of Project 119 in 2018, which generated revenue of RMB44.6 million for the year ended 31 December 2018 as compared with only RMB2.7 million for the year ended 31 December 2019. For details of the aforesaid Projects 138, 136, 125, 121 and 119, please refer to the paragraph headed “Business — Our projects — Major projects” in this prospectus.

##### *Cost of sales*

Cost of sales increased by 63.0% from RMB177.4 million for the year ended 31 December 2018 to RMB289.1 million for the year ended 31 December 2019. This increase was mainly attributable to the commencement or the completion of the major stages of Projects 138, 136, 125, 124 and 121 in 2019 with aggregate contract value (exclusive of VAT) of RMB669.9 million, which resulted in an increase in the amount of raw materials and equipment, and the services procured from the labour subcontractors and hence an increase in the total cost of procurement of raw materials and equipment, and subcontracting costs. The increase in cost of sales was generally in line with the increase in revenue.

##### *Gross profit and gross profit margin*

As a result of the foregoing, our gross profit increased by 50.7% to RMB109.4 million for the year ended 31 December 2019 from RMB72.6 million for the year ended 31 December 2018. Our overall gross profit margin decreased from 29.0% for the year ended 31 December 2018 to 27.5% for the year ended 31 December 2019. Please refer to the paragraph headed “Description of selected consolidated income statements line items — Gross profit and gross profit margin” in this section for the reasons for the fluctuation in gross profit margin of projects in alcoholic beverage industry and ethanol fuel industry.

---

## FINANCIAL INFORMATION

---

### *Selling and marketing expenses*

Selling and marketing expenses increased by 48.5% from RMB5.8 million for the year ended 31 December 2018 to RMB8.6 million for the year ended 31 December 2019. This increase was mainly attributable to the increase in salaries and welfare expenses of RMB1.6 million as we had carried out fewer projects in 2019 than 2018 and therefore the costs of the project personnel which had not been assigned to projects in 2019 were recorded under selling and marketing expenses instead of cost of sales, and the increase in office and utilities expenses of RMB0.8 million due to the increase in the fees for engagement of technical consultants on project negotiation and implementation.

### *Administrative expenses*

Administrative expenses increased by 37.0% from RMB20.2 million for the year ended 31 December 2018 to RMB27.7 million for the year ended 31 December 2019. This increase was mainly attributable to the increase in the Listing expenses from RMB5.1 million for the year ended 31 December 2018 to RMB11.7 million for the year ended 31 December 2019.

### *Other income*

Other income remained relatively stable at RMB1.7 million and RMB1.8 million for the years ended 31 December 2018 and 2019, respectively.

### *Other gains – net*

We recorded other gains of RMB2.4 million for the year ended 31 December 2019 as compared with other gains of RMB0.3 million for the year ended 31 December 2018. Such increase was mainly due to the gains of RMB3.1 million on the disposal of an equipment to an Independent Third Party in August 2019, details of which are set out in the paragraph headed “Description of selected consolidated income statement line items — Cost of sales” in this section and exchange gains of RMB0.7 million, and was partially offset by the fair value losses on convertible notes of RMB1.2 million, which represented the fair value losses in relation to the convertible loan granted by Double River in February 2019, details of which are set out in the paragraph headed “History, Reorganisation and Corporate Structure — Pre-HKIPO Investments” in this prospectus.

### *Finance costs*

Finance costs increased by 26.5% from RMB1.1 million for the year ended 31 December 2018 to RMB1.4 million for the year ended 31 December 2019. This increase was mainly attributable to the increase in bank loan interest of RMB0.3 million arising from the increase in average bank borrowings.

### *Net impairment losses on financial assets and contract assets*

Our net impairment losses on financial assets and contract assets increased from RMB0.4 million for the year ended 31 December 2018 to RMB3.6 million for the year ended 31 December 2019. This was mainly due to the increase in impairment losses of RMB6.9 million for the year ended 31 December 2019, and was partially offset by the increase in the reversal of impairment losses of RMB3.7 million for the same period.

---

## FINANCIAL INFORMATION

---

### *Income tax expenses*

Income tax expenses increased from RMB1.3 million for the year ended 31 December 2018 to RMB13.3 million for the year ended 31 December 2019. Such increase was mainly due to the increase in profits in 2019 and the recognition of deferred tax credits of RMB5.8 million arising from the temporary differences in relation to bad debt provision, accrual and prepayment during the year ended 31 December 2018.

### *Profit for the period*

As a result of the foregoing, profit for the year ended 31 December 2019 increased by 29.1% to RMB59.2 million from RMB45.8 million for the year ended 31 December 2018. Net profit margin decreased from 18.3% for the year ended 31 December 2018 to 14.8% for the year ended 31 December 2019 mainly due to the increase in Listing expenses of RMB6.5 million during the year ended 31 December 2019.

### **Year ended 31 December 2018 compared to year ended 31 December 2017**

#### *Revenue*

Revenue decreased slightly by 2.8% to RMB250.0 million for the year ended 31 December 2018 from RMB257.1 million for the year ended 31 December 2017. This decrease was mainly attributable to a decrease in revenue of RMB67.1 million generated from projects in the ethanol fuel industry, and partially offset by an increase in revenue of RMB46.5 million and RMB13.5 million generated from projects in the alcoholic beverage and other industries respectively.

The decrease in revenue generated from projects in ethanol fuel industry was mainly attributable to the completion of the major stages of Projects 094, 072, 066 and 106 in 2017 and a substantial portion of the revenue relating to those four projects amounting to RMB178.1 million (representing 69.3% of our revenue in 2017) was recognized in 2017, while the increase in revenue generated from projects in alcoholic beverage industry was mainly attributable to the completion in 2018 of the major stage of Project 119. Project 119, a distillation section technology system upgrade project in Jilin Province, was entered into in June 2018 with contract value (exclusive of VAT) of RMB47.2 million and generated revenue of RMB44.6 million, which accounted for 17.8% of our revenue for the year ended 31 December 2018.

#### *Cost of sales*

Cost of sales decreased slightly by 1.3% to RMB177.4 million for the year ended 31 December 2018 from RMB179.8 million for the year ended 31 December 2017. This decrease was mainly attributable to (i) the higher subcontracting costs in the amount of RMB36.1 million in 2017 mainly due to the delay in the work progress arising from unsatisfactory work performance of the labour subcontractors and change of labour subcontractors for certain projects, (ii) the decrease in travelling and transportation costs of RMB1.5 million as we had shifted part of the processing works to be performed on-site, thereby lowering the transportation costs for the delivery of the work-in-progress to the customers' sites from Boluo, and partially offset by the increase in the costs of raw materials and equipment of RMB7.6 million mainly due to Project A in 2018 which was at the beginning stage and required significant inputs on raw materials and equipment.

---

## FINANCIAL INFORMATION

---

### *Gross profit and gross profit margin*

As a result of the foregoing, gross profit decreased by 6.1% to RMB72.6 million for the year ended 31 December 2018 from RMB77.3 million for the year ended 31 December 2017. Our overall gross profit margin decreased slightly from 30.1% for the year ended 31 December 2017 to 29.0% for the year ended 31 December 2018. Please refer to the paragraph headed “Description of selected consolidated income statements line items — Gross profit and gross profit margin” in this section for the reasons for the fluctuation in gross profit margin of projects in alcoholic beverage industry and ethanol fuel industry.

### *Selling and marketing expenses*

Selling and marketing expenses remained relatively stable at RMB5.6 million and RMB5.8 million for the years ended 31 December 2017 and 2018 respectively.

### *Administrative expenses*

Administrative expenses increased by 40.1% to RMB20.2 million for the year ended 31 December 2018 from RMB14.4 million for the year ended 31 December 2017. This increase was mainly attributable to the Listing expenses of RMB5.1 million incurred in 2018.

### *Other income*

Other income increased by 58.8% to RMB1.7 million for the year ended 31 December 2018 from RMB1.1 million for the year ended 31 December 2017. This increase was mainly attributable to the increase in government grants in relation to the incentive funds in the amount of RMB0.7 million we received from PRC government authorities in 2018 in recognition of our economic contribution.

### *Other gains – net*

Other gains – net decreased by 91.0% from RMB2.9 million for the year ended 31 December 2017 to RMB0.3 million for the year ended 31 December 2018. This was mainly attributable to the reversal in 2017 of the over-provision of litigation expenses of RMB2.0 million in 2016, which was one-off in nature.

### *Finance costs*

Finance costs increased by 46.5% to RMB1.1 million for the year ended 31 December 2018 from RMB0.7 million for the year ended 31 December 2017. This increase was mainly attributable to the increase in bank loan interests of RMB0.3 million mainly arising from total drawdown of bank borrowings of RMB7.4 million in the fourth quarter of 2017.

### *Net reversal of impairment losses/(impairment losses) on financial assets and contract assets*

We recorded net impairment losses on financial assets in the amount of RMB6.2 million for the year ended 31 December 2017 and RMB0.4 million for the year ended 31 December 2018. Such decrease in impairment losses is mainly attributable to the improvement of recoverability during the year ended 31 December 2018.

## FINANCIAL INFORMATION

### *Income tax expense*

Income tax expense decreased by 85.5% to RMB1.3 million for the year ended 31 December 2018 from RMB8.8 million for the year ended 31 December 2017. Our effective tax rate was 2.7% for the year ended 31 December 2018. This decrease in effective tax rate was mainly attributable to the recognition of deferred tax assets of RMB5.7 million arising from the temporary differences in relation to bad debt provision, accrual and prepayment in 2018.

### *Profit for the year*

Profit for the year remained relatively stable at RMB45.7 million and RMB45.8 million for the years ended 31 December 2017 and 2018 respectively. Net profit margin remained relatively stable at 17.8% and 18.3% for the years ended 31 December 2017 and 2018 respectively.

## LIQUIDITY AND CAPITAL RESOURCES

Our principal cash requirements during the Track Record Period were to pay for working capital needs, fund the payment of interest and principal due on our indebtedness and fund our capital expenditures and growth of our operations. We met these cash requirements by relying on cash generated from operations as well as borrowings. Following the completion of the Global Offering, we expect these sources to continue to be our principal sources of liquidity, and we may use a portion of the proceeds from the Global Offering to finance a portion of our liquidity requirements.

The following table sets out our selected consolidated cash flow data for the years indicated.

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Net cash generated from operations before changes in working capital	64,110	51,923	82,344
Changes in working capital	(77,245)	(41,854)	(57,409)
Income tax paid	(175)	(3,425)	(545)
Interest paid	(660)	(1,072)	(1,335)
Net cash (used in)/generated from operating activities	(13,970)	5,572	23,055
Net cash used in investing activities	(1,282)	(6,840)	(18,718)
Net cash generated from/(used in) financing activities	20,686	(558)	15,027
Net increase/(decrease) in cash and cash equivalents	5,434	(1,826)	19,364
Cash and cash equivalents at beginning of the year	2,666	8,180	6,358
Translation differences on cash and cash equivalents	80	4	744
Cash and cash equivalents at end of the year	<u>8,180</u>	<u>6,358</u>	<u>26,466</u>

We generated net cash inflow of RMB5.4 million, net cash outflow of RMB1.8 million and net cash inflow of RMB19.4 million for the years ended 31 December 2017, 2018 and 2019, respectively.

---

## FINANCIAL INFORMATION

---

### Cash flows from operating activities

Net cash generated from operating activities for the year ended 31 December 2019 was RMB23.1 million, which primarily reflected our cash generated from operations before changes in working capital of RMB82.3 million as negatively adjusted for changes in working capital of RMB57.4 million, income tax payment of RMB0.5 million and interest payment of RMB1.3 million. Such changes in working capital mainly consisted of increase in contract assets of RMB29.6 million and increase in trade and bills receivables and other receivables and prepayment of RMB83.4 million due to our business growth during the year ended 31 December 2019 in particular, the increase in contract assets and trade receivables were mainly resulted from the execution of certain sizable projects (including Projects 136, 138 and 114) and decrease in contract and refund liabilities of RMB5.9 million, and partially offset by an increase in trade and other payables of RMB61.2 million due to the increase in the contract value of the new projects secured by us during the year ended 31 December 2019, thereby resulting in the increase in the procurement from labour subcontractors and purchase of raw materials and equipment.

Net cash generated from operating activities for the year ended 31 December 2018 was RMB5.6 million, which primarily reflected our cash generated from operations before changes in working capital of RMB51.9 million as negatively adjusted for changes in working capital of RMB41.9 million, income tax payment of RMB3.4 million and interest payment of RMB1.1 million. Such changes in working capital mainly consisted of increase in trade and bills receivables and other receivables and prepayment of RMB49.2 million due to our business growth in 2018, increase in contract assets of RMB27.8 million and decrease in contract liabilities of RMB12.2 million, partially offset by (i) an increase of RMB26.1 million in trade and other payables due to the increase in the contract value of the new projects secured by us in 2018, thereby resulting in the increases in the procurement of labour subcontractors and purchases of raw materials and equipment, (ii) a decrease of inventory of RMB10.1 million due to delivery of work-in-progress of certain projects in 2018 which was brought forward from 2017, and (iii) a decrease of restricted cash of RMB11.2 million.

Net cash used in operating activities for the year ended 31 December 2017 was RMB14.0 million, which primarily reflected our cash generated from operations before changes in working capital of RMB64.1 million as negatively adjusted for changes in working capital of RMB77.2 million, income tax payment of RMB0.2 million and interest payment of RMB0.7 million. Such changes in working capital mainly consisted of an increase in contract assets of RMB53.5 million, an increase of inventories of RMB8.1 million and an increase in trade and bills receivables and other receivables and prepayment of RMB39.6 million due to our business growth in 2017 in particular, the increase in contract assets and trade receivables were mainly resulted from the execution of certain sizable projects (including 066, 091, 072 and 094), partially offset by an increase of RMB27.0 million in trade and other payables due to the increase in the contract value of the new projects secured by us in 2017, thereby resulting in the increases in the procurement of labour subcontractors and purchases of raw materials and equipment.

### Cash flows from investing activities

Net cash used in investing activities for the year ended 31 December 2019 was RMB18.7 million. This was attributable to (i) payment of RMB7.5 million for purchases of equipment and machinery for our processing plants in Boluo, motor vehicles and office equipment for our staff, (ii) payment of RMB6.2 million for the capitalized research and development expenses on patents, and (iii) our investment in the amount of RMB5.0 million for the formation of a project company in the PRC, details of which are set out in the paragraph headed “Analysis of selected items from the consolidated balance sheets — Financial assets at fair value through other comprehensive income” in this section.

---

## FINANCIAL INFORMATION

---

Net cash used in investing activities for the year ended 31 December 2018 was RMB6.8 million. This was attributable to (i) payment of RMB6.0 million for the capitalised research and development expenses on patents, and (ii) payment of RMB0.9 million for purchases of equipment and machinery for our processing plant in Boluo, motor vehicles, and office equipment for our staff.

Net cash used in investing activities for the year ended 31 December 2017 was RMB1.3 million. This was attributable to (i) payment of RMB0.7 million for purchases of equipment and machinery for our processing plant in Boluo, motor vehicles, and office equipment for our staff, and (ii) payment of RMB0.6 million for the capitalised research and development expenses on patents.

### **Cash flows from financing activities**

Net cash generated from financing activities for the year ended 31 December 2019 amounted to RMB15.0 million, which was attributable to the proceeds of RMB33.7 million from bank and other borrowings and the convertible loan granted by Double River in February 2019, details of which are set out in the paragraph headed “History, Reorganisation and Corporate Structure — Pre-HKIPO Investments” in this prospectus, and was partially offset by (i) the repayment of bank borrowings and other borrowings of RMB10.7 million, (ii) repayment to related parties of RMB2.0 million, (iii) payment for listing-related expenses of RMB4.1 million; and (iv) increase in guarantee deposits for borrowings of RMB1.1 million.

Net cash used in financing activities for the year ended 31 December 2018 amounted to RMB0.6 million, which was attributable to (i) repayment of bank and other borrowings of RMB10.4 million, (ii) repayment to related parties of RMB11.2 million, and (iii) the increase in guarantee deposits for borrowings of RMB1.2 million, and partially offset by the proceeds from bank and other borrowings of RMB6.8 million and cash advance from related parties of RMB15.4 million.

Net cash generated from financing activities for the year ended 31 December 2017 amounted to RMB20.7 million, which was attributable to (i) the proceeds from bank and other borrowings of RMB10.3 million, (ii) the proceeds from the issuance of 46,808,809 new Shares of RMB6.0 million in 2017 and (iii) cash advance from related parties of RMB52.4 million, and partially offset by the prepayment in the amount of RMB4.7 million in 2017 made by us to an Independent Third Party in relation to repurchase of 46,808,809 Shares and repayment to related parties of RMB43.2 million.

## FINANCIAL INFORMATION

### ANALYSIS OF SELECTED ITEMS FROM THE CONSOLIDATED BALANCE SHEETS

The following table sets out a summary of our consolidated balance sheets as at the dates indicated:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Financial assets at fair value through other comprehensive income	–	–	5,015
Property, plant and equipment	7,887	6,457	11,589
Land use rights	2,691	2,608	–
Intangible assets	5,989	12,782	18,252
Right-of-use assets	–	–	6,281
Deferred tax assets	–	5,752	4,325
	<u>16,567</u>	<u>27,599</u>	<u>45,462</u>
<b>Current assets</b>			
Inventories	13,742	3,661	3,358
Contract assets	60,658	88,465	118,108
Trade and bills receivables	62,211	103,629	94,628
Other receivables and prepayment	20,335	17,980	110,688
Restricted cash	11,188	1,230	2,321
Cash and cash equivalents	8,180	6,358	26,466
	<u>176,314</u>	<u>221,323</u>	<u>355,569</u>
<b>Total assets</b>	<u>192,881</u>	<u>248,922</u>	<u>401,031</u>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	1,541	1,541	1,444
Reserves	28,109	69,485	128,986
<b>Total equity</b>	<u>29,650</u>	<u>71,026</u>	<u>130,430</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Lease liabilities	–	–	2,889
<b>Current liabilities</b>			
Contract and refund liabilities	33,234	21,028	15,140
Bank and other borrowings	10,107	6,540	18,941
Convertible notes	–	–	11,847
Trade payables	52,097	69,250	114,755
Other payables	45,039	59,355	72,916
Lease liabilities	–	–	1,073
Provisions	4,636	–	–
Current income tax liabilities	18,118	21,723	33,040
	<u>163,231</u>	<u>177,896</u>	<u>267,712</u>
<b>Total liabilities</b>	<u>163,231</u>	<u>177,896</u>	<u>270,601</u>
<b>Total equity and liabilities</b>	<u>192,881</u>	<u>248,922</u>	<u>401,031</u>



---

## FINANCIAL INFORMATION

---

### **Financial assets at fair value through other comprehensive income**

We recorded financial assets at fair value through other comprehensive income of RMB5.0 million as at 31 December 2019. Such amount represented our 2.08% equity interest in a project company formed in the PRC with two Independent Third Parties pursuant to the capital injection agreement and such project company will be engaged in the construction and operation of the production line for 300,000 tonnes of corn-based ethanol fuel.

### **Property, plant and equipment**

Our property, plant and equipment represent our processing plant in Boluo, office buildings, machinery and equipment, motor vehicles and office equipment.

Our property, plant and equipment balance decreased from RMB7.9 million as at 31 December 2017 to RMB6.5 million as at 31 December 2018, representing a decrease of 18.1%. Such decrease was mainly attributable to depreciation for the year, and partially offset by the purchase of machinery for our processing plant in Boluo in 2018.

Our property, plant and equipment balance increased from RMB6.5 million as at 31 December 2018 to RMB11.6 million as at 31 December 2019, representing an increase of 79.5%. Such increase was mainly attributable to the addition of the equipment for research and development purposes to property, plant and equipment in 2019.

### **Intangible assets**

Our intangible assets represent the computer software, patents and the capitalized development costs for our patents. Our intangible assets amounted to RMB6.0 million, RMB12.8 million and RMB18.3 million as at 31 December 2017, 2018 and 2019, respectively.

Costs incurred on research and development projects for patents are capitalized as intangible assets when certain recognition criteria are fulfilled. Please refer to note 2.8 to the Accountant's Report in Appendix I to this prospectus for details of such criteria.

Our intangible assets increased by 113.4% from RMB6.0 million as at 31 December 2017 to RMB12.8 million as at 31 December 2018, which was mainly due to (i) the capitalization of RMB6.0 million on the research and development costs for our patents projects in 2018; and (ii) the purchase of certain patents with carrying amount of RMB0.8 million from a related party in 2018.

Our intangible assets increased by 42.8% from RMB12.8 million as at 31 December 2018 to RMB18.3 million as at 31 December 2019 due to the capitalization of RMB6.2 million on the research and development costs for our patents projects in 2019.

---

## FINANCIAL INFORMATION

---

Each year, our Company will carry out impairment tests for development costs which is not yet available for use. The following table sets out the key assumptions for impairment tests for development costs not yet available for use:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Revenue annual growth rate (%)	24.01	29.28	20.08
Budgeted gross profit (%)	30	30	30
Annual capital expenditure (RMB'000)	556	1,763	8,087
Long term growth rate (%)	2.5	2.5	2.5
Pre-tax discount rate (%)	13	13	13

Our management has determined the values assigned to each of the above key assumptions as follows:

- Revenue annual growth rate (%): Average annual growth rate over the five-year forecast period.
- Budgeted gross profit (%): Based on past performance and management's expectations for the future.
- Annual capital expenditure: Expected cash costs in the cash generating unit. This is based on the historical experience of management, and the planned refurbishment expenditure. No incremental revenue or cost savings are assumed in the value-in-use model as a result of this expenditure.
- Long term growth rate (%): This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rates are consistent with forecasts included in industry reports.
- Pre-tax discount rate (%): Reflect specific risks relating to the relevant industries and the countries in which they operate. The pre-tax discount rate adopted in the impairment testing for development cost not yet available for use is the same throughout the Track Record Period, as our Directors considered there was no significant change on the capital structure, business plan or economic environment during the Track Record Period.

### *Impact of possible changes in key assumptions*

As at 31 December 2017, 2018 and 2019, the headrooms of the cash generating unit of development costs calculated based on value-in-use were RMB309 million, RMB347 million and RMB443 million, respectively.

Our Directors considered if the revenue growth rate, budgeted gross margin, long term growth rate or estimated pre-tax discount rate used in the value-in-use calculation for the cash generating unit of development cost had been 10% lower, 10% lower, 10% lower or 10% higher than management's estimates at 31 December 2017, 2018 and 2019, respectively, with all other assumptions remaining unchanged, our Group would not have recognised an impairment of development costs.

---

## FINANCIAL INFORMATION

---

Our Directors have considered and assessed reasonably possible changes for the key assumptions and have not identified any instances that could cause the carrying amount of development costs to exceed its recoverable amount.

For further details, please refer to note 20 to the Accountant's Report in Appendix I to this prospectus.

### Right-of-use assets

We recorded right-of-use assets of RMB6.3 million as at 31 December 2019, which comprised (i) an amount of RMB2.5 million for the land use right of our processing plant in Boluo, and (ii) an amount of RMB3.8 million, representing the net present value (net of amortisation) of the lease payment of the remaining terms of the lease of our office premises due to "IFRS 16 Leases", which becomes effective for reporting period beginning on or after 1 January 2019 which provides that leases with a term of more than 12 months shall be recognized as an asset of the lessee.

### Inventories

Our inventories mainly represent work-in-progress which comprised the raw materials and equipment put into production in our processing plant in Boluo. Our finished goods, which represent the recoverable amount of the equipment the title of which is returned by a customer pursuant to a court order in June 2015 over the Dispute on a project. We made assessment on the recoverable amount at each year end and had made impairment in respect of the said equipment. Please refer to the paragraph headed "Description of selected consolidated income statements line items — Cost of sales" in this section for the amount of impairment made during the Track Record Period.

Our inventories decreased from RMB13.7 million as at 31 December 2017 to RMB3.7 million as at 31 December 2018, representing a decrease of 73.4%. Such decrease was mainly attributable to delivery of our work-in-progress of certain projects in 2018 which was brought forward from 2017 and was charged to cost of sales.

Our inventories decreased by 8.3% from RMB3.7 million as at 31 December 2018 to RMB3.4 million as at 31 December 2019. Such decrease was mainly due to the decrease in finished goods (net of impairment losses) of RMB1.2 million due to the sale of the aforesaid equipment which was returned by a customer to an Independent Third Party in August 2019, and was partially offset by the increase in work-in-progress of RMB0.9 million as at 31 December 2019.

The following table sets forth our average inventory turnover days for the years indicated:

	For the year ended 31 December		
	2017	2018	2019
Average inventory turnover days	19.7	17.9	4.4

*Note: Average inventory turnover days for a given period is calculated by dividing the arithmetic mean of the opening and closing balances of inventory by cost of sales for such period and then multiplied by the number of days in such period.*

## FINANCIAL INFORMATION

Our average inventory turnover days were 19.7 days, 17.9 days and 4.4 days for the years ended 31 December 2017, 2018 and 2019, respectively. The average inventory turnover days for the year ended 31 December 2019 is relatively short compared to the year ended 31 December 2017 and 2018 mainly due to increase in cost of sales, meanwhile we maintained a low level of inventory as at 31 December 2019 as we delivered our work-in-progress to the customers near year end.

As at the Latest Practicable Date, approximately RMB0.7 million, or 20.4% of our inventory as at 31 December 2019 has been used.

### Trade and bills receivables

Our trade and bills receivables as at 31 December 2017, 2018 and 2019 are set out below:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Trade and bills receivables	158,982	121,788	105,752
Less: allowance for impairment of trade and bills receivables	(96,771)	(18,159)	(11,124)
Trade and bills receivables – net	<u>62,211</u>	<u>103,629</u>	<u>94,628</u>

An ageing analysis of trade and bills receivables based on invoice date (net of impairment losses) is as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Within one year	54,202	78,482	80,880
One to two years	5,724	23,326	8,315
Two to three years	1,920	1,573	5,433
Over three years	365	248	–
	<u>62,211</u>	<u>103,629</u>	<u>94,628</u>

Our trade and bills receivables represent receivables from our customers arising from the provision of our services. We generally do not grant a credit period to our customers. Pursuant to our contracts with the customers, we will issue invoices to our customers upon the completion of the particular milestone of the project. Accordingly, the due dates of our trade receivables are the dates on which the respective invoices were issued.

Our trade and bills receivables (net of impairment) increased from RMB62.2 million as at 31 December 2017 to RMB103.6 million as at 31 December 2018, representing an increase of 66.6%. Such increase was primarily due to our business growth in 2018. Our trade and bills receivables decreased by 8.7% from RMB103.6 million as at 31 December 2018 to RMB94.6 million as at 31 December 2019.

---

## FINANCIAL INFORMATION

---

We generally conducted the following credit assessment procedures adopted in March 2019 for new customers. Our sales personnel will collect the background information of the new customers from various sources, such as the Internet and the information obtained from the industry and commerce bureau in the PRC. The information collected mainly included the financial data of the new customers and other non-financial information, such as years of operation, business activities, brand name and licences and certifications obtained by the new customers. The new customers will be assessed and given a score based on the information collected and with reference to a number of factors, including the financial performance, liquidity position, history of default, years of operation, stability of business, market reputation and development trend of the new customer, etc. The assessment results shall be reviewed and confirmed by the general manager. Set out below are the various classifications of the customers based on the scores awarded:

Scores	Customer classification	Characteristics
80 or above	Pass	Reputable enterprises in the industry, with no history of legal proceedings and default in payment in public record
60 but below 80	General	Small enterprises in the industry, with some public records of legal proceedings or default in payment
Below 60	Fail	Enterprises which are involved in a number of legal proceedings and have serious default in payment in public record

For customer which is classified as “Pass”, we may impose a relatively less stringent payment term and the accumulated percentage of the contract value which such customer has to pay upon delivery of the equipment to the project site may be lower as compared with a customer which is classified as “General”. We will not conduct business activities with customer which is classified as “Fail”.

We determine the provision for impairment of our receivables on a case-by-case basis having regard to various factors, including the ageing of the receivable balance, results of follow-up procedures and customers’ financial position. At the end of each reporting period, we assess whether there is objective evidence that each individual receivable is impaired. An individual receivable is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the receivable and that such event (or events) has an impact on the amount of the receivable that can be recovered. Evidence of impairment include (i) the customers having become bankrupt and the receivables are determined to be not recoverable, or (ii) the receivables are past due for over three years. The amount of the impairment losses of receivables is recognised in profit or loss.

We measure the expected loss rates based on the payment profiles of sales over a period of 36 months prior to each balance sheet date respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

## FINANCIAL INFORMATION

Trade and bills receivables and contract assets that were past due but not impaired had a good track record with the Group. Based on past experience, our Directors are of the opinion that no loss allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

As at 31 December 2017, allowance for impairment losses for trade and bills receivables stood at RMB96.8 million, majority of such amount were related to trade and bills receivable aging over three years incurred in 2013 and 2014, respectively, or earlier. The reasons for the allowance of impairment were mainly due to (i) provision made according to expected credit losses arising from long outstanding receivables, (ii) discontinuance of ethanol production of customers, (iii) deviations of the system from technical specifications, and (iv) customers in financial difficulty. Total amount of RMB78.3 million of the abovementioned impaired trade receivables from 28 customers had been written off during 2018.

The allowance for impairment of trade receivables by nature as at 31 December 2017, 2018 and 2019 is set out as follows:

Nature of the impairment	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
General provision	29,946	8,187	7,154
Discontinuance of operation of customers	35,721	–	–
Quality deviation	19,969	8,688	3,970
Financial difficulty of customers	9,411	–	–
Others	1,724	1,284	–
<b>Total</b>	<b>96,771</b>	<b>18,159</b>	<b>11,124</b>

Set out below is the movement of the allowance for impairment of trade and bills receivables during the Track Record Period:

	For the year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
At the beginning of the year	94,626	96,771	18,159
Provision for loss allowance recognised in profit or loss	7,826	3,109	7,866
Unused amounts reversed	(2,962)	(3,389)	(7,065)
Receivables written off as uncollectible	(2,719)	(78,332)	(7,836)
At the end of the year	<b>96,771</b>	<b>18,159</b>	<b>11,124</b>

---

## FINANCIAL INFORMATION

---

As at 31 December 2017, allowance for impairment of trade receivables due to discontinuance of operation of customers amounted to RMB35.7 million, representing 36.9% of the total allowance for impairment of trade receivables as at 31 December 2017. Such amount mainly related to three customers which had discontinued operations solely due to commercial reasons given the uncertainty of the ethanol industry experienced before the Track Record Period owing to the overcapacity in the alcoholic beverage industry and the introduction of corn stock policy under which the PRC government to limit the amount of corn being used for ethanol fuel production as there was concern over food price and safety according to the CIC Report.

The allowance for impairment losses as at 31 December 2018 mainly represented impairment in trade receivables due to deviations of the system from technical specification. At the inspection stage, there were slight deviations from the required technical specification due to sub-standard raw materials which were inadvertently procured and used, and that we were unable to reach an agreement with the acceptance check and the settlement of the outstanding receivables. As a result, we assessed that such balances were unlikely to be recovered because it is not practicable to make material structural changes to achieve the agreed standards upon the completion of installation, and the corresponding impairment was charged to our profit and loss. RMB800,000, RMB123,000 and RMB56,000 were provided for impairment losses in relation to technical specification deviation for the Track Record Period, respectively.

The aforesaid inadvertent procurement and usage of substandard quality of raw materials were mainly related to three projects, namely Project 006, Project 054 and Project 049 respectively, and the raw materials were sourced from different suppliers. The selection of suppliers and quality inspection had been conducted in accordance with our internal procedures. However, such defects can generally only be identified after the relevant defective raw materials have been incorporated into the equipment together with other components and the equipment has been put into operation, and it would be impractical timing wise for the Company to conduct a thorough checking of such incoming raw materials without disrupting the production workflow. Apart from the incidents mentioned-above, we have not experienced any similar incident during the Track Record Period and we have not engaged such suppliers in our subsequent projects.

The remaining balance of the allowance for impairment losses as at 31 December 2018 mainly represented provisions made according to expected credit losses arising from outstanding receivables of different age. In addition, among the allowance for impairment of trade and bills receivables, 2.0% and 5.6% of the allowance of impairment as at 31 December 2017 and 2018 respectively, were related to the customers which we have continued business relationships with them. We maintain good and continued customer relationships with them after the allowance for impairment was made as our Directors consider (i) we had secured and executed a number of sizable projects with them; (ii) it is expected we may continue to secure projects from them; and (iii) the outstanding trade and bills receivables were relatively small portion of the contract sum. We did not experience difficulty in recovering the receivables from them and their respective allowance for impairment was merely made under the expected credit losses model after taking into consideration the credit risk characteristics and days past due. The aggregate revenue attributable to these customers were RMB124.2 million and RMB108.4 million during the years ended 31 December 2017 and 2018 respectively.

---

## FINANCIAL INFORMATION

---

As at the Latest Practicable Date, approximately RMB3.4 million of the receivables with continued business relationship which had been impaired as at 31 December 2019 according to expected credit losses arising from outstanding receivables of different age and approximately RMB2.0 million, or 58.7% of the amount had been recovered.

Allowance for impairment losses for trade and bills receivables decreased by 81.2% from RMB96.8 million as at 31 December 2017 to RMB18.2 million as at 31 December 2018. The decrease was primarily due to the written off of allowance for impairment losses of RMB78.3 million against its corresponding receivables during 2018 as we considered the chance of recovering these long outstanding receivables was remote since those receivables were aged over three years and cannot be recovered after we had made efforts to chase for the payments, which included sending payment reminder letters to the relevant customers. Among those customers with receivables being written off as uncollectible, we had subsequently entered into two new contracts with an aggregate contract value (exclusive of VAT) of RMB16.9 million with a customer (the “**Relevant Customer**”), namely a technical system upgrade project for ethanol fuel system in October 2018 and a purchase contract for a system component in November 2019. To the best knowledge of the Directors, since (i) the Relevant Customer intended to continue business relationship with our Group, and (ii) the outstanding receivables to be settled by the Relevant Customer were not material when compared with the contract value of the new contract, it was agreed by our Group to delay the settlement of some of the trade receivables and such long outstanding receivables were written off together with other receivables aged over three years according to the above criteria. We decided to continue business relationship with the Relevant Customer after taking into consideration (1) that the assessment conducted on the business conditions of the Relevant Customer was satisfactory and the payments made by the Relevant Customer for the then ongoing project were generally on time, (2) the financial conditions of the Relevant Customer prior to the entering of the two new contracts, (3) the receivables being written off from the Relevant Customer was aged for more than three years and the amount was not material when compared with the contract value of the two new contracts, (4) that maintaining business relationship with the Relevant Customer can increase our likelihood of recovering the outstanding receivables from the Relevant Customer, (5) that we have already established a long term business relationship with the Relevant Customer, and (6) that the Relevant Customer has offered us new business opportunities, i.e. the two new contracts. Apart from the Relevant Customer, we have not continued business relationship with the aforesaid customers with receivables being written off as uncollectible.

We had completed both Project 093 and the 2019 new contract during the year ended 31 December 2019 and there was no outstanding receivables for these projects as at 31 December 2019. The amount of revenue generated from the Relevant Customer was RMB10.2 million, RMB1.2 million and RMB0.6 million during the Track Record Period, respectively. As at 31 December 2017, 2018 and 2019, the amount of trade and bills receivables attributable to the Relevant Customer was nil, RMB2.2 million and RMB1.5 million, respectively. Among the outstanding receivables as at 31 December 2019, RMB0.5 million was subsequently settled. We had not experienced material delay in collecting receivables from the Relevant Customer for the two new contracts and we will continue to follow up with the outstanding receivables, including to chase the settlement of the trade receivables written off. The amount of trade receivables written off attributable to the Relevant Customer was nil, RMB1.1 million and RMB30,000 during the Track Record Period, respectively and the nature of such trade receivables written off is categorised as general provision.



---

## FINANCIAL INFORMATION

---

During the Track Record Period, we did not have a set of comprehensive procedures and policies on the monitoring and chasing of outstanding receivables. To rectify such deficiencies, we have adopted a set of procedures on management of trade receivables. Such procedures include, among others, regular analysis and monitoring of outstanding receivables by the finance department, guidelines on chasing of outstanding receivables and linkage of the performance assessment of sales personnel with the status of recoverability of outstanding receivables.

In view of the poor recoverability of the receivables in the past, we had adopted the following internal control measures in September 2019 to enhance the recoverability of receivables:

- (1) the finance staff responsible for handling the receivables shall review all the outstanding receivables at least once each month. An aging analysis for the receivables shall be prepared on a monthly basis and submitted to the finance director for review. The aging analysis for receivables for the previous month will then be issued to the engineering department;
- (2) at the end of each month, a list of the customers which need to settle payment during the coming month will be compiled and issued to the relevant project manager. Upon receiving the list, the project managers shall issue a payment reminder notice to their respective customers at least 10 days before the milestone payment stage. On the milestone payment stage, the project manager shall ascertain whether the customer has settled the payment, and request the customer to provide a payment plan within 15 days if the customer fails to settle the payment;
- (3) the finance personnel shall maintain regular contact with the customers and send to and collect from the customers annually the confirmation letters on receivables, and shall report to the engineering department on the collection status of the said confirmation letters;
- (4) in the event that the customer fails to settle the milestone payment in accordance with the terms of the contract during the implementation of the project, we may adopt the following measures:
  - (a) if the delay in payment is more than 10 days after the milestone payment stage, the relevant project manager shall follow up with the customer on the outstanding payment, and shall report to the engineering director on the reasons for delay in payment and the repayment plan of the customer. The engineering director may assign additional personnel to assist the relevant project manager in chasing the payment. If the outstanding payment demonstrates one of the following characteristics, the finance and legal department shall also be involved in chasing the payment and should consider commencing legal proceedings if necessary:
    - (i) serious deterioration of the credit condition of the customer;
    - (ii) change of business premises without a proper reason;
    - (iii) absconding of the legal representative of the customer;
    - (iv) fraudulent behaviour of the customer;
    - (v) material change in the business conditions of the customer;

---

## FINANCIAL INFORMATION

---

- (b) if the delay in payment is more than 30 days after the milestone payment stage, the relevant project manager shall inform the engineering director and the general manager, and the engineering department and the general manager shall assist in chasing the outstanding payment. We may also slow down the progress of work execution, and a letter will be issued to the customers to inform them thereof; and
  - (c) if the payment has not been settled after more than 45 days have lapsed after the milestone payment stage as stated in the contract, we may suspend the execution of work and commence legal proceedings to claim for the outstanding payment; and
- (5) the following measures will be taken to recover the long outstanding receivables:
- (a) for the outstanding receivables below RMB500,000, we will follow up with the customer on the outstanding receivables through telephone or fax; and
  - (b) for the outstanding receivables of RMB500,000 or above, if the customer fails to provide a concrete payment plan or refuses to settle payment without reasonable grounds after communication with the customer for five times, our legal staff will issue a legal demand letter to the customer. If the customer still fails to settle the outstanding payment after issuance of three legal demand letters, we will take appropriate legal actions to recover the outstanding payment.

In view of the poor recoverability of our receivables prior to the Track Record Period, we have enhanced our efforts in the collection of the outstanding receivables. As a result of our effort, our recoverability improved and we have only recorded net impairment losses on trade and bills receivables of RMB4.9 million and RMB0.8 million for the years ended 31 December 2017 and 2019, respectively, and net reversal of impairment losses of RMB0.3 million for the year ended 31 December 2018. As at the Latest Practicable Date, RMB73.2 million, or 69.3%, of our gross trade and bills receivables as at 31 December 2019 had been settled. In addition, as at 31 December 2019, approximately 14.5% of the trade and bills receivables was outstanding for more than one year, as compared with 24.3% as at 31 December 2018. On the basis of the above-mentioned improvement in recoverability of trade and bills receivables, our Directors are of the view, and the Sole Sponsor concurs that, we have adequate and effective internal control procedures in place on enhancing the recoverability of receivables.

## FINANCIAL INFORMATION

As at the Latest Practicable Date, the breakdown of the unsettled trade and bills receivables as at 31 December 2019 by ageing bands is set out as follows:

	RMB'000
Within one year	16,604
One to two years	4,152
Two to three years	4,134
Over three years	—
<b>Total</b>	24,890

Given the significant improvement in the impairment losses made and the improved subsequent settlement, our Directors consider that there is no material implication on the Group's internal control deficiency in relation to recoverability of trade and bills receivables during the Track Record Period.

The following table sets out our trade and bills receivables turnover days and trade and bills receivables and contract assets turnover days during the Track Record Period:

	For the year ended 31 December		
	2017	2018	2019
Average trade and bills receivables turnover days <i>(note 1)</i>	64.8	121.1	90.8
Average trade and bills receivables and contract assets turnover days <i>(note 2)</i>	113.0	229.9	185.4

*Notes:*

1. *Average trade and bills receivables turnover days for a given period is calculated by dividing the arithmetic mean of the opening and closing balances of trade and bills receivables (net of impairment) by revenue for such period and then multiplied by the number of days in such period.*
2. *Average trade and bills receivables and contract assets turnover days for a given period is calculated by dividing the arithmetic mean of the opening and closing balances of trade and bills receivables (net of impairment) and contract assets (net of loss allowance) by revenue for such period and then multiplied by the number of days in such period.*

During the Track Record Period, our trade and bills receivables mainly comprised the amount billed for the completion of the project and the issuance of inspection report. However, customers normally incline to delay the settlement till the issuance of the inspection report because there is uncertainty of the result of the final acceptance check and it is advantageous for customers to hold the settlement. The length of the period between completion of installation and the final inspection of the whole project varies on case-by-case basis. It depends on various factors, including but not limited to, the site condition, the completion and readiness of other systems contracted by us or other contractors and slight adjustments on the system after inspection. The period generally varies from 30 days to 180 days which represents the days between the date we issued our bill and the settlement and generally in line with our average trade and bills receivable turnover days.

## FINANCIAL INFORMATION

The increase in average trade and bills receivables turnover days for the year ended 31 December 2018 as compared to that for the year ended 31 December 2017 was mainly due to certain customers plan to conduct the acceptance check after the end of 2018 and therefore resulting in slower settlement of receivables.

Our average trade and bills receivables turnover days decreased slightly from 121.1 days for the year ended 31 December 2018 to 90.8 days for the year ended 31 December 2019 mainly due to (1) the increase in revenue due to our business growth in 2019, and (2) that we had strengthened our efforts on the collections of trade receivables in 2019, resulting in a decrease in trade and bills receivables as at 31 December 2019 as compared with 31 December 2018.

The increase in average trade and bills receivables and contract assets turnover days for the year ended 31 December 2018 as compared to that for the year ended 31 December 2017 was mainly due to the increase in contract assets recognised and pending to be billed to our customers as at 31 December 2018 contributed by Projects 114, 119 and 125. The aggregate contract assets relating to these three projects as at 31 December 2018 amounted to RMB61.0 million.

Our average trade and bills receivables and contract assets turnover days decreased from 229.9 days for the year ended 31 December 2018 to 185.4 days for the year ended 31 December 2019 due to (1) the increase in revenue due to our business growth in 2019, and (2) that we had strengthened our efforts on the collections of trade receivables in 2019, resulting in a decrease in trade and bills receivables as at 31 December 2019 as compared with 31 December 2018.

### Other receivables and prepayment

Our other receivables and prepayment as at 31 December 2017, 2018 and 2019 are set out below:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Amounts due from related parties	3,481	–	–
Other prepayments	4,259	9,897	22,650
Prepayments related to listing expenses	–	1,566	8,710
Advances to employees	6,658	5,684	447
Tendering deposits	388	258	460
Deposits receivables	–	–	78,000
Others	5,549	575	421
<b>Other receivables — net</b>	<b>20,335</b>	<b>17,980</b>	<b>110,688</b>

Amounts due from related parties were interest free, unsecured and repayable on demand, details of which are set out in the paragraph headed “Financial information — Related parties transactions — Amount due from related parties” in this section. The amounts had been fully settled during the Track Record Period.

---

## FINANCIAL INFORMATION

---

Other prepayments primarily represent the prepayment paid to suppliers and labour subcontractors for purchase of raw materials and equipment, and assembling and installation works. Suppliers and labour subcontractors generally require us to make a prepayment upon the signing of the contract. Our other prepayments increased by 132.4% from RMB4.3 million as at 31 December 2017 to RMB9.9 million as at 31 December 2018. Such increase in 2018 was generally in line with our business growth. Our other prepayments further increased by 128.9% from RMB9.9 million as at 31 December 2018 to RMB22.7 million as at 31 December 2019. Such increase was mainly due to our business growth during the year ended 31 December 2019.

Advances to employees mainly comprised the amount prepaid to the project managers for the on-site purchase of the miscellaneous raw materials and equipment during the installation stage of the system at the customers' sites, the travelling and business expenses prepaid to these staff and cash advances to some administrative personnel to handle the payment of vehicle expenses, rental expenses and other miscellaneous expenses. Our advances to employees decreased from RMB5.7 million as at 31 December 2018 to RMB0.4 million as at 31 December 2019. Such decrease was mainly due to the utilisation of the advances by the employees in 2019.

During the years ended 31 December 2017, 2018 and 2019, we had granted advances to 51, 40 and 55 employees in the amount of RMB7.2 million, RMB5.0 million and RMB4.6 million respectively which mainly included project manager, engineer and sales and administration personnel.

As advised by CIC, it is the industry norm for granting advances to project managers, engineering and sales personnel for the prepayment of raw materials, equipment, travelling and business expenses to ensure work efficiency during the installation stage at the customers' sites as well as to administrative personnel for payment of administrative expenses. As at the Latest Practicable Date, we did not have any recoverability issue with regards to the advances to such employees as at 31 December 2019.

We have adopted the following internal control measures in August 2019 to safeguard our Group's assets with respect to the advances to employees:

- (1) in the event of advance in cash, the employee should notify the finance department half day in advance. The employee shall fill in a payment application form and include information such as the amount to be advanced and the project number of the project which the employee is working on, and submit such application form to the relevant department manager of the employee for approval. The relevant department manager shall review the application with reference to the status of the relevant project and ascertain whether the advance being applied for is reasonable. The finance department shall also review whether the amount being applied for is consistent with the terms of the relevant supplier's contract. The employee must sign the relevant money advance document in person. In the event that the employee is outside of office, the employee should provide electronic confirmation of the money advance document and verbal confirmation via phone;
- (2) the relevant employee shall submit the expenses form and the original invoices to the finance department to record the expenses within three months of the date of advance. No further advance shall be provided until the previous advance has been cleared. In the event that relevant invoices are not provided after six months of the date of advance, the finance director may deduct the amount of the advance from the employee's salary. The invoices shall contain information such as name of the payee, date, amount, details of the goods or services, and shall be stamped by the issuing body. Invoices which have been altered or not stamped by the issuing body shall be rejected; and

---

## FINANCIAL INFORMATION

---

- (3) if the amount to be advanced to the employee is used to purchase raw materials and equipment and such amount exceeds RMB10,000, such amount will be paid directly to the bank account of the supplier. The employee needs to fill in payment application form, and provide information such as the supplier's bank account, information on project details, project contract and the relevant supplier's contract. The payment will be made directly to the supplier's bank account after undergoing the internal approval procedures.

Tendering deposits represent the deposits paid to the tendering agencies at the time of submission of tenders.

Deposit receivables of RMB78.0 million as at 31 December 2019 represents up-front payments for Project 136 for guaranteeing our performance of the contract. The contract value (exclusive of VAT) of Project 136 was RMB330.8 million. Pursuant to the term of the contract entered into with Inner Mongolia Zhongneng Biological Technology Co., Ltd.\* (內蒙古中能生物科技有限公司) (“**Zhongneng**”) (which is our existing customer as at the Latest Practicable Date) in June 2019 in relation to an integrated service project for ethanol fuel device, we are required to pay an aggregate amount of RMB78.0 million as guarantee for performance of contract, of which RMB38.0 million and the remaining RMB40.0 million had been paid in July and August 2019 respectively. Under the contract, the performance guarantee shall be returned by the counterparty to us after completion of the project. If we are required to pay any compensation to the counterparty according to any court orders or results of arbitration for any losses or damages suffered as a result of our default under the contract, the counterparty may utilise the performance guarantee to settle all or part of the compensation amount. No performance guarantee was paid by us during the years ended 31 December 2017 and 2018. We had not engaged in other projects with Zhongneng save for the aforesaid project. As advised by CIC, it is an industry common practice for ethanol production system manufacturers to pay a up-front payment to the counterparties as performance guarantee for sizeable contract. This is to ensure the commitment and financial capability of the ethanol production system manufacturers.

Others in the amount of RMB5.6 million as at 31 December 2017 mainly comprised the amount prepaid by us to an Independent Third Party in 2017 in relation to repurchase of our Shares (details of which are set out in the paragraph headed “History, reorganisation and corporate structure — Corporate development and structure — Our Company” in this prospectus). Others in the amount of RMB0.6 million as at 31 December 2018 mainly comprised the rental deposits for the leasing of our office in Guangzhou. Others in the amount of approximately RMB0.4 million as at 31 December 2019 mainly comprised the rental deposits for the leasing of our office.

### **Contract assets**

Contract assets represent the works performed or upfront costs incurred by us for the ethanol production system technology integrated service projects and for which we have not yet billed our customers.

Our contract assets amounted to RMB60.7 million, RMB88.5 million and RMB118.1 million as at 31 December 2017, 2018 and 2019, respectively. Among the gross carrying amount of contract assets, approximately RMB118,000, RMB118,000 and nil was related to major project disputes as at 31 December 2017, 2018 and 2019, respectively, of which RMB99,000, RMB99,000 and nil were impaired, respectively.

## FINANCIAL INFORMATION

The following table sets out a breakdown of the contract assets of RMB0.5 million or above by project and aging analysis as at each of the reporting dates:

*As at 31 December 2017*

Project code	Within 1 year	1 to 2 years	2-3 years	Over 3 years	Loss allowance	Total
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Project 094	27,841	–	–	–	–	27,841
Project 072	17,809	–	–	–	–	17,809
Project 066	8,150	–	–	–	–	8,150
Project 095	2,036	–	–	–	(129)	1,907
Project 101	1,247	–	–	–	(79)	1,168
Project 106	1,130	–	–	–	(72)	1,058
Project 079	660	–	–	–	–	660
Others	1,405	118	790	4,817	(5,065)	2,065
<b>Total</b>	<b>60,278</b>	<b>118</b>	<b>790</b>	<b>4,817</b>	<b>(5,345)</b>	<b>60,658</b>

*As at 31 December 2018*

Project code	Within 1 year	1 to 2 years	2-3 years	Over 3 years	Loss allowance	Total
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Project 114	39,432	–	–	–	(412)	39,020
Project 119	11,446	–	–	–	(120)	11,326
Project 125	10,773	–	–	–	(113)	10,660
Project 066	4,784	–	–	–	–	4,784
Project 111	3,809	–	–	–	(40)	3,769
Project 120	2,918	–	–	–	(31)	2,887
Project 124	2,846	–	–	–	(30)	2,816
Project 106	2,457	–	–	–	(26)	2,431
Project 091	1,937	–	–	–	–	1,937
Project 083	1,766	–	–	–	(18)	1,748
Project 079	1,050	660	–	–	(66)	1,644
Project 072	1,408	–	–	–	–	1,408
Project 067	713	–	–	–	(6)	707
Project 095	548	–	–	–	(6)	542
Project 103	545	–	–	–	(6)	539
Project 115	536	–	–	–	(6)	530
Others	1,553	92	118	2,329	(2,375)	1,717
<b>Total</b>	<b>88,521</b>	<b>752</b>	<b>118</b>	<b>2,329</b>	<b>(3,255)</b>	<b>88,465</b>

## FINANCIAL INFORMATION

As at 31 December 2019

Project code	Within 1 year	1 to 2 years	2-3 years	Over 3 years	Loss allowance	Total
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Project 138	43,017	–	–	–	(1,425)	41,592
Project 136	33,933	–	–	–	(625)	33,308
Project 114	22,250	–	–	–	(737)	21,513
Project 125	7,505	–	–	–	(249)	7,256
Project 119	6,038	–	–	–	(200)	5,838
Project 121	3,798	–	–	–	(126)	3,672
Project 124	1,845	–	–	–	(61)	1,784
Project 120	1,620	–	–	–	(54)	1,566
Project 115	634	–	–	–	(21)	613
Others	788	290	–	2,389	(2,501)	966
<b>Total</b>	<b>121,428</b>	<b>290</b>	<b>–</b>	<b>2,389</b>	<b>(5,999)</b>	<b>118,108</b>

We did not have material dispute with customers in respect of the amount of contract assets as at each year end date during the Track Record Period.

Our contract assets are normally affected by (i) the amount of works performed by us at the time close to the end of the reporting period; (ii) the time when we billed our customers; (iii) the time when our labour subcontractors' work is certified and the cost of construction materials are incurred; and (iv) our progress billings for the projects, which can vary significantly from period to period. We do not have any material contract assets that is related to disputes with customers during the Track Record Period.

As at 31 December 2017, 2018 and 2019, the amount of contract assets of RMB5.3 million, RMB3.3 million and RMB6.0 million, respectively were impaired.

Approximately RMB60.1 million (equivalent to 99.1% of the contract assets balance as at 31 December 2017) were subsequently billed, and approximately RMB58.4 million (equivalent to 97.2% of the amount subsequently billed) were settled as at the Latest Practicable Date.

Approximately RMB87.7 million (equivalent to 99.2% of the contract assets balance as at 31 December 2018) were subsequently billed, and approximately RMB68.4 million (equivalent to 77.9% of the amount subsequently billed) were settled as at the Latest Practicable Date.

As at the Latest Practicable Date, approximately RMB42.4 million (equivalent to 35.9% of the contract assets balance as at 31 December 2019) were subsequently billed, and approximately RMB35.9 million (equivalent to 84.7% of the amount subsequently billed) were settled as at the Latest Practicable Date.



## FINANCIAL INFORMATION

### Trade payables

Our trade payables amounted to RMB52.1 million, RMB69.3 million and RMB114.8 million as at 31 December 2017, 2018 and 2019, respectively.

Trade payables increased by 32.9% from RMB52.1 million as at 31 December 2017 to RMB69.3 million as at 31 December 2018. Trade payables increased further by 65.7% from RMB69.3 million as at 31 December 2018 to RMB114.8 million as at 31 December 2019. Such increases were mainly attributable to the increase in the contract value of the new projects secured by us during the years ended 31 December 2018 and 2019, thereby resulting in the increases in the engagement of labour subcontractors and purchases of raw materials and equipment in 2018 and 2019 respectively. For the years ended 31 December 2017, 2018 and 2019, the aggregate contract value (exclusive of VAT) of the new projects secured by us amounted to RMB217.5 million, RMB481.0 million and RMB653.9 million respectively.

In general, the invoices issued by our suppliers are generally due for payment upon issuance. The following table sets out the aging analysis of the trade payables based on invoice date as at the end of each of the reporting dates:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Within 1 year	35,824	49,157	94,965
1 to 2 years	4,285	8,982	8,800
2 to 3 years	2,340	1,462	3,438
Over 3 years	9,648	9,649	7,552
	52,097	69,250	114,755

As at the Latest Practicable Date, RMB47.9 million, approximately 41.7% of our trade payables as at 31 December 2019 had been settled.

The following table sets out our trade payables turnover days during the Track Record Period:

	For the year ended 31 December		
	2017	2018	2019
Average trade payables turnover days <sup>(note)</sup>	89.3	124.9	116.1

*Note: Average trade payables turnover days for a given period is calculated by dividing the arithmetic mean of the opening and closing balances of trade payables by cost of sales for such period and then multiplied by the number of days in such period.*

## FINANCIAL INFORMATION

Our trade payables mainly comprised the payables to equipment suppliers and labour subcontractors with an aging within one year. The changes in average trade payables turnover days in 2018 and 2019 were generally in line with the changes in average trade receivables turnover days as shown in the paragraph headed “Trade and bills receivables” above so as to maintain a sufficient level of working capital of our Group.

The increase in average trade payables turnover days of 124.9 days for the year ended 31 December 2018 as compared to that of 89.3 days for the year ended 31 December 2017 was mainly due to Project 114 in 2018, which is our largest ethanol fuel project in terms of revenue in 2018 and such project was at the beginning stage near the end of 2018 which required significant inputs on raw materials and equipment, thereby increasing the trade payables and average trade payables turnover days.

Our average trade payables turnover days decreased slightly from 124.9 days for the year ended 31 December 2018 to 116.1 days for the year ended 31 December 2019.

### Other payables

Our other payables as at 31 December 2017, 2018 and 2019 are set out below:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Value-added tax payable	29,857	37,195	47,562
Other payables and accruals	11,879	18,028	24,141
Amount due to directors	2,064	2,922	426
Wages payables	639	710	787
Amount due to related parties	600	500	–
<b>Total</b>	<b>45,039</b>	<b>59,355</b>	<b>72,916</b>

Amount due to directors are interest free, unsecured and repayable on demand. Such amount during the Track Record Period mainly represented directors’ fees.

Amount due to related parties are interest free, unsecured and repayable on demand.

Other payables and accruals mainly represent (i) accrued expenses for the social insurance and housing provident funds for the staff of our Group, (ii) the rents payable for the leasing of our office in Guangzhou, (iii) the city maintenance and construction tax (城市維護建設稅) payable to the PRC government, (iv) the expenses payable in the amount of RMB4.1 million in 2018 (2019: RMB6.6 million) in preparation of the Listing, and (v) deposits received from the labour subcontractors for guaranteeing performance of contracts in the amount of RMB3.5 million as at 31 December 2019.

## FINANCIAL INFORMATION

### Contract and refund liabilities

A contract liability represents our Group's obligation to transfer goods or services to a customer for which our Group has received consideration from the customer.

Our contract and refund liabilities amounted to RMB33.2 million, RMB21.0 million and RMB15.1 million as at 31 December 2017, 2018 and 2019, respectively.

Our contract and refund liabilities are normally affected by (i) the amount of works performed by us at the time close to the end of the reporting period; (ii) the time when we billed our customers; (iii) the time when our labour subcontractors' work is certified and the cost of construction materials are incurred; and (iv) our progress billings for the projects, which can vary significantly from period to period.

### Net current assets

	As at 31 December			As at
	2017	2018	2019	30 April 2020
	RMB'000	RMB'000	RMB'000	RMB'000 <i>(unaudited)</i>
<b>Current assets</b>				
Inventories	13,742	3,661	3,358	4,573
Contract assets	60,658	88,465	118,108	170,970
Trade and bills receivables	62,211	103,629	94,628	48,407
Other receivables and prepayment	20,335	17,980	110,688	105,233
Restricted cash	11,188	1,230	2,321	2,321
Cash and cash equivalents	8,180	6,358	26,466	14,704
	<u>176,314</u>	<u>221,323</u>	<u>355,569</u>	<u>346,208</u>
<b>Current liabilities</b>				
Contract and refund liabilities	33,234	21,028	15,140	26,919
Bank and other borrowings	10,107	6,540	18,941	17,844
Convertible notes	–	–	11,847	12,050
Trade payables	52,097	69,250	114,755	94,808
Other payables	45,039	59,355	72,916	51,799
Lease liabilities	–	–	1,073	1,067
Provisions	4,636	–	–	–
Current income tax liabilities	18,118	21,723	33,040	36,436
	<u>163,231</u>	<u>177,896</u>	<u>267,712</u>	<u>240,923</u>
<b>Net current assets</b>	<u>13,083</u>	<u>43,427</u>	<u>87,857</u>	<u>105,285</u>

---

## FINANCIAL INFORMATION

---

We recorded a net current assets of RMB13.1 million as at 31 December 2017, which was primarily attributable to the increase in current assets arising from (i) the net profits in the amount of RMB45.7 million generated in 2017, and (ii) the proceeds from the issuance of 46,808,809 new shares of our Company in March 2017.

Our net current assets increased by 231.9% from RMB13.1 million as at 31 December 2017 to RMB43.4 million as at 31 December 2018. Such increase was mainly attributable to the increase in current assets arising from the net profits in the amount of RMB45.8 million generated in 2018, and partially offset by the decrease in other receivables and prepayment due to the completion of the repurchase of 46,808,809 shares of our Company in January 2018.

Our net current assets increased from RMB43.4 million as at 31 December 2018 to RMB87.9 million as at 31 December 2019, representing an increase of 102.3%. Such increase was mainly attributable to the increase in current assets arising from the net profits in the amount of RMB59.2 million generated for the year ended 31 December 2019, and partially offset by the purchase of machinery and equipment for our processing plant in Boluo, the capitalised research and development expenses on patents and our investment in the amount of RMB5.0 million for the formation of a project company in the PRC, details of which are set out in the paragraph headed “Analysis of selected items from the consolidated balance sheets — Financial assets at fair value through other comprehensive income” in this section.

We recorded a net current assets of RMB105.3 million as at 30 April 2020, representing an increase of 19.8% as compared with that as at 31 December 2019.

### INDEBTEDNESS

#### Bank and other borrowings

As at 31 December 2017, 2018 and 2019, we had bank and other borrowings of RMB10.1 million, RMB6.5 million and RMB18.9 million respectively which were all denominated in RMB. Such bank and other borrowings was for working capital purpose of our Group. The effective interest rate of our bank borrowings was 6.09%, 6.74% and 6.36% for the years ended 31 December 2017, 2018 and 2019 respectively while the other borrowings from staff carried 10.0% interest rate. The bank borrowings were secured by the personal guarantee of Mr. Yu, the corporate guarantee of Boluo Tianyuan and the charges over the buildings in the processing plant of Boluo and the receivable for a project and the certificate of deposits. Our Directors confirm that the guarantee provided by Mr. Yu will be released upon Listing. The following table sets out the maturity of our bank and other borrowings as at the dates indicated:

	As at 31 December			As at
	2017	2018	2019	30 April 2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Within 1 year	10,107	6,540	18,941	17,844

---

## FINANCIAL INFORMATION

---

Our bank borrowing agreement contains standard terms, conditions and covenants that are customary for commercial bank loans. Such covenants primarily include requirements for us to obtain the lending bank's consents for certain transactions, such as reduction of share capital, merger and disposal of material assets, etc.

Our staff borrowing agreement contains standard terms, conditions and covenants that are customary for a loan transaction, including restriction on the use of proceeds and the requirements for us to obtain the lender's consent for extension of the term of the loan. Such staff borrowing will be settled before Listing.

As at 30 April 2020, being the latest practicable date for the purpose of determining indebtedness, we had outstanding bank borrowings of RMB17.8 million, which comprised of our existing bank facility and we had unutilized banking facilities of RMB2.2 million. As at the Latest Practicable Date, the bank borrowings of RMB17.8 million was secured by the personal guarantee of Mr. Yu which as confirmed by our Directors, will be released and replaced by the corporate guarantee provided by our Company upon Listing, the corporate guarantee of Boluo Tianyuan and the charges over the buildings in the processing plant of Boluo and the receivable for a project and the certificate of deposits.

Our Group has adopted IFRS 16 "Leases" for accounting period beginning on or after 1 January 2019 as stated in Note 2.1 of the Accountant's Report in Appendix I to this prospectus. As such, leases have been recognized in the form of an asset (for the right of use) and a financial liability (for the payment obligation) in our Group's consolidated balance sheets for accounting period beginning on or after 1 January 2019. As at 30 April 2020, our Group had lease liabilities amounting to RMB3.7 million, including non-current portion amounting to RMB2.6 million.

On 1 February 2019, Double River Limited agreed to grant a loan to the Company in the principal amount of HK\$11.5 million pursuant to a convertible loan agreement. Please refer to the paragraph headed "History, reorganisation and corporate structure — Pre-HKIPO investments" for details.

As of 30 April 2020, our obligations under the convertible loan remained stable at RMB12.1 million.

Our Directors have confirmed that we had no material defaults in payment of trade and non-trade payables and bank and other borrowings and/or breaches of financial covenants during the Track Record Period.

As at 30 April 2020, being the latest practicable date for the purpose of indebtedness, except as disclosed under this sub-section headed "Indebtedness", we did not have any other bank overdrafts, debt securities, term-loan borrowings, other similar indebtedness, acceptance credits, hire purchase commitments, mortgages, charges, material contingent liabilities or guarantees outstanding. We currently do not have plans for any material external debt financing.

### **Fair value of financial liabilities and financial assets**

During the Track Record Period, our Company had issued convertible notes to Double River, details of which are set out in the section headed "History, reorganisation and corporate structure — Pre-HKIPO investments" in this prospectus. As at 31 December 2019, the fair value of the convertible notes amounted to RMB11.8 million, which was measured at level 3 of the fair value hierarchy. During the Track Record Period, we had invested in 2.08% equity interest in a project company formed in the PRC with two Independent Third Parties pursuant to a capital injection agreement and such project company will be

---

## FINANCIAL INFORMATION

---

engaged in the construction and operation of the production line for 300,000 tonnes of corn-based ethanol fuel. As at 31 December 2019, the fair value of the aforesaid equity interest amounted to RMB5.0 million, which was measured at level 3 of the fair value hierarchy. Details of the fair value measurement of financial liabilities and financial assets are disclosed in note 3.5 to the Accountant's Report as included in Appendix I to this prospectus.

The level 3 financial liabilities and financial assets of the Group were valued by an independent and qualified valuer. In relation to the valuation analysis performed by the valuer on the Group's financial liabilities and the financial assets, the Directors and the Sole Sponsor have conducted relevant due diligence works, including (i) discussion with the Reporting Accountant to understand the background and details of the aforesaid convertible notes and equity interest in the project company, (ii) obtaining and reviewing the convertible loan agreement entered into among the Company and Double River Limited, and the agreement for the formation of the project company, (iii) reviewing the assumptions and the calculations in deriving the value of the convertible note and equity interest, and (iv) conducting an interview with the valuer who prepared the valuation report in relation to the convertible notes and the equity interest, to understand, among others, the track records and qualifications of valuer, the scope of work undertaken by the valuer, the coverage of the valuation reports, the information and the documents considered and reviewed by the valuer when preparing the valuation reports, the methodology used in relation to the valuation of the convertible notes and equity interest, the key issues and concerns of the valuer, the business risks and whether there is any limitation in performing the valuation.

The Reporting Accountant's opinion on the historical financial information of the Group for the Track Record Period is set out in Appendix I to this prospectus.

Our Directors are satisfied with the valuation work for financial assets and liabilities categorized within level 3 of fair value measurement in its historical financial information for the purpose of the preparation of the Accountant's Report as referred to in Appendix I to this prospectus, and the Sole Sponsor concurs with the Directors' view, having considered the unqualified opinion on the historical financial information of the Group as a whole issued by the Reporting Accountant included in Appendix I to this prospectus and discussed with the Reporting Accountant in relation to the valuation work performed during the Track Record Period for financial assets and liabilities categorized within level 3 of fair value measurement.

### OFF BALANCE SHEET ARRANGEMENTS

During the Track Record Period and as at the Latest Practicable Date, we had not entered into any off balance sheet arrangements.

### WORKING CAPITAL SUFFICIENCY

Our Directors have confirmed that after taking into account the existing financial resources available to us, including the expected internally generated funds, available banking facilities and the estimated net proceeds from the Global Offering, we have sufficient working capital for our requirements for at least the next 12 months from the date of this prospectus.

---

## FINANCIAL INFORMATION

---

### CAPITAL EXPENDITURE

Our capital expenditures (reflecting additions of property, plant and equipment) for the Track Record Period were RMB0.7 million, RMB0.9 million and RMB7.5 million, respectively, which primarily related to purchase of machinery for our processing plant in Boluo and office equipment for research and development purposes and motor vehicles. We have financed our capital expenditure primarily through internally generated funds.

### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As at 31 December 2017, 2018 and 2019, our Group had the following non-cancellable operating lease commitments:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
No later than 1 year	971	1,409	129
Later than 1 year and no later than 5 years	74	4,610	–
	<u>1,045</u>	<u>6,019</u>	<u>129</u>

### CAPITAL COMMITMENTS

During the Track Record Period, we had no capital commitment that were not provided for in our consolidated financial statements.

### RELATED PARTIES TRANSACTIONS

During the Track Record Period, our Group entered into certain related party transactions, details of which are set out in the section headed “Notes to the historical financial information — 39. Related party transactions” in Appendix I to this prospectus.

#### Transactions with related parties

In November 2018, we entered into an agreement with Zhongke Regeneration, pursuant to which Zhongke Regeneration agreed to transfer eight trademarks relating to the name and logos of Zhongke Tianyuan with carrying amount of RMB1,374,000 to us as settlement of receivables amounting to RMB1,374,000. The value of the trademarks was determined with reference to the market value of the trademarks as at 31 August 2018 as assessed by a PRC asset valuer. Zhongke Regeneration does not have any business operation or any client at the relevant time.

Zhongke Regeneration was controlled by Mr. Yu and Mr. Tang, who is also an executive director of the Company. At the time the trademark applications were made, for the purpose of business convenience, Zhongke Regeneration applied for the trademark applications on behalf of Zhongke Tianyuan. In preparation for the Listing, those trademarks were subsequently transferred by Zhongke Regeneration to Zhongke Tianyuan in November 2018.

## FINANCIAL INFORMATION

### Amount due from related parties

We recorded an amount due from related parties of RMB3.5 million, nil and nil as at 31 December 2017, 2018 and 2019 respectively, the breakdown of which is as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Zhongke Regeneration	3,104	–	–
Zhongke Green Food	377	–	–
	<u>3,481</u>	<u>–</u>	<u>–</u>

The amount due from Zhongke Regeneration and Zhongke Green Food represents the cash advanced to them for working capital purpose. The above amount due from related parties had been settled during the Track Record Period.

### Amount due to directors

We recorded an amount due to directors of RMB2.1 million, RMB2.9 million and RMB0.4 million as at 31 December 2017, 2018 and 2019, respectively, the breakdown of which is as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Mr. Yu <i>(note 1)</i>	1,088	1,391	306
Mr. Tang <i>(note 1)</i>	943	1,331	(36)
Mr. Richard Antony Bennett <i>(note 1)</i>	–	87	156
Mr. Nicholas Martin Brooks <i>(note 2)</i>	33	113	–
	<u>2,064</u>	<u>2,922</u>	<u>426</u>

*Notes:*

- Each of Mr. Yu and Mr. Tang is our executive Director. Mr. Richard Antony Bennett is an independent non-executive Director.
- Mr. Nicholas Martin Brooks was appointed as a non-executive director of our Company on 26 October 2016. As a long term incentives to our then Directors, senior management and employees, we granted 3,070,352 options to each of all our then Directors, including Mr. Brooks, who was our non-executive Director, pursuant to the Pre-IPO Share Option Schemes in October 2017. Mr. Brooks subsequently resigned on 31 August 2018. A company, of which Mr. Brooks was a director, was appointed pursuant to a consultancy agreement dated 31 August 2018 to provide technology and business development services, including screening and negotiating with potential technology partners, carrying out business development activities and advising on potential acquisitions, to our Company from 1 September 2018 to 31 August 2020. The only exercise condition for the options was that Mr. Brooks should remain as an employee of our Group. However, according to such consultancy agreement, the options granted to Mr. Brooks should continue to be valid under the same terms as the original grant. Our Board confirms that Mr. Brooks still has the right to exercise the options granted to him in 2017 as long as such consultancy agreement is still in force.



## FINANCIAL INFORMATION

The above related party balances mainly represent the directors' fee payable by our Company to the relevant directors. The above outstanding related party balances had been settled as at the Latest Practicable Date.

During the Track Record Period, compensation of key management personnel of the Group who are related parties, including directors' remuneration, is as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Salaries, wages, bonuses and other benefits	1,723	1,942	2,012
Fees	597	591	–
Share-based compensations	71	343	343
	2,391	2,876	2,355

Our Directors confirm that each of these related parties transactions was conducted on an arm's length basis in the normal course of business and on normal commercial terms, and they would not distort our track record results or make our historical results not reflective of our future performance.

### KEY FINANCIAL RATIOS

The following table sets out certain financial ratios relating to our Group as at the dates or for the periods indicated.

	As at/for the year ended 31 December		
	2017	2018	2019
Gross profit margin (%) <i>(Note 1)</i>	30.1	29.0	27.5
Net profit margin (%) <i>(Note 2)</i>	17.8	18.3	14.8
Current ratio <i>(Note 3)</i>	1.1	1.2	1.3
Quick ratio <i>(Note 4)</i>	1.0	1.2	1.3
Return on assets (%) <i>(Note 5)</i>	31.5	20.7	18.2
Return on equity (%) <i>(Note 6)</i>	1,228.1	91.0	58.7
Gearing ratio (%) <i>(Note 7)</i>	34.1	9.2	14.5
Interest coverage ratio <i>(Note 8)</i>	73.9	44.1	53.4

*Notes:*

1. *Gross profit margin is calculated based on our gross profit of the relevant year divided by our revenue of the corresponding year and multiplied by 100%.*
2. *Net profit margin is calculated based on our profit for the relevant year divided by our revenue of the corresponding year and multiplied by 100%.*
3. *Current ratio is calculated by dividing total current assets by total current liabilities as at the date indicated.*
4. *Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the date indicated.*

---

## FINANCIAL INFORMATION

---

5. *Return on assets is calculated by dividing net profit for the year by the arithmetic mean of the opening and closing balance of total assets of the year and multiplied by 100%.*
6. *Return on equity is calculated by dividing net profit for the year by the arithmetic mean of the opening and closing balance of the total equity of the year and multiplied by 100%.*
7. *Gearing ratio is calculated by dividing total interest-bearing borrowings by total equity as at the date indicated and multiplied by 100%.*
8. *Interest coverage ratio equals profit before interest and tax of the year divided by finance cost of the same year.*

### **Gross profit margin**

Our gross profit margin remained relatively stable at 30.1%, 29.0% and 27.5% for the years ended 31 December 2017, 2018 and 2019, respectively. Please refer to the paragraph headed “Description of selected consolidated income statements line items — gross profit and gross profit margin” in this section for the reasons of fluctuation of gross profit margin by industry.

### **Net profit margin**

Our net profit margin remained relatively stable at 17.8% and 18.3% for the years ended 31 December 2017 and 2018 respectively. Our net profit margin decreased from 18.3% for the year ended 31 December 2018 to 14.8% for the year ended 31 December 2019 due to the increase in Listing expenses of RMB6.5 million during the year ended 31 December 2019.

### **Current ratio**

Our current ratio increased from 1.1 as at 31 December 2017 to 1.2 as at 31 December 2018 mainly due to the increase in contract assets and trade and bills receivables as at 31 December 2018.

Our current ratio remained relatively stable at 1.2 and 1.3 as at 31 December 2018 and 2019, respectively.

### **Quick ratio**

Our quick ratio increased from 1.0 as at 31 December 2017 to 1.2 as at 31 December 2018 and to 1.3 as at 31 December 2019 for the reasons as set out above in relation to the fluctuation of current ratio.

### **Return on assets**

Our return on assets decreased from 31.5% for the year ended 31 December 2017 to 20.7% for the year ended 31 December 2018. Such decrease was mainly attributable to that net profit remained relatively stable at RMB45.7 million and RMB45.8 million for the years ended 31 December 2017 and 2018, respectively, while the total assets increased by 29.1% from RMB192.9 million as at 31 December 2017 to RMB248.9 million as at 31 December 2018 resulting from profit from operations during 2018.

Our return on assets decreased slightly from 20.7% for the year ended 31 December 2018 to 18.2% for the year ended 31 December 2019.

---

## FINANCIAL INFORMATION

---

### Return on equity

Our return on equity decreased from 1,228.1% for the year ended 31 December 2017 to 91.0% for the year ended 31 December 2018, mainly due to that net profit remained relatively stable at RMB45.7 million and RMB45.8 million for the years ended 31 December 2017 and 2018, respectively, while total equity increased by 139.5% from RMB29.7 million as at 31 December 2017 to RMB71.0 million as at 31 December 2018 resulting from profit from operations during 2018.

Our return on equity decreased from 91.0% for the year ended 31 December 2018 to 58.7% for the year ended 31 December 2019. Such decrease was mainly due to the significant increase in total equity from RMB71.0 million as at 31 December 2018 to RMB130.4 million as at 31 December 2019.

### Gearing ratio

Our gearing ratio decreased from 34.1% as at 31 December 2017 to 9.2% as at 31 December 2018, mainly due to the repayment of bank and other borrowings in the amount of RMB10.4 million during the year ended 31 December 2018.

Our gearing ratio increased from 9.2% as at 31 December 2018 to 14.5% as at 31 December 2019. Such increase was mainly attributable to the increase in bank and other borrowings due to the drawdown of new bank borrowings in 2019 and the pre-IPO loan granted by Double River in February 2019, details of which are set out in the paragraph headed “History, Reorganisation and Corporate Structure — Pre-HKIPO Investments” in this prospectus.

### Interest coverage ratio

Our interest coverage ratio decreased from 73.9 times for the year ended 31 December 2017 to 44.1 times for the year ended 31 December 2018, which was primarily due to the combined effect of (i) the decrease in net profit before interest and tax, and (ii) the slight increase in finance cost as a result of the increase in average bank and other borrowings balance during the year ended 31 December 2018.

Our interest coverage ratio increased from 44.1 times for the year ended 31 December 2018 to 53.4 times for the year ended 31 December 2019. Such increase was mainly attributable to the significant increase in net profit before interest and tax from the year ended 31 December 2018 to the year ended 31 December 2019.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

In the normal course of business, we are exposed to various types of foreign exchange risk, cash flow interest rate risk, credit risk and liquidity risk. Our Directors review and agree policies for managing each of these risks.

---

## FINANCIAL INFORMATION

---

### Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Our Group operates in the PRC with most of the transactions denominated and settled in RMB, which is the functional currency of our Group. Therefore, our Group are not exposed to material foreign exchange risk. As certain trade and other receivables, cash and cash equivalents, trade and other payables of our Group are denominated in RMB or Great Britain Pound (“**GBP**”) or USD, currencies other than the functional currencies of our Group may cause the foreign exchange risk. Therefore, the foreign exchange mainly arises from the monetary assets and liabilities denominated in GBP, HKD or USD. As at 31 December 2019, our monetary assets denominated in GBP, HKD and USD were nil, RMB0.5 million and RMB0.4 million respectively, and our monetary liabilities denominated in GBP, HKD and USD amounted to RMB1.8 million, RMB14.9 million and RMB96,000. As at 31 December 2019, if RMB had weakened or strengthened by 5% against GBP and HKD with all other variables held constant, profit after tax for the Track Record Period would have been RMB77,000 and RMB0.6 million lower/higher respectively. As at 31 December 2019, if RMB had weakened or strengthened by 5% against USD with all other variables held constant, profit after tax for the Track Record Period would have been RMB12,000 higher/lower respectively.

### Cash flow interest rate risk

Our Group's main interest rate risk arises from short-term borrowings with fixed rates, which expose our Group to fair value interest rate risk. Our Group closely monitors the trend of interest rate and its impact on our Group's interest rate risk exposure.

### Credit risk

Our Group is exposed to credit risk in relation to our contract assets, trade and bills receivables, and other receivables and cash deposits at banks. The carrying amounts of trade and other receivables, cash and cash equivalents and financial assets at fair value through profit or loss represent the Group's maximum exposure to credit risk in relation to financial assets.

We expect that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and other medium or large-sized listed banks.

For other receivables, our Group assessed the credit quality of the counterparties by taking into account their financial position, credit history and other factors. Our Director also regularly review the recoverability of these receivables and follow up the disputes or amounts overdue, if any.

### Liquidity risk

To manage the liquidity risk, our Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. For more analysis of the maturity profile of our non-derivative financial liabilities, please refer to note 3.3 in the Accountant's Report included in Appendix I to this prospectus.

---

## FINANCIAL INFORMATION

---

### DIVIDEND

No dividend has been paid or declared by our Company during the Track Record Period.

Our Shareholders will be entitled to receive dividends that we declare. We do not have a fixed dividend policy and the payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors which our Directors deem relevant. Our 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 Company in the future. Any future declarations and payments of dividends will be at the discretion of our Directors and may require the approval of our Shareholders.

### DISTRIBUTABLE RESERVES

Our distributable reserves consist of share premium and retained earnings. Pursuant to the Jersey Companies Law, our Company may make a distribution (which includes dividends) at any time subject to the Articles and the Jersey Companies Law which shall be debited to the share premium account or any other account other than the capital redemption reserve or nominal capital account provided that our Directors authorising the distribution make a statement as to the solvency of our Company immediately following payment of the distribution which is forward looking for a 12-month period following the payment in the form set out in the Jersey Companies Law.

As at 31 December 2019, our Company had no reserves available for distribution to our Shareholders.

### LISTING EXPENSES

Total expenses in relation to the Listing, which may be subject to a material adjustment as a result of the discretionary incentives that may be paid to the Underwriters with a maximum amount of approximately HK\$4.7 million (equivalent to approximately RMB4.3 million) (based on the mid-point of the Offer Price), is estimated to be RMB48.4 million, representing 56.7% of the gross proceeds of approximately HK\$93.3 million (equivalent to RMB85.4 million) (based on the mid-point of the indicative Offer Price range of HK\$1.13). During the Track Record Period, we incurred Listing expenses of RMB20.9 million, of which RMB5.1 million and RMB11.7 million was charged to our consolidated income statements for the years ended 31 December 2018 and 2019, respectively, and we expect to incur additional total Listing expenses of RMB27.5 million for the year ending 31 December 2020. During the year ending 31 December 2020, RMB14.2 million is expected to be charged to our consolidated income statements, and RMB17.4 million is expected to be recognized as a deduction in equity for the year ending 31 December 2020.

In view of the above, our Directors are of the view that the one-off Listing expenses, which are non-recurring in nature, will have a material adverse effect on the financial results of our Group for the year ending 31 December 2020. We wish to emphasize that the aforesaid amount of Listing expenses is a current estimate for reference only and the final amount to be recognized in our consolidated income statements for the year ending 31 December 2020 will be subject to adjustments based on audit and changes in variables and assumptions.

## FINANCIAL INFORMATION

### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For illustrative purpose only, the following unaudited pro forma adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is prepared to show the effect on the consolidated net tangible assets of our Group as of 31 December 2019 as if the Global Offering had occurred on 31 December 2019 and is based on the consolidated net tangible assets derived from the financial information of our Group as of 31 December 2019, as set out in the Accountant's Report in Appendix I to this prospectus and adjusted as follows.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2019	Conversion of Pre-IPO Investments	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2019	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000 (Note 3)	RMB'000	RMB (Note 4)	HK\$ (Note 5)
Based on an Offer Price of HK\$0.98 per Share	112,178	11,847	43,710	167,735	0.30	0.33
Based on an Offer Price of HK\$1.28 per Share	112,178	11,847	63,887	187,912	0.34	0.37

*Notes:*

- The audited consolidated net tangible assets attributable to owners of the Company as at 31 December 2019 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2019 of approximately RMB130,430,000 adjusted for intangible assets of approximately RMB18,252,000.*
- On 1 February 2019, one pre-IPO investor entered into a convertible loan agreement with the Company pursuant to which the pre-IPO investor subscribed for convertible bond in the aggregate principal amount of HK\$11,500,000 (the "Pre-HKIPO Loan").*

*As at 31 December 2019, the Pre-HKIPO Loan's carrying amount was RMB11,847,000. The Pre-HKIPO Loan will be automatically converted into Shares of the Company upon Listing, and the Pre-HKIPO Loan will be re-designated from liability to equity. Such adjustment represents the impact of conversion on the unaudited pro forma net tangible assets of the Group should the issuance of additional shares and conversion of the Pre-HKIPO Loan take place at 31 December 2019.*

---

## FINANCIAL INFORMATION

---

3. *The estimated net proceeds from the Global Offering are based on 82,600,000 Shares and the indicative Offer Prices of HK\$0.98 per Share and HK\$1.28 per Share, being the low end and high end of the indicative Offer Price range, respectively, after deduction of the underwriting fees and other related expenses, excluding Listing expenses of approximately RMB16,795,000 which has been accounted for in the consolidated income statements up to 31 December 2019, and does not take account of any Shares which may be issued upon the exercise of options which have been granted under the Pre-IPO Share Option Scheme, or any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as described in “Share Capital” to this prospectus.*
4. *The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 550,972,043 Shares were in issue (including pursuant to convertible loan agreement referred to in the preceding paragraph) assuming that the Global Offering had been completed on 31 December 2019 but without taking into account of any Shares which may be issued upon the exercise of options which have been granted under the Pre-IPO Share Option Scheme, or any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as described in “Share Capital” to this prospectus.*
5. *For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.91496 to HKD1.00000 set by the PBOC prevailing on the Latest Practicable Date. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.*
6. *No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2019.*

### RECENT DEVELOPMENTS

Subsequent to the Track Record Period and up to the Latest Practicable Date, we continue to focus on our principal business of provision of ethanol production system technology integrated services. As at 30 April 2020, the aggregate contract value (exclusive of VAT) of our service contracts in our backlog was RMB535.1 million. Subsequent to the Track Record Period and up to 30 April 2020, we had entered into 11 contracts with an aggregate contract value (exclusive of VAT) of RMB86.4 million. As at the Latest Practicable Date, we had three letters of intent in relation to ethanol production system projects with an aggregate expected investment amount of approximately RMB680 million.

Our revenue and net profit for the three months ended 31 March 2020 increased significantly as compared with the corresponding period in 2019. Such increase was mainly due to the increase in the contract value of our backlog from RMB329.6 million as at 31 December 2018 to RMB584.9 million as at 31 December 2019. Our revenue during the four months ended 30 April 2020 amounted to RMB136.2 million.

The financial information for the four months ended 30 April 2020 as mentioned above was extracted from the unaudited interim condensed financial information of the Group for the four months ended 30 April 2020, which has been reviewed by the reporting accountant of the Company in accordance with the International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the International Auditing and Assurance Standards Board.

### Outbreak of COVID-19

Recently, there has been an outbreak of COVID-19, a respiratory illness which was first emerged in Wuhan city, Hubei province, China in late 2019 and later continues to spread within the PRC and globally. On 23 January 2020, the PRC government announced the lockdown of Wuhan city in an attempt to quarantine the city. Since then, draconian measures including travel restrictions have been imposed in other major cities in the PRC, as well as other countries and territories, in an effort to control the outbreak.

---

## FINANCIAL INFORMATION

---

As at the Latest Practicable Date, confirmed cases of COVID-19 have been reported in various provinces in the PRC and had spread across countries and territories globally. The outbreak of COVID-19, which is expected to result in a high number of fatalities, is likely to have an adverse impact on the livelihood of the people and the economy in the PRC, particularly Wuhan city and Hubei province.

### *Impact on our business operation*

While our office was temporarily closed during the Chinese New Year holiday and until 9 February 2020 in accordance with the extension of the Chinese New Year holiday and delay in resumption of work announced by the PRC government, we have resumed our operation on 10 February 2020.

Our Directors, after careful and due consideration, confirm that the business, financial conditions and result of operations of our Group would not be materially affected by the outbreak of COVID-19 for the following reasons:

- (1) as at the Latest Practicable Date, we had been able to honour all of our obligations under the existing contracts with our customers, and we did not have loss of existing contracts due to the outbreak of COVID-19;
- (2) all of our principal business operations and major customers during the Track Record Period were not located in Wuhan city or Hubei province. We only generated minimal revenue from Hubei province during the Track Record Period. As at the Latest Practicable Date, we did not have any customer based in Wuhan city or Hubei province; and
- (3) we have not encountered and do not expect to encounter any disruption of our supplies of raw materials and equipment in light of the outbreak of COVID-19. As confirmed by our Directors, the raw materials and equipment procured by us for the provision of our services such as steel plates, steel pipes, flowmeters, grinders and heat exchanges are readily available in the PRC market and we do not have reliance on any particular suppliers in Wuhan city or Hubei province for the above raw materials and equipment.

### *Impact on our employees*

In line with our continuing efforts to provide a safe and healthy working environment to our own employees, we have prepared an internal manual on prevention of spread of COVID-19 and have implemented epidemic prevention measures in response to the outbreak of COVID-19:

- (1) we have set up an epidemic prevention group led by our general manager, Mr. Jiang, to coordinate the implementation of epidemic prevention measures in accordance with the requirements of the PRC government;
- (2) before an employee returns to work, we will obtain information and keep record on his/her travelling history in the past 14 days, health conditions and whether he/she has close contact with persons with symptoms of respiratory diseases; and
- (3) we will carry out disinfection of our office area on a daily basis.

We believe such measures are effective in reducing the risk of spreading of COVID-19 among our employees. As at the Latest Practicable Date, none of our employees had been suspected or confirmed to have contracted COVID-19.



---

## **FINANCIAL INFORMATION**

---

Our Directors are of the view that the outbreak of COVID-19 will not have material impact on our Group's business operations and financial conditions. Our Directors will continue to assess the impact of COVID-19 on our Group's operation and financial performance and closely monitor our Group's exposure to the risks and uncertainties in connection with the epidemic. We will take appropriate measures as necessary and inform our Shareholders and potential investors as and where necessary. For further details, please refer to the paragraphs headed "The outbreak of any severe communicable disease, if uncontrolled, could adversely affect our results of operations" in the "Risk Factors" section of this prospectus.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors have confirmed that, since 31 December 2019 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in our consolidated financial statements set out in the Accountant's Report included in Appendix I to this prospectus.

### **DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES**

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance 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

---

### BUSINESS STRATEGIES

Please refer to the section headed “Business — Our business strategies” of this prospectus for a detailed description of our business strategies.

### REASONS FOR DELISTING

Our Directors believe that the Delisting would be beneficial to us and our Shareholders as a whole for the following reasons:

- (a) our operations are principally located in the PRC. Our Directors are of the view that limited investor interest from the United Kingdom resided investors can be drawn since most of them have limited knowledge of the industry and the market we are in. This makes the raising of further capital in the United Kingdom difficult to achieve on terms acceptable to our Board and/or favourable to our Company and in the best interests of our Company and our Shareholders as a whole;
- (b) the investors in the United Kingdom and our Company, in particular, our management are in different time zones. Such time difference affects investors’ appetite to us and our Shares;
- (c) our Directors believe that there will be greater opportunity for attracting investor interests in our Shares once they have been listed on the Stock Exchange, especially investors closer to Hong Kong and the PRC markets;
- (d) our Directors believe that the performance of our Shares is not able to reflect the reasonable value in view of the latest performance of our Group. As such, our Directors consider that the Delisting is beneficial to our Shareholders by realising the reasonable value of our Shares; and
- (e) in view of the subdued investor interest in our Company from the United Kingdom resided investors, it is considered not worthwhile for our Company to incur additional costs of maintaining a dual listing status on AIM and the Stock Exchange, which (i) would be likely to result in a division of liquidity between the two markets, divert our resources, and may partly negate the benefit of listing on the Stock Exchange and its potential benefits to the valuation of our Shares; and (ii) entails additional compliance costs, as well as management time, as we would have to comply with two sets of regulatory and disclosure requirements.

### REASONS FOR SEEKING LISTING ON THE STOCK EXCHANGE

Our Directors believe that the Listing will be in the interests of our Group’s business development strategies, and would be beneficial to us and our Shareholders as a whole for the following reasons:

**(a) More dynamic equity fundraising platform**

The level of trading activities on a stock exchange is one of the key indicators for the ease of conducting secondary fund raising exercises after listing. Based on the information from the website of the Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)), the average monthly market turnover in the Stock Exchange was approximately HK\$1,786,671 millions for 2019. By comparison, according to the London Stock Exchange, the average monthly market turnover in the United Kingdom was

---

## FUTURE PLANS AND USE OF PROCEEDS

---

approximately £4,957 millions (equivalent to approximately HK\$47,663 millions) for 2019. According to the data compiled by the World Bank, in 2018, the turnover ratio of stocks traded in the Hong Kong stock market was approximately 59.4%, while the turnover ratio of the stocks of our Company traded on AIM was only approximately 25.8%.

**(b) Strengthen our financial position to undertake more projects in order to maintain and further consolidate our leading market position in the PRC**

According to the CIC Report, the market size for the ethanol production system industry in the PRC in terms of revenue is projected to increase from RMB4,090.5 million in 2020 to RMB5,716.2 million in 2024, representing a CAGR of 8.7% driven by the expansion of ethanol fuel production capacity and equipment upgrades in the ethanol production system industry. As a leading ethanol production system producer in the PRC, we are committed to capturing the expected growth in the industry and increasing our market share by undertaking more projects in the PRC so as to maintain and further consolidate our leading market position. In accordance with the contracts entered into between us and our customers, we will normally be paid on a progressive basis. Upon the signing of the contract, our customers will generally make a prepayment to us for initiating the project. Depending on the needs of each project, we may agree with our customers to pay us progress payments between each milestone.

Despite such payment schedule, we generally have to commit our internal resources on top of the funding received from our customers for payment of various project costs, which includes, among others, the purchase of raw materials and equipment as well as the procurement of labour subcontracting. In other words, we experience a net cash outflow even after we receive prepayment or progress payments from our customers during the course of project execution. For example, during the Track Record Period, we have committed net cash outflow of (i) more than RMB20.0 million for Project 072 with contract value (exclusive of VAT) of RMB57.0 million; (ii) nearly RMB20 million for Project 138 with contract value (exclusive of VAT) of RMB212.4 million; and (iii) more than RMB40.0 million for Project 136 with contract value (exclusive of VAT) of RMB330.8 million. These net cash outflows are generally incurred during the project execution period for the first five to seven months after the commencement of the project for the purchase of raw materials and equipment as well as the procurement of labour subcontracting. During the Track Record Period, given that we were unable to source sufficient funding at a reasonable cost, we funded such cash outflow mainly by our internal financial resources and through bank and other borrowings.

## FUTURE PLANS AND USE OF PROCEEDS

We plan to use part of the proceeds which is earmarked to fund the expected net cash outflow for our potential projects with our potential customers with whom (i) we have entered into a letter of intent; (ii) we have submitted quotation; (iii) we are finalising the major terms of contract; or (iv) we learn from public domain that they are likely to invite tendering in the foreseeable future, details of which are set out as follows:

Name of potential customer	Our existing customer during the Track Record Period (Yes / No)	Proposed project	Current status	Expected signing date of formal contract	Expected commencement date	Expected contract sum (RMB million)	Expected net cash outflow to be financed by the net proceeds from the Global Offering	Expected net cash outflow to be financed by our internal resources and/or external financing
							(RMB million)	(RMB million)
Jilin Xintianlong Industrial Co., Ltd. (吉林省新天龍實業股份有限公司) ("Xintianlong")	Yes (Note 1)	Upgrade service to an existing system with an annual production capacity of 200,000 tonnes of edible alcohol	Letter of intent signed	September 2020	October 2020	120.0	8.3	11.2
Customer C	Yes (Note 2)	Upgrade service to an existing system with an annual production capacity of 150,000 tonnes of edible alcohol and a daily production capacity of 400 tonnes anhydrous ethanol	Letter of intent signed	October 2020	November 2020	50.0	3.3	4.3
Inner Mongolia Zhongneng Biological Technology Co., Ltd. (內蒙古中能生物科技股份有限公司) ("Zhongneng")	Yes (Note 3)	Production system with an annual production of 300,000 tonnes of ethanol fuel	Letter of intent signed	September 2020	October 2020	510.0	9.3	12.5
Potential Customer A	No	Production system for special grade alcohol with an annual production capacity of 30,000 tonnes	The Group is finalising the major terms of contract	Third quarter of 2020	Third quarter of 2020	58.0	2.5	3.2
Potential Customer B	Yes (Note 4)	Upgrade service to an existing system with an annual production capacity of 300,000 tonnes of ethanol fuel	Quotation submitted by us	Third quarter of 2020	Third quarter of 2020	68.0	2.5	3.2
Potential Customer C	Yes (Note 5)	Distillation and dehydrated device for ethanol fuel with an annual production capacity of 100,000 tonnes	Quotation submitted by us	Third quarter of 2020	Third quarter of 2020	32.0	1.2	1.7
Potential Customer D	Yes (Note 6)	Upgrade and expansion of existing system with an annual production capacity of 350,000 tonnes of premium grade edible alcohol to a system with an annual production capacity of 300,000 tonnes of ethanol fuel	Based on public information, the feasibility study is open for tendering and the tendering for design and construction is expected to follow	Third quarter of 2020	First quarter of 2021	260.0	2.5	3.2
<b>Total</b>							<u>29.6</u>	<u>39.3</u>

*Notes:*

- We had provided nine quotations previously before this letter of intent/submission of this quotation to this potential customer and have been awarded eight contracts, representing a historical success rate of approximately 88.9%.*
- We had provided eight quotations previously before this letter of intent to this potential customer and have been awarded six contracts, representing a historical success rate of 75.0%.*

---

## FUTURE PLANS AND USE OF PROCEEDS

---

3. *We have been awarded previously before this letter of intent another contract by participating in one open tendering, representing a historical success rate of 100.0%.*
4. *We had provided nine quotations previously before this letter of intent/submission of this quotation to this potential customer and have been awarded eight contracts, representing a historical success rate of approximately 88.9%.*
5. *We had provided three quotations previously before submission of this quotation to this potential customer and have been awarded all three contracts, representing a historical success rate of 100.0%.*
6. *We had previously provided one quotation to this potential customer and have been awarded one contract, representing a historical success rate of 100.0%.*

The expected net cash outflow for the above potential projects are determined based on the net cash payments which will be required to be committed by us on top of the stage payments received from the potential customers for payment of various project costs. According to the previous arrangements with the above existing customers and the proposed contract terms with Potential Customer A (being a new customer), we would generally receive prepayments ranging from 20% to 50% of the total contract sum for initiating the projects. After the commencement of the projects, we would then incur cash outflow for various payments, which include, among others, the purchase of raw materials and equipment as well as the procurement of labour subcontracting. Our suppliers and labour subcontractors usually require us to make a prepayment upon the signing of the contract. For details of the payment terms with our suppliers and labour subcontractors, please refer to the sections headed “Business — Suppliers” and “Business — Labour subcontractors”, respectively. The amounts of such cash outflow would vary depending on a number of factors, such as size, complexity and location of the projects, The amount of expected net cash outflow for those potential projects are determined with reference to (i) the expected commencement and completion dates according to the letters of intent or our understanding with these potential customers; (ii) the expected contract sum undertaken by us and the payment terms, including the amount of prepayment, as stipulated in our existing contracts entered into with these customers so as to estimate the cash inflow; (iii) the expected cost for the procurement of raw materials, equipment and labour subcontracting required based on our understanding of the potential projects and our past experience so as to estimate the amount of cash outflow; and (iv) our historical experience of generally incurred net cash outflow for the first five to seven months following the commencement of the projects.

Given that the amount of net cash outflow to be incurred by us depends on a combination of factors, such as the payment terms when and how much we would be paid the stage payment (in particular, the prepayment that we will receive for initiating the projects) and the amount of cash outflow that we have to incur, the expected net cash outflow will not be proportionate to the amount of contract sum for each potential project.

---

## FUTURE PLANS AND USE OF PROCEEDS

---

Our Directors consider that we have a relatively high chance of securing the formal contract for these seven potential projects with five of our existing customers and one new customer with whom which we are finalising the major terms of contract, taking into consideration the following factors:

***1. Our reputation and leading position in the industry***

According to the CIC Report, we ranked the first in terms of revenue with a market share of 10.8%, in the ethanol production system industry in the PRC in 2019. We believe that by leveraging on our position as the leading ethanol production system producer and our reputation in the industry, we have the abilities in securing the abovementioned potential projects.

***2. Our past or existing business relationships with most of the above potential customers***

As demonstrated in the above table, we have provided services to most of the potential customers in one or more projects and allowed us to have in-depth knowledge and experience of their needs, requirements and preferences and hence, we are in a better position than our competitors to secure these potential projects. Through our previous working relationship with these customers, we had gained its satisfaction with our work performance in previous projects and gave us competitive edges over our competitors to secure the potential projects.

***3. Upgrade or enhancement of existing projects***

The aforementioned potential projects with Potential Customer B and Customer C are related to the upgrades of their existing systems completed by us, while the potential project with Zhongneng is in the second phase of their existing system which its first phase was also handled by us. We therefore have in-depth knowledge and experience of their existing systems or prior phase of the projects. Our Directors believe that riding on our knowledge and experience of the potential customers' needs, we are in a better position than our competitors to secure these potential projects.

***4. Our advanced technology skills and proven track records as shown from patents researched, developed and owned by us***

We have established a solid reputation in terms of advanced technology skills and proven track records in the PRC. We have been devoted to research and development to drive improvement and innovation in technologies to be applied to the core system of the ethanol production system. As at the Latest Practicable Date, we owned 32 patented technologies, which have been incorporated into our production procedures. In addition, as at the Latest Practicable Date, we have submitted 15 patent registration applications in the PRC and one patent registration application in Brazil. We believe that our advanced technologies and proven track records have given us a competitive edge over our competitors and instilled confidence in our past or existing customers and therefore allow us to secure the contracts from the potential customers.

---

## FUTURE PLANS AND USE OF PROCEEDS

---

### 5. *Historical success rate of securing projects from the potential customers*

As demonstrated in the above table, we have maintained a high success rate of securing projects with our existing customers, ranging from 75.0% to 100.0%.

We had not declined any tendered or awarded projects as a result of insufficient financial resources during the Track Record Period. In 2016, the ethanol production industry was just recovered due to the corn stock policy implemented by the PRC government. As such, the size of each project we secured was relatively small and it was easier for us to finance the purchase of raw materials and equipment as well as the procurement of labour subcontracting with our internal financial resources. However, given (i) the favorable government policies such as the 13th Five-Year Plan for Renewable Energy Development implemented in December 2016; (ii) our leading position in the industry; and (iii) our project record during the Track Record Period which demonstrated an increasing trend in the size of the projects we secured, we expect each project we will secure in the future will be of larger size. As at 31 December 2019, our cash and cash equivalent was RMB26.5 million and we had unutilised banking facilities of RMB2.2 million as at 30 April 2020. In addition, due to limited interest from the United Kingdom resided investors on our operations and limited trading volume of our Shares on AIM, this limits our ability to raise further capital for our operation in the PRC from the United Kingdom. Having considered (i) the limited financial resources available to us; (ii) interest we have to incur by utilising our banking facilities; and (iii) the net cash outflow required for the above potential new projects, our Directors are of the view that the availability of our financial resources may limit our ability to undertake new projects. Without this immediate funding, it may limit our growth and therefore, our sustainable development. We expect to use the net proceeds from the Global Offering to finance potential projects upon Listing to strengthen our ability to undertake more projects.

As at 30 April 2020, we had unutilised banking facilities of RMB2.2 million. In the longer run, sourcing on debt financing at a cost may not be beneficial to us as this would subject us to the inherent risks of higher interest rate and finance costs for subsequent borrowings. Our Group's financial performance and liquidity may be negatively affected due to principal and interest payments. Also the interest expenses would impose additional cash flow burden to our Group. As such, our Directors prefer the net proceeds from the Global Offering as the source of funding as opposed to debt financing.

With the substantial cash shortfall, the difficulty and the commercial and financial impracticality in obtaining and/or utilising bank financing as mentioned above, we are in need of additional source of funding for implementing our key business strategies set out in "Business — Our Business strategies" in this prospectus. Our Directors believe that the net proceeds from the Global Offering can provide a source of funding for satisfying the cost commitment at different stages of the projects and therefore this would allow us to undertake more projects in the future, thereby maintaining and further consolidating our leading market position in the industry.

---

## FUTURE PLANS AND USE OF PROCEEDS

---

### (c) Widening our fund raising source

The Global Offering may act as a fund-raising platform for our Group, thereby allowing us to gain direct access to the capital market for equity and/or debt financing to fund our current business operations as well as to finance our future expansion plans. Our Directors also believe that the use of equity financing would avoid the risk of raising our Group's leverage ratio and gearing ratio caused by debt financing which exposes our Group to increasing financial costs in the future.

Moreover, the Global Offering will enhance the liquidity of the Shares by achieving the listing status of the Shares which will be freely traded on the Stock Exchange. This may also increase our ability to attract strategic investors for investment in and forming strategic partnerships with our Group.

### (d) Enhancing our Group's corporate profile, credibility, brand awareness and market status

We consider that the listing status on the Stock Exchange, a leading reputable international financial market, can strengthen our competitiveness in the market. It is expected that the listing status can enhance our corporate profile and raise the public awareness to our brand, which in turn will help attract more customers. Moreover, our Directors believe that our credibility will be enhanced following the Listing, as our financial information will be transparent to the public and we will be under regulatory supervision, which may earn us more favourable terms from our suppliers.

## USE OF PROCEEDS

Assuming an Offer Price of HK\$1.13 per Share (being the mid-point of the stated range of the Offer Price of between HK\$0.98 and HK\$1.28 per Share), we estimate that we will receive net proceeds of approximately HK\$40.4 million (equivalent to approximately RMB37.0 million) from the Global Offering after deducting the underwriting commissions, costs and other estimated expenses in the Global Offering, which may be subject to a material adjustment as a result of the discretionary incentives that may be paid to the Underwriters with a maximum amount of approximately HK\$4.7 million (equivalent to approximately RMB4.3 million) (based on the mid-point of the Offer Price).

We intend to use the net proceeds from the Global Offering for the following purposes:

<u>Business Strategies</u>	<u>Implementation activities</u>	<u>Source of funding</u>	<u>Expected timeframe for use of proceeds</u>
Continue to maintain and further consolidate our leading market position by undertaking more projects in the PRC	Strengthen our financial position to pay for the project costs funded by our own internal resources on top of the funding received from our customers during the course of project execution so as to enable us to undertake more projects in the future	To be funded by 80% of the net proceeds from the Global Offering, or RMB29.6 million	Third quarter of 2020 to second quarter of 2021



---

## FUTURE PLANS AND USE OF PROCEEDS

---

Business Strategies	Implementation activities	Source of funding	Expected timeframe for use of proceeds
Continue to focus on research and development to strengthen our design and engineering capability	Development of the Generation 2.0 demonstration project	To be funded by 5% of the net proceeds from the Global Offering, or RMB1.9 million	Second quarter of 2021
	<ul style="list-style-type: none"> <li>– Design of the system</li> <li>– Procurement of raw materials and equipment and production of the cellulosic ethanol production system</li> <li>– Installation of the system</li> <li>– Testing of the system</li> </ul>		
	Development of the molecular sieve demonstration project:	To be funded by 5% of the net proceeds from the Global Offering, or RMB1.9 million	Second quarter of 2021
	<ul style="list-style-type: none"> <li>– Design of the system</li> <li>– Procurement of raw materials and equipment and production of the ethanol production system</li> <li>– Installation of the system</li> <li>– Testing of the system</li> </ul>		
General working capital	To be used for our working capital requirement and general corporate purposes	To be funded by 10% of the net proceeds from the Global Offering, or RMB3.7 million	N/A

---

## FUTURE PLANS AND USE OF PROCEEDS

---

If the Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds of the Global Offering, will increase to approximately HK\$51.6 million (equivalent to approximately RMB47.2 million) or decrease to approximately HK\$29.3 million (equivalent to approximately RMB26.8 million), respectively. In such event, we will increase or decrease the intended use of the net proceeds for the above purposes on a pro-rata basis.

To the extent that our net proceeds are not sufficient to fund the purposes described above, we intend to fund the balance through a variety of means including cash generated from our operations, debt financing and/or equity fund raising. To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments. We will make an appropriate announcement if there is any change to the above proposed use of proceeds.

---

## UNDERWRITING

---

### HONG KONG UNDERWRITERS

SPDB International Capital Limited  
DL Securities (HK) Limited  
Soochow Securities International Brokerage Limited  
Founder Securities (Hong Kong) Limited  
Realord Asia Pacific Securities Limited  
Standard Perpetual Securities Limited  
AWSG International Securities Limited  
Seazen Resources Securities Limited

### UNDERWRITING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Placing is expected to be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed among our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

The Global Offering comprises the Hong Kong Public Offering of initially 8,260,000 Hong Kong Offer Shares and the International Placing of initially 74,340,000 International Offer Shares, subject, in each case, to reallocation on the basis as described in the section headed “Structure of the Global Offering” of this prospectus.

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Underwriting Agreements

##### *Hong Kong Public Offering*

##### *Hong Kong Underwriting Agreement*

Under the Hong Kong Underwriting Agreement, we are offering the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price, on the terms and subject to the conditions of this prospectus and the Application Forms.

Subject to the Listing Committee granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering or otherwise as described in this prospectus and to certain other conditions set out in the Hong Kong Underwriting Agreement (including, among others, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company agreeing on the Offer Price), the Hong Kong Underwriters have agreed severally and not jointly to procure subscribers for, or themselves to subscribe for, the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among others, the International Underwriting Agreement having been signed and becoming unconditional.

---

## UNDERWRITING

---

### *Grounds for termination by the Hong Kong Underwriters*

The Joint Global Coordinators, at their sole and absolute discretion, may, for themselves and on behalf of the Sole Sponsor and the Hong Kong Underwriters, upon giving notice in writing to our Company and/or our Substantial Shareholders made pursuant to the Hong Kong Underwriting Agreement, terminate the respective obligations of the Hong Kong Underwriters and the respective obligations of the Sole Sponsor under the Hong Kong Underwriting Agreement with immediate effect if any of the following events (other than the outbreak of COVID-19) 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:
  - i. any statement contained in any of this prospectus, the Application Forms, the formal notice and the post hearing information pack of our Company published/to be published in connection with the Hong Kong Public Offering, and any other document published or issued by or on behalf of our Company for the purposes of or in connection with the Global Offering and, in each case, all amendments or supplements thereto (collectively, the “**Offer Documents**”), was, when it was issued, or has become, untrue, 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 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 material omission from any Offer Documents; or
  - iii. the issue of or the requirement by our Company to issue any supplemental prospectus pursuant to the Companies Ordinance, the Companies (WUMP) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; 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 or the Sole Sponsor) to any of the Underwriting Agreements which, in the reasonable opinion of the Joint Global Coordinators has a material adverse effect on the Global Offering; or
  - v. any adverse change or development or prospective adverse change or development in the assets, liabilities, business, general affairs, management, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole and the effect of which is, in the reasonable opinion of the Joint Global Coordinators, so material as to make it impracticable or inadvisable to proceed with the Global Offering as a whole; or
  - vi. approval by the Listing Committee of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering is refused or not granted (other than subject to customary conditions) on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

---

## UNDERWRITING

---

- vii. the 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 liability of our Company, the Substantial Shareholders or Mr. Tang pursuant to the indemnities given by our Company, the Substantial Shareholders or Mr. Tang; or
  - ix. any person (other than the Hong Kong Underwriters) 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
  - x. any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties given by our Company, Substantial Shareholders or Mr. Tang in the Hong Kong Underwriting Agreement, which, in the reasonable opinion of the Joint Global Coordinators has a material adverse effect on the Global Offering; or
  - xi. any litigation or disputes which would materially affect the operation, financial condition or reputation of our Group; or
  - xii. any prohibition on our Company for whatever reason from allotting or selling the Offer Shares pursuant to the terms of the Global Offering; or
- (b) there shall develop, occur, exist or come into force:
- i. any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change in the interpretation or application thereof by any governmental authority in or affecting any Hong Kong, China, Jersey, the BVI, the United Kingdom, or any other relevant to any member of our Group jurisdiction (each a “**Relevant Jurisdiction**”); or
  - ii. any change or development involving a prospective change in, or any event or series of events resulting or likely to result in any change or development involving a prospective change in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions, equity securities or other financial markets (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets, credit markets, a system or market under which the value of the Hong Kong currency is linked to that of the currency of the Relevant Jurisdictions), in or affecting any of the Relevant Jurisdictions; or

---

## UNDERWRITING

---

- iii. any event or series of events in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak or escalations of disease, economic sanctions, strikes, labour disputes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism (whether or not responsibility has been claimed), in or affecting any of the Relevant Jurisdictions; or
- iv. a contravention by any of the member of our Group of the Listing Rules or applicable Laws which, in the reasonable opinion of the Joint Global Coordinators have a material adverse effect on the Global Offering; or
- v. the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
- vi. any litigation or claim being threatened or instigated against our Group,
- vii. any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange (including its AIM), the Shanghai Stock Exchange, or the Shenzhen Stock Exchange; or
- viii. any general moratorium on commercial banking activities in any Relevant Jurisdictions or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or
- ix. a change or development involving a prospective change or amendment in taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the Hong Kong dollar or Renminbi against any foreign currencies, a change in the system under which the value of the Hong Kong dollar is linked to that of the United States dollar or the Renminbi is linked to any foreign currency or currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or
- x. any Director is being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- xi. the chairman of the Board or any of the executive Directors vacating his or her office; or
- xii. any governmental authority or a political body or organisation in any Relevant Jurisdiction is commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director in his/her capacity as such; or

---

## UNDERWRITING

---

- xiii. any non-compliance of this prospectus (or any other documents used in connection with the Global Offering) or any aspect of the Global Offering with the Listing Rules or any other Applicable Laws, which, in the reasonable opinion of the Joint Global Coordinators have a material adverse effect on the Global Offering; or
- xiv. any order or petition for the winding-up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
- xv. any change or prospective change, or a materialisation of, any of the risks set out in section headed “Risk Factors” in this prospectus, which, in the reasonable opinion of the Joint Global Coordinators have a material adverse effect on the Global Offering,

and which in any of the above cases and in the sole opinion of Joint Global Coordinators (for themselves and on behalf of the Sole Sponsor and the Hong Kong Underwriters):

- i. is or may or will be or is likely to be materially adverse to, or materially and prejudicially affect, the assets, liabilities, business, general affairs, prospects, shareholders’ equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole; or
- ii. has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or
- iii. makes or may make or will or is likely to make it inadvisable or impracticable to proceed with the Global Offering as a whole or to market the Global Offering as a whole; or
- iv. has or may have or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

---

## UNDERWRITING

---

### Lock-up

#### *Undertakings to the Stock Exchange pursuant to the Listing Rules*

##### *Undertaking by our Company*

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or other securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued by us or form the subject of 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 for the Offer Shares to be issued pursuant to the Global Offering and any Shares which may be issued in the circumstances prescribed by Rule 10.08 of the Listing Rules.

##### *Undertakings by our Substantial Shareholders*

Each of our Substantial Shareholders has undertaken to us that, except pursuant to the Global Offering, it shall not and shall procure that the registered holder of the Shares in which it has a beneficial interest shall not, unless otherwise in compliance with the requirements of the Listing Rules:

- (a) in the period commencing on the date by reference to which disclosure of the shareholding of our Substantial Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares or securities in respect of which it is shown by this prospectus to be the beneficial owner (the “**Relevant Shares**”); and
- (b) in the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”), 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 Relevant Shares, if immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a “Substantial Shareholder” (as defined in the Listing Rules) of our Company.

Pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Substantial Shareholders has also undertaken to us that, within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it will:

- (a) when he/they pledge(s) or charge(s) any securities beneficially owned by him/them in favor of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he/they receive(s) indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform us of such indications.



---

## UNDERWRITING

---

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by our Substantial Shareholder(s) and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

### *Undertakings pursuant to the Hong Kong Underwriting Agreement*

#### *Undertakings by our Company*

Under 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, and our Substantial Shareholders have undertaken to procure that, except pursuant to the Global Offering, options which may be granted under any share option scheme of any member of the Group or with the prior written consent of the Sole Sponsor, 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 will not, at any time from the date of the Hong Kong Underwriting Agreement until the expiry of the First Six-month Period:

- (a) offer, accept subscription for, pledge, allot, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any such share capital or other securities of the Company or any interest therein (including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive any such capital or securities or any interest in any of the foregoing) or deposit any Shares or other securities of the Company with a depository in connection with the issue of depository receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of the Company or any interest in any of the foregoing); or
- (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
- (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) above,

in each case, whether any such transactions described in (a) or (b) or (c) above is to be settled by delivery of Shares or other securities of our Company, in cash or otherwise.

Our Company will ensure that if any of the transactions described above are carried out during the Second Six Months Period, we will take all reasonable 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

---

### *Undertaking by the Substantial Shareholders*

Under the Hong Kong Underwriting Agreement, each of our Substantial Shareholders has undertaken to the Joint Global Coordinators, the Joint Bookrunners, the Sole Sponsor, the Joint Lead Managers, the Company and the Hong Kong Underwriters that:

- (i) during the First Six Months Period, it shall not, and shall procure that the relevant registered holder(s) and its associates and companies controlled by it and any nominee or trustee holding in trust for it shall not, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless pursuant to the Global Offering or otherwise in compliance with the requirements of the Listing Rules, (a) offer, pledge, charge (other than any pledge or charge of our Company's issued share capital after the Global Offering in favour of an authorised institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan), sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any share capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein); or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in (a) or (b) or (c) above, whether any such transaction is to be settled by delivery of such capital or securities, in cash or otherwise;
- (ii) during the Second Six Months Period, it will not enter into any of the transactions specified in sub-paragraphs (i)(a), (b) or (c) above or agree or contract to or publicly announce any intention to enter into any such transaction if, immediately following such transfer or disposal, it will cease to be a substantial shareholder (as defined in the Listing Rules) of our Company; and
- (iii) until the expiry of the Second Six Months Period, in the event that it enters into any such transactions or agrees or contracts to, or publicly announces any intention to enter into any such transactions, it shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

---

## UNDERWRITING

---

Each of our Substantial Shareholders further undertakes to our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, from the date of the Hong Kong Underwriting Agreement up to and including the expiry of the Second Six Months Period, it will:

- (i) when it pledges or charges any securities or interests in the securities of our Company, immediately inform our Company and the Joint Global Coordinators in writing of such pledge or charge together with the number of securities and nature of interest so pledged or charged; and
- (ii) if and when it receives indications, either verbal or written, from any pledgee or charge that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Joint Global Coordinators in writing of such indications.

Our Company agrees and undertakes to each of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters, that, it will inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) from the Substantial Shareholders and disclose such matters by way of an announcement to be published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

### **Indemnity**

Our Company, our Substantial Shareholders and Mr. Tang have agreed to, on joint and several basis, indemnify the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Hong Kong Underwriters for certain losses which they may suffer, including, among others, losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us, our Substantial Shareholders or Mr. Tang of any of the provisions of the Hong Kong Underwriting Agreement.

### **Commissions and expenses**

The Underwriters will receive an underwriting commission of 10.0% of the Offer Price in respect of each of the Hong Kong Offer Shares and the International Placing Shares from our Company. For any unsubscribed Hong Kong Offer Shares reallocated to the International Placing and any International Placing Shares reallocated to the Hong Kong Public Offering, we will pay the underwriting commission to the International Underwriters (but not the Hong Kong Underwriters). Our Company may, at its sole and absolute discretion, pay the Underwriters an incentive fee of up to 5% of the Offer Price in respect of both Hong Kong Offer Shares and International Placing Shares, with a maximum amount of approximately HK\$4.7 million (equivalent to approximately RMB4.3 million) (based on the mid-point of the Offer Price).

The underwriting commission and estimated expenses, together with the Stock Exchange trading fee, SFC transaction levy, listing fee, legal and other professional fees, printing and other fees and expenses relating to the Global Offering, are estimated to amount in aggregate to approximately RMB48.4 million (assuming an Offer Price of HK\$1.13 per Share, being the mid-point of the indicated Offer Price range) and are to be borne by our Company.

---

## UNDERWRITING

---

### **International Placing**

#### ***International Underwriting Agreement***

In connection with the International Placing, it is expected that we will, shortly after determination of the Offer Price, enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters to be named therein would severally agree to purchase the International Placing Shares or procure purchasers for the International Placing Shares. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

### **UNDERWRITERS' INTERESTS IN OUR COMPANY**

Save for their obligations under the Underwriting Agreements, none of the Underwriters owns any shares or securities in our Company or any other member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares or securities in our Company or any member of our Group.

### **SOLE SPONSOR'S INDEPENDENCE**

The Sole Sponsor has declared its independence from us pursuant to Rule 3A.07 of the Listing Rules.

---

## STRUCTURE 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. Dongxing Securities is the Sole Sponsor. SPDB International Capital Limited and DL Securities (HK) Limited are the Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers. Soochow Securities International Brokerage Limited and Founder Securities (Hong Kong) Limited are the Joint Bookrunners and Joint Lead Managers. Realord Asia Pacific Securities Limited, Standard Perpetual Securities Limited, AWSG International Securities Limited and Seazen Resources Securities Limited are the Joint Lead Managers.

The Global Offering initially consists of (subject to reallocation):

- (i) the Hong Kong Public Offering of 8,260,000 Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described below in the paragraph headed “Structure of the Global Offering — The Hong Kong Public Offering” in this prospectus; and
- (ii) the International Placing of 74,340,000 Offer Shares (subject to reallocation) outside the United States in reliance on Regulation S of the U.S. Securities Act as described below in the paragraph headed “Structure of the Global Offering — The International Placing” in this prospectus.

Investors may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Placing, but may not do both. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have applied for Hong Kong Offer Shares in the Hong Kong Public Offering. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of the Offer Shares to institutional and professional investors and other investors outside the United States in reliance on Regulation S of the U.S. Securities Act.

The Offer Shares will represent 15.0% of the enlarged registered share capital of our Company immediately after completion of the Global Offering (taking no account of any Shares which may be allotted and issued pursuant to the exercise of options which have been granted under the Pre-IPO Share Option Schemes).

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Placing respectively may be subject to reallocation as described in the paragraph headed “Structure of the Global Offering — Pricing and allocation” in this section.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) agreeing on the Offer Price. Our Company expects to enter into the International Underwriting Agreement relating to the International Placing on the Price Determination Date. Details of the underwriting arrangements are summarized in the section headed “Underwriting” in this prospectus.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

### PRICING AND ALLOCATION

#### Offer Price range

The Offer Price will be not more than HK\$1.28 per Offer Share and is expected to be not less than HK\$0.98 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

#### Price payable on application

Applicants under the Hong Kong Public Offering must pay, on application, the maximum indicative Offer Price of HK\$1.28 per Hong Kong Offer Share plus a 1% brokerage fee, a 0.0027% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK\$5,171.60 for one board lot of 4,000 Offer Shares. Each Application Form includes a table showing the exact amount payable on certain numbers of Offer Shares. If the Offer Price as finally determined in the manner described below, is less than HK\$1.28, appropriate refund payments (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest. Please refer to the paragraph headed “How to apply for Hong Kong Offer Shares — 13. Refund of application monies” in this prospectus.

#### Determining the Offer Price

The International Underwriting Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Placing. Prospective investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to the Price Determination Date.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and our Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or about Tuesday, 7 July 2020 and in any event, no later than 5:00 p.m. on Friday, 10 July 2020.

**If, for any reason, our Company and the Joint Global Coordinators (on behalf of the Underwriters) are unable to reach agreement on the Offer Price at or before 5:00 p.m. on Friday, 10 July 2020, the Global Offering will not proceed and will lapse.**

#### Reduction in Offer Price range and/or number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters) considers it appropriate and together with our Company’s consent, the indicative Offer Price range and/or the number of Offer Shares may be reduced 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.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

In such a case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in South China Morning Post (in English) and Hong Kong Economic Journal (in Chinese), and on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our website at [www.zkty.com.cn](http://www.zkty.com.cn) notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the 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. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of the publication of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus.

**Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.**

### **Allocation**

The Offer Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Allocation of the International Placing Shares pursuant to the International Placing will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell the Offer Shares after the Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our Shareholders as a whole.

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. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

### **Announcement of final Offer Price and basis of allocations**

The applicable final Offer Price, the level of indications of interest in International Placing and the basis of allocations of the Hong Kong Offer Shares are expected to be announced on Tuesday, 14 July 2020 in South China Morning Post (in English) and Hong Kong Economic Journal (in Chinese) and to be posted on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of our Company ([www.zkty.com.cn](http://www.zkty.com.cn)).

---

## STRUCTURE OF THE GLOBAL OFFERING

---

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Hong Kong Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving **electronic application instructions** to HKSCC or by applying online through the **White Form eIPO** Service Provider under the **White Form eIPO** service, will be made available through a variety of channels as described in the paragraph headed “How to apply for Hong Kong Offer Shares — 11. Publication of results” in this prospectus.

### CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional upon, among other things:

- the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may fall to be issued upon the exercise of the options which have been granted under the Pre-IPO Share Option Schemes);
- the Offer Price having been duly agreed on or about the Price Determination Date;
- the execution and delivery of the International Placing Agreement on or around the Price Determination Date; and
- the obligations of the International Underwriters under the International Placing Agreement and the Hong Kong Underwriting Agreement having become unconditional and not having been terminated in accordance with their respective terms,

in each case on or before the dates and times specified in the respective International 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.

The consummation of each of the Hong Kong Underwriting Agreement and the International Placing Agreement is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will cause to be published by us in South China Morning Post (in English) and Hong Kong Economic Journal (in Chinese) and on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of our Company ([www.zkty.com.cn](http://www.zkty.com.cn)) on the next Business Day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the paragraph headed “How to Apply for Hong Kong Offer Shares — 13. Refund of application monies” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

**Share certificates for the Offer Shares are expected to be issued on Tuesday, 14 July 2020 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 15 July 2020, provided that (i)**



---

## STRUCTURE OF THE GLOBAL OFFERING

---

the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the paragraph headed “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination by the Hong Kong Underwriters” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

### THE HONG KONG PUBLIC OFFERING

#### Number of Offer Shares initially offered

Our Company is initially offering 8,260,000 Offer Shares at the Offer Price, representing 10% of the 82,600,000 Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to reallocation as mentioned below, the number of Offer Shares offered under the Hong Kong Public Offering will represent 1.5% of the total issued share capital of our Company immediately after completion of the Global Offering (taking no account of any Shares which may be allotted and issued pursuant to the exercise of options which have been granted under the Pre-IPO Share Option Schemes). The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Completion of the Hong Kong Public Offering is subject to the conditions set out in the paragraph headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” above.

#### Allocation

For allocation purposes only, the Hong Kong Offer Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Placing) will be divided equally into two pools (subject to adjustment of odd lot size). Pool A will comprise 4,132,000 Hong Kong Offer Shares and Pool B will comprise 4,128,000 Hong Kong Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 4,128,000 Hong Kong Offer Shares.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

### Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Placing is subject to reallocation on the following basis:

- (a) if both the Hong Kong Offer Shares and the International Placing Shares are undersubscribed, the Global Offering shall not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements;
- (b) if the Hong Kong Offer Shares are undersubscribed and the International Placing Shares are oversubscribed, the Joint Global Coordinators have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Global Coordinators deem appropriate;
- (c) if the International Placing Shares are fully subscribed or oversubscribed, and:
  - (i) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 16,520,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 24,780,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Global Offering;
  - (ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 24,780,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 33,040,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Global Offering; and
  - (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 33,040,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 41,300,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Global Offering,

in each case the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B in equal proportion and the number of Offer Shares allocated to the International Placing will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

- (d) pursuant to the Stock Exchange's Guidance Letter HKEX-GL91-18:
- (i) if the International Placing Shares are undersubscribed and if the Hong Kong Offer Shares are fully subscribed or oversubscribed, irrespective of the number of times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering in such circumstances; or
  - (ii) if the International Placing Shares are fully subscribed or oversubscribed, and if the Hong Kong Public Offering Shares are fully subscribed or oversubscribed but the number of Shares validly applied for under the Hong Kong Public Offering represents less than 15 times of the initial number of the Hong Kong Public Offering Shares,

then, provided that the final Offer Price is fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.98 per Offer Share) stated in this prospectus, up to 8,260,000 Offer Shares may be reallocated from the International Placing to the Hong Kong Public Offering to satisfy valid applications in pool A and pool B under the Hong Kong Public Offering, so that the total number of Offer Shares available for subscription under the Hong Kong Public Offering will be increased up to 16,520,000 Offer Shares, and such limit represents 20% of the number of the Offer Shares initially available under the Global Offering.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

### **Applications**

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered International Placing Shares under the International Placing, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Placing.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

---

## STRUCTURE OF THE GLOBAL OFFERING

---

### THE INTERNATIONAL PLACING

#### Number of Offer Shares initially offered

The number of Offer Shares to be initially offered for subscription under the International Placing will be 74,340,000 Offer Shares, representing 90% of the Offer Shares under the Global Offering. Subject to any reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the International Placing Shares will represent approximately 13.5% of our enlarged issued share capital immediately after completion of the Global Offering (taking no account of any Shares which may be allotted and issued pursuant to the exercise of options which have been granted under the Pre-IPO Share Option Schemes). The International Placing is subject to the Hong Kong Public Offering becoming unconditional.

#### Allocation

Pursuant to the International Placing, the International Underwriters will conditionally place the Offer Shares with institutional and professional investors and other investors expected to have a sizeable demand for the Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S of the U.S. Securities Act. Allocation of International Placing Shares pursuant to the International Placing will be effected in accordance with the “book-building” process described in the paragraph headed “Pricing and Allocation” above and based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our Shareholders as a whole.

### DEALING ARRANGEMENTS

Assuming that the Global Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 15 July 2020, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 15 July 2020. The Shares will be traded in board lots of 4,000 Offer Shares each under the stock code 1156.

---

## HOW TO APPLY FOR 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:

- use a **WHITE** or **YELLOW** Application Form; or
- apply online via the **White Form eIPO** service at [www.eipo.com.hk](http://www.eipo.com.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, the **White Form eIPO** 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 legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at its sole discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

---

## HOW TO APPLY FOR 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;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; or
- 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

#### (a) 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.eipo.com.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### (b) 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 Tuesday, 30 June 2020 until 12:00 noon on Tuesday, 7 July 2020 from:

- any of the following offices of the Hong Kong Underwriters:

<b>SPDB International Capital Limited</b>	33/F, SPD Bank Tower One Hennessy 1 Hennessy Road Hong Kong
<b>DL Securities (HK) Limited</b>	Flat 01 28/F Vertical Square 28 Heung Yip Road Wong Chuk Hang, Hong Kong
<b>Soochow Securities International Brokerage Limited</b>	Level 17 Three Pacific Place 1 Queen's Road East, Hong Kong

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

<b>Founder Securities (Hong Kong) Limited</b>	Suites 1710-1719 Jardine House 1 Connaught Place Central, Hong Kong
<b>Realord Asia Pacific Securities Limited</b>	Suite 2402 24/F Jardine House 1 Connaught Place, Central Hong Kong
<b>Standard Perpetual Securities Limited</b>	Room 2104 K. Wah Centre, 191 Java Road North Point, Hong Kong
<b>AWSG International Securities Limited</b>	Room 804B 8/F, K. Wah Centre 191 Java Road North Point, Hong Kong
<b>Seazen Resources Securities Limited</b>	Unit 4503-07, 45/F The Center, 99 Queen's Road Central Central, Hong Kong

- any of the following branches of Bank of China (Hong Kong) Limited:

District	Branch Name	Address
<b>Hong Kong Island</b>	Connaught Road Central Branch	13–14 Connaught Road Central, Hong Kong
<b>Kowloon</b>	To Kwa Wan Branch	80N To Kwa Wan Road, To Kwa Wan, Kowloon
<b>New Territories</b>	Fanling Centre Branch	Shop 2D–E & H, Fanling Centre, Fanling, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 30 June 2020 until 12:00 noon on Tuesday, 7 July 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### (c) Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a check or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED – CHINA NEW ENERGY PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Tuesday, 30 June 2020 — 9:00 a.m. to 5:00 p.m.  
Thursday, 2 July 2020 — 9:00 a.m. to 5:00 p.m.  
Friday, 3 July 2020 — 9:00 a.m. to 5:00 p.m.  
Saturday, 4 July 2020 — 9:00 a.m. to 1:00 p.m.  
Monday, 6 July 2020 — 9:00 a.m. to 5:00 p.m.  
Tuesday, 7 July 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, 7 July 2020, the last application day or such later time as described in the paragraph "Effect of bad weather on the opening of the application lists" in this section.

## 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize our Company and/or the Joint Global Coordinators (or their respective agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (WUMP) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;



---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- (vi) agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Placing Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank(s), the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- (xv) authorize 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/or its agents to send any share certificate(s) and/or any refund check(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 check(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

### **Data protection**

The Company acknowledges that it is a data controller under the Data Protection (Jersey) Law 2018. It is responsible for determining the purposes and means of the processing of personal data relating to you in relation to the Hong Kong Offer Shares.

Your personal data will be held and processed by the Company in accordance with its privacy notice. Information about Company data protection practices, to include the types of information collected, with whom it may be shared, and your data protection rights, can be found on the Company's website in the link entitled "Privacy Notice" at the bottom of the Company's website (<http://www.chinanewenergy.co.uk>), or at the following link:  
[http://www.chinanewenergy.co.uk/uploads/soft/200219/1\\_1428021551.pdf](http://www.chinanewenergy.co.uk/uploads/soft/200219/1_1428021551.pdf).

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### 5. APPLYING THROUGH WHITE FORM eIPO SERVICE

#### (a) General

Individuals who meet the criteria in the paragraph headed “Who can apply” in this section, may apply through the **White Form eIPO** service for the Hong Kong Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

#### (b) Time for Submitting Applications under the White Form eIPO Service

You may submit your application through the **White Form eIPO** service at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 30 June 2020 until 11:30 a.m. on Tuesday, 7 July 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Tuesday, 7 July 2020 or such later time under the paragraph headed “10. Effect of bad weather on the opening of the application lists” in this section.

#### (c) No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instructions** given by you or for your benefit through the **White Form eIPO** 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 **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

#### (d) Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### *Commitment to sustainability*

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “CHINA NEW ENERGY LIMITED” **White Form eIPO** application submitted via **www.eipo.com.hk** to support sustainability.

## 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

### (a) General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the general rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Center  
1/F, One & Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners and our Hong Kong Branch Share Registrar.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### (b) Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any International Placing Shares under the International Placing;
  - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Lead Managers 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;
  - authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, 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 us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

---

## HOW 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 our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (WUMP) 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.

### (c) 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 authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for Hong Kong Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### (d) 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.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### (e) Time for Inputting Electronic Application Instructions<sup>(1)</sup>

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times<sup>(1)</sup> on the following dates:

Tuesday, 30 June 2020 — 9:00 a.m. to 8:30 p.m.  
Thursday, 2 July 2020 — 8:00 a.m. to 8:30 p.m.  
Friday, 3 July 2020 — 8:00 a.m. to 8:30 p.m.  
Monday, 6 July 2020 — 8:00 a.m. to 8:30 p.m.  
Tuesday, 7 July 2020 — 8:00 a.m. to 12:00 noon

*Note:*

(1) *These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investors Participants.*

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 30 June 2020 until 12:00 noon on Tuesday, 7 July 2020.

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Tuesday, 7 July 2020, the last application day or such later time as described in the paragraph headed “10. Effect of bad weather on the opening of the application lists” in this section.

### (f) No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### (g) Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

### (h) Personal Data

The section of the Application Form “Personal Data” applies to any personal data held by our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Branch Share Registrar, the receiving banker, 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.



---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

As a data controller under the Data Protection (Jersey) Law 2018, the Company is responsible for determining the purposes and means of the processing of personal data relating to you in relation to the Hong Kong Offer Shares.

Your personal data will be held and processed by the Company in accordance with its privacy notice. Information about Company data protection practices, to include the types of information collected, with whom it may be shared, and your data protection rights, can be found on the Company's website in the link entitled "Privacy Notice" at the bottom of the Company's website (<http://www.chinanewenergy.co.uk>), or at the following link:  
[http://www.chinanewenergy.co.uk/uploads/soft/200219/1\\_1428021551.pdf](http://www.chinanewenergy.co.uk/uploads/soft/200219/1_1428021551.pdf).

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/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 Center to complete an input request form for **electronic application instructions** before 12:00 noon on Tuesday, 7 July 2020.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for 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.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

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 **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE 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 the Hong Kong Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 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.eipo.com.hk](http://www.eipo.com.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the paragraph headed “Structure of the Global Offering — Pricing and allocation” in this prospectus.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or;
- a “black” rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 7 July 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Tuesday, 7 July 2020 if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section “Expected Timetable” in this prospectus, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, 14 July 2020 in South China Morning Post (in English) and Hong Kong Economic Journal (in Chinese) and on our Company’s website at **www.zkty.com.cn** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at **www.zkty.com.cn** and the Stock Exchange’s website at **www.hkexnews.hk** by no later than 8:00 a.m. on Tuesday, 14 July 2020;
- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Tuesday, 14 July 2020 to 12:00 midnight on Monday, 20 July 2020;
- by telephone enquiry line by calling +852 28628555 between 9:00 a.m. and 6:00 p.m. from Tuesday, 14 July 2020 to Friday, 17 July 2020;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 14 July 2020 to Thursday, 16 July 2020 at the receiving bank’s designated branches.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

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 of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED 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 through the **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

**(b) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(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 Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(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, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the check or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators believes 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 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\$1.28 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 set out in the paragraph headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus are not fulfilled or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the check or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, 14 July 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 instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund check(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund check, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund check(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund check(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund checks and share certificates are expected to be posted on or before Tuesday, 14 July 2020. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of check(s) or banker’s cashier order(s).

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

Share certificates will only become valid at 8:00 a.m. on Wednesday, 15 July 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 check(s) and/or share certificate(s) from the Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 14 July 2020 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop.

Both individuals and authorized 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 check(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund check(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, 14 July 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 the collection of refund check(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund check(s) will be sent to the address on the relevant Application Form on or before Tuesday, 14 July 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant’s stock account as stated in your Application Form on Tuesday, 14 July 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- *If you apply 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 the paragraph "Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 14 July 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.

***(c) If you apply through the White Form eIPO 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 our Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 14 July 2020, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates, e-Refund payment instructions or refund checks.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, 14 July 2020 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-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 check(s) by ordinary post at your own risk.



---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

*(d) If you apply via Electronic Application Instructions to HKSCC*

*Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of 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 Tuesday, 14 July 2020, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraph headed "Publication of results" above on Tuesday, 14 July 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 14 July 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of 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 Tuesday, 14 July 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.

---

## HOW TO APPLY FOR HONG KONG OFFER SHARES

---

- 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 Tuesday, 14 July 2020.

### 15. ADMISSION OF THE SHARES INTO CCASS

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

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

The following is the text of a report set out on pages I-1 to I-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

## ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA NEW ENERGY LIMITED AND DONGXING SECURITIES (HONG KONG) COMPANY LIMITED

### Introduction

We report on the historical financial information of China New Energy Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-83, which comprises the consolidated balance sheets as at 31 December 2017, 2018 and 2019, the company statements of financial position as at 31 December 2017, 2018 and 2019, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2017, 2018 and 2019 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-83 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 June 2020 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

### 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 set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### Reporting accountant's 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.

---

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 accountant's 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 accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2017, 2018 and 2019 and the consolidated financial position of the Group as at 31 December 2017, 2018 and 2019 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

### **Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

### **Adjustments**

The Historical Financial Information is stated after making such adjustments to the Historical Financial Statements as defined on page I-3 as were considered necessary.

### **Dividends**

We refer to Note 17 to the Historical Financial Information which states that no dividends have been paid by China New Energy Limited in respect of the Track Record Period.

**PricewaterhouseCoopers**  
Certified Public Accountants  
Hong Kong

30 June 2020

## I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

## Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The Historical Financial Information in this report was prepared by the directors of the Company based on the previously issued financial statements of the Group for the Track Record Period ("Historical Financial Statements"). The previously issued financial statements for the year ended 31 December 2017 were audited by UHY Hacker Young LLP in accordance with International Standards on Auditing (UK). The previously issued financial statements for the year ended 31 December 2018 were audited by PricewaterhouseCoopers LLP in accordance with International Standards on Auditing (UK). The previously issued financial statements for the year ended 31 December 2019 were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing.

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## (a) Consolidated income statements

	Note	Year ended 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
Revenue	6	257,109	249,978	398,558
Cost of sales	7	(179,788)	(177,374)	(289,141)
<b>Gross profit</b>		<b>77,321</b>	<b>72,604</b>	<b>109,417</b>
Selling and marketing expenses	7	(5,573)	(5,801)	(8,617)
Administrative expenses	7	(14,430)	(20,218)	(27,700)
Net impairment losses on financial assets and contract assets	3.2	(6,193)	(362)	(3,555)
Other income	9	1,061	1,685	1,836
Other gains – net	10	2,937	263	2,409
<b>Operating profit</b>		<b>55,123</b>	<b>48,171</b>	<b>73,790</b>
Finance income	11	87	22	49
Finance costs	11	(747)	(1,094)	(1,384)
Finance costs-net		(660)	(1,072)	(1,335)
<b>Profit before income tax</b>		<b>54,463</b>	<b>47,099</b>	<b>72,455</b>
Income tax expenses	15	(8,804)	(1,278)	(13,287)
<b>Profit for the year</b>		<b>45,659</b>	<b>45,821</b>	<b>59,168</b>
Profit attributable to:				
Owners of the Company		45,659	45,821	59,168
Non-controlling interests		–	–	–
		<b>45,659</b>	<b>45,821</b>	<b>59,168</b>
<b>Earnings per share for profit attributable to Owners of the Company (expressed in RMB per share)</b>				
Basic earnings per share	16	0.094	0.102	0.133
Diluted earnings per share	16	0.094	0.102	0.128

**(b) Consolidated statements of comprehensive income**

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Profit for the year</b>	45,659	45,821	59,168
<b>Other comprehensive income</b>			
<i>Item that may not be reclassified to profit or loss</i>			
– Change in the fair value of financial assets at fair value through other comprehensive income, net of tax	–	–	13
<i>Item that may be reclassified to profit or loss</i>			
– Exchange differences on translation of foreign operations	84	(224)	(238)
<b>Other comprehensive income for the year, net of tax</b>	84	(224)	(225)
<b>Total comprehensive income for the year</b>	<u>45,743</u>	<u>45,597</u>	<u>58,943</u>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company	45,743	45,597	58,943
Non-controlling interests	–	–	–
	<u>45,743</u>	<u>45,597</u>	<u>58,943</u>

## (c) Consolidated balance sheets

	Note	As at 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Financial assets at fair value through				
other comprehensive income	12	–	–	5,015
Investment in an associate	14	–	–	–
Property, plant and equipment	18	7,887	6,457	11,589
Land use rights	19	2,691	2,608	–
Intangible assets	20	5,989	12,782	18,252
Right-of-use assets	21	–	–	6,281
Deferred tax assets	22	–	5,752	4,325
		<u>16,567</u>	<u>27,599</u>	<u>45,462</u>
<b>Current assets</b>				
Inventories	24	13,742	3,661	3,358
Contract assets	6	60,658	88,465	118,108
Trade and bills receivables	25	62,211	103,629	94,628
Other receivables and prepayments	26	20,335	17,980	110,688
Restricted cash	27	11,188	1,230	2,321
Cash and cash equivalents	27	8,180	6,358	26,466
		<u>176,314</u>	<u>221,323</u>	<u>355,569</u>
<b>Total assets</b>		<u><u>192,881</u></u>	<u><u>248,922</u></u>	<u><u>401,031</u></u>
<b>EQUITY</b>				
<b>Equity attributable to Owners of the Company</b>				
Share capital	28	1,541	1,541	1,444
Reserves	29	28,109	69,485	128,986
<b>Total equity</b>		<u><u>29,650</u></u>	<u><u>71,026</u></u>	<u><u>130,430</u></u>
<b>LIABILITIES</b>				
<b>Non-current liability</b>				
Lease liabilities	21	–	–	2,889
<b>Current liabilities</b>				
Contract and refund liabilities	6	33,234	21,028	15,140
Bank and other borrowings	30	10,107	6,540	18,941
Convertible notes	31	–	–	11,847
Trade payables	32	52,097	69,250	114,755
Other payables	33	45,039	59,355	72,916
Lease liabilities	21	–	–	1,073
Provisions	34	4,636	–	–
Current income tax liabilities		18,118	21,723	33,040
		<u>163,231</u>	<u>177,896</u>	<u>267,712</u>
<b>Total liabilities</b>		<u><u>163,231</u></u>	<u><u>177,896</u></u>	<u><u>270,601</u></u>
<b>Total equity and liabilities</b>		<u><u>192,881</u></u>	<u><u>248,922</u></u>	<u><u>401,031</u></u>
<b>Net current assets</b>		<u><u>13,083</u></u>	<u><u>43,427</u></u>	<u><u>87,857</u></u>

## (d) Consolidated statements of changes in equity

	Share capital	Other reserves	(Accumulated losses)/retained earnings	Total
	RMB'000 (Note 28)	RMB'000 (Note 29)	RMB'000	RMB'000
<b>Balance at 1 January 2017</b>	1,441	66,168	(89,823)	(22,214)
<b>Comprehensive income</b>				
– Profit for the year	–	–	45,659	45,659
– Other comprehensive income	–	84	–	84
<b>Total comprehensive income for the year</b>	–	84	45,659	45,743
<b>Transactions with owners, recognised directly in equity</b>				
Share-based payment expenses	–	96	–	96
Issuance of shares	100	5,925	–	6,025
<b>Total transactions with owners</b>	100	6,021	–	6,121
<b>Balance at 31 December 2017</b>	<u>1,541</u>	<u>72,273</u>	<u>(44,164)</u>	<u>29,650</u>
<b>Balance at 1 January 2018</b>	1,541	72,273	(44,164)	29,650
<b>Comprehensive income</b>				
– Profit for the year	–	–	45,821	45,821
– Other comprehensive income	–	(224)	–	(224)
<b>Total comprehensive income for the year</b>	–	(224)	45,821	45,597
<b>Transactions with owners, recognised directly in equity</b>				
Share-based payment expenses	–	460	–	460
Buy-back of shares	–	(4,681)	–	(4,681)
<b>Total transactions with owners</b>	–	(4,221)	–	(4,221)
<b>Balance at 31 December 2018</b>	<u>1,541</u>	<u>67,828</u>	<u>1,657</u>	<u>71,026</u>
<b>Balance at 1 January 2019</b>	1,541	67,828	1,657	71,026
<b>Comprehensive income</b>				
– Profit for the year	–	–	59,168	59,168
– Other comprehensive income	–	(225)	–	(225)
<b>Total comprehensive income for the year</b>	–	(225)	59,168	58,943
Transfer to statutory reserves	–	7,498	(7,498)	–
Share-based payment expenses	–	461	–	461
Cancellation of treasury shares	(97)	97	–	–
<b>Total transactions with owners</b>	(97)	8,056	(7,498)	461
<b>Balance at 31 December 2019</b>	<u>1,444</u>	<u>75,659</u>	<u>53,327</u>	<u>130,430</u>



## (e) Consolidated statements of cash flows

	Note	Year ended 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
<b>Cash flows from operating activities</b>				
Cash (used in)/generated from operations	35	(13,135)	10,069	24,935
Income tax paid		(175)	(3,425)	(545)
Interest paid		(660)	(1,072)	(1,335)
<b>Net cash (used in)/generated from operating activities</b>		<u>(13,970)</u>	<u>5,572</u>	<u>23,055</u>
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment		(687)	(889)	(7,526)
Purchases of intangible assets		(595)	(5,954)	(6,192)
Proceeds from disposal of property, plant and equipment		–	3	–
Investment in financial assets at fair value through other comprehensive income		–	–	(5,000)
<b>Net cash used in investing activities</b>		<u>(1,282)</u>	<u>(6,840)</u>	<u>(18,718)</u>
<b>Cash flows from financing activities</b>				
Proceeds from bank and other borrowings		10,257	6,800	23,060
Proceeds from convertible notes		–	–	10,606
Repayments of bank and other borrowings		(150)	(10,367)	(10,659)
Proceeds from shares issued		6,025	–	–
Repurchase of shares		(4,681)	–	–
Principal elements of lease payments		–	–	(842)
Cash advance from related parties		52,410	15,404	–
Repayment to related parties		(43,175)	(11,165)	(1,949)
Payment for listing related expenses		–	–	(4,098)
Increase in guarantee deposits for borrowings		–	(1,230)	(1,091)
<b>Net cash generated from/(used in) financing activities</b>		<u>20,686</u>	<u>(558)</u>	<u>15,027</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>5,434</u>	<u>(1,826)</u>	<u>19,364</u>
Cash and cash equivalents at beginning of year		2,666	8,180	6,358
Translation differences on cash and cash equivalents		80	4	744
<b>Cash and cash equivalents at end of year</b>		<u>8,180</u>	<u>6,358</u>	<u>26,466</u>

## (f) Statements of financial position – the Company

	Note	As at 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
<b>ASSETS</b>				
<b>Non-current asset</b>				
Investments in a subsidiary	13	9,203	9,548	10,501
		9,203	9,548	10,501
<b>Current assets</b>				
Dividend receivables	36	3,631	6,582	6,145
Other receivables and prepayments	26	4,989	–	8,752
Cash and cash equivalents	27	240	22	778
		8,860	6,604	15,675
<b>Total assets</b>		<b>18,063</b>	<b>16,152</b>	<b>26,176</b>
<b>EQUITY</b>				
<b>Equity attributable to Owners of the Company</b>				
Share capital	28	1,541	1,541	1,444
Other reserves	29	61,586	57,027	57,839
Accumulated losses	29	(51,391)	(50,979)	(66,222)
<b>Total equity/(deficit)</b>		<b>11,736</b>	<b>7,589</b>	<b>(6,939)</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Convertible notes	31	–	–	11,847
Amounts due to a subsidiary	36	4,337	4,861	17,207
Other payables	33	1,990	3,386	3,847
Current income tax liabilities		–	316	214
		6,327	8,563	33,115
<b>Total liabilities</b>		<b>6,327</b>	<b>8,563</b>	<b>33,115</b>
<b>Total equity and liabilities</b>		<b>18,063</b>	<b>16,152</b>	<b>26,176</b>

**II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION****1. General information and basis of presentation*****1.1 General information***

The Company was incorporated in Jersey on 2 May 2006 as a public company with limited liability under the Jersey Companies Law. The address of its registered office is at Queensway House, Hilgrove Street, St Helier, Jersey, Channel Islands, JE1 1ES.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of ethanol production system technology integrated service in the ethanol fuel and alcoholic beverage industries (the “Listing Business”) in the People’s Republic of China (the “PRC”).

The Financial Information is presented in Renminbi (“RMB”), unless otherwise stated.

**2. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

***2.1 Basis of preparation***

The Historical Financial Information of the Group has been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), including related interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Historical Financial Information has been prepared under the historical cost convention, except for certain financial assets and liabilities measured at fair value.

The preparation of Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4 of this section.

Save as disclosed below, all standards, amendments to standards and interpretations, which are effective during the Track Record Period have been adopted by the Group consistently throughout the Track Record Period.

2.1.1 New and revised standards adopted

(a) IFRS 9 and IFRS 15

IFRS 9, “Financial instruments” and IFRS 15, “Revenue from contracts with customers” are effective for annual periods beginning on or after 1 January 2018. The Group has applied IFRS 9 and IFRS 15 consistently throughout the Track Record Period. Having assessed the effects of (i) adopting IFRS 9 on the Historical Financial Information as compared to the adoption of IAS 39; and (ii) adopting IFRS 15 as compared to the adoption of IAS 18 on the Historical Financial Information, save for the change in impairment losses on financial assets and contract assets in the consolidated income statements of the Group attributable to the adoption of IFRS 9 and IFRS 15, the adoption of IFRS 9 and IFRS 15 would not have a significant impact on the Group’s financial position and performance.

(b) IFRS 16

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated the 2017 and 2018 reporting periods, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(i) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.53%.

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	6,019
Less: short-term leases recognised on a straight-line basis as expense	(423)
	<u>5,596</u>
Discounted using the lessee’s incremental borrowing rate of at the date of initial application	4,804
<b>Lease liability recognised as at 1 January 2019</b>	<u>4,804</u>
Of which are:	
Current lease liabilities	1,489
Non-current lease liabilities	3,315
	<u>4,804</u>

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to properties.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- land use rights – decreased by RMB2,608,000
- right-of-use assets – increased by RMB7,412,000
- lease liabilities – increased by RMB4,804,000

(ii) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

(iii) The Group's leasing activities and how these are accounted for

The Group leases an office, the rental contract for which is made for a fixed period of 55 months. The lease agreement does not impose any covenants, but leased asset may not be used as security for borrowing purposes.

Until the 2018 financial year, payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

*2.1.2 New and revised standards, amendments and interpretations to existing standards that have been issued but are not effective for the Track Record Period and have not been early adopted*

Up to the date of issuance of this report, the IASB has issued the following new standards, amendments and interpretations which are not yet effective and have not been early adopted:

		<b>Effective for annual periods beginning on or after</b>
IFRS 3 (Amendments)	Definition of a business	1 January 2020
Conceptual framework for financial reporting 2018	Revised conceptual framework for financial reporting	1 January 2020
IAS 1 and IAS 8 (Amendments)	Definition of material	1 January 2020
IFRS 7, IFRS 9 and IAS 39 (Amendments)	Interest rate benchmark reform	1 January 2020
IFRS 17	Insurance contracts	1 January 2021
IAS 1 (Amendment)	Classification of liabilities	1 January 2022
IFRS 10 and IAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

There are no new and revised standards, amendments and interpretations that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## **2.2 Principles of consolidation and equity accounting**

### *(a) Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### *(b) Associates*

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investment in an associate is accounted for using the equity method of accounting (see (c) below), after initially being recognised at cost.

### *(c) Equity method*

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.9.

### ***2.3 Separate financial statements***

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### ***2.4 Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

Executive directors, who assess the financial performance and position of the Group and make strategic decisions, have been identified as being the chief operating decision maker.

### ***2.5 Foreign currency translation***

#### ***(a) Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company is Great Britain Pound ("GBP") and the functional currency of the two subsidiaries are RMB. The Historical Financial Information is presented in RMB, which is the Group's presentation currency.

#### ***(b) Transactions and balances***

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the consolidated income statements, within finance costs. All other foreign exchange gains and losses are presented in the consolidated income statements on a net basis within other gains – net.



*(c) Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

**2.6 Property, plant and equipment**

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Machinery	5-10 years
Motor vehicles	5-10 years
Office equipment	3-5 years
Buildings	20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains – net" in profit or loss.

### **2.7 Land use rights**

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods of 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights. From 1 January 2019, land use rights are reclassified to right-of-use assets.

### **2.8 Intangible assets**

#### *(a) Computer software and trademarks*

Separately acquired computer software and trademarks are shown at historical cost. Computer software and trademarks have a finite useful life and are carried at cost less accumulated amortisation.

#### *(b) Internally generated intangible assets – development costs and patents*

Costs associated with maintaining patents are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique patents controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the patent so that it will be available for use
- management intends to complete the patent and use or sell it
- there is an ability to use or sell the patent
- it can be demonstrated how the patent will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the patent are available, and
- the expenditure attributable to the patent during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the patents include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use, at the moment when the patents are registered.

The patents have a finite useful life and is carried at cost less accumulated amortisation.

*(c) Amortisation methods and periods*

The Group amortises intangible assets with a limited useful life using the straight-line method over the following periods:

Computer software	10 years
Trademarks	10 years
Self-developed patents	10-20 years

The useful life for the Group's software is based on the asset's conditions and management's past experience. Considering the acquired software licences are well developed off-the-shelf software, there is no contractual terms of these software licences, and the Group can use the software as long as it can meet the Group's business needs. Based on the current functionalities equipped by the software and the daily operation needs, the Group considers a useful life of 10 years is the best estimation. The useful life for the Group's trademarks and self-developed patents is determined in accordance to the trademark and patent laws and regulations of the PRC, which stipulate the legal life for trademark is 10 years and the legal life for patent for invention is 20 years and the legal life for other patent is 10 years.

## **2.9 Impairment of non-financial assets**

Development cost not yet ready for use and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

## **2.10 Financial assets**

*(a) Classification*

The Group classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (“FVOCI”). See note 23 for details about each type of financial assets.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

*(b) Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

*(c) Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Debt instruments

Subsequent measurement of debt instruments depends on the Group’s business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains – net together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group’s management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group’s right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

### *2.11 Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the balance sheets where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the group company or the counterparty.

### *2.12 Impairment of financial assets*

The Group assesses on a forward looking basis the expected credit losses (“ECL”) associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

ECL are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial assets.

For contract assets and all trade and bills receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the assets. The provision matrix is determined based on historical observed default rates over the expected life of the contract assets and trade and bills receivables with similar credit risk characteristics and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

Impairment on other receivables and amounts due from related parties is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.

### *2.13 Inventories*

Inventories comprised of raw material, work-in-progress and right to returned goods and are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### ***2.14 Trade and bills receivables***

Trade and bills receivables are amounts due from customers for products sold or services performed in the ordinary course of business. If collection of trade and bills receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and bills receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and bills receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. See note 25 for further information about the Group's accounting for trade and bills receivables and note 3.2 for a description of the Group's impairment policies.

### ***2.15 Contract assets and contract liabilities***

The excess of cumulative revenue recognised in profit or loss over the cumulative billings is recognised as contract assets. Contract assets will be reclassified as receivables when the progress billings are issued as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. See note 3.2 for a description of the Group's impairment policies for contract assets.

The excess of cumulative billings over cumulative revenue recognised in profit or loss is recognised as contract liabilities.

### ***2.16 Restricted cash and cash and cash equivalents***

In the consolidated statements of cash flows, cash and cash equivalents include cash in hand and deposits held at call with banks. Bank deposits which are restricted to use are included in "restricted cash". Restricted cash are excluding from cash and cash equivalents included in the consolidated statements of cash flows.

### ***2.17 Share capital***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of the Company as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

### ***2.18 Trade and other payables***

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### ***2.19 Borrowings***

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. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheets when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### ***2.20 Borrowing costs***

General and specific borrowing costs that are directly attributable to the construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get 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 eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

### *2.21 Current and deferred income tax*

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

#### *(a) Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associate operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### *(b) Deferred income tax*

##### Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available to utilise those temporary differences and losses.

##### Outside basis differences

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and an associate, except for deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and an associate only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.



(c) *Offsetting*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**2.22 Employee benefits**

(a) *Pension obligations*

The group companies incorporated in the PRC contribute based on certain percentage of the salaries of the employees to a defined contribution retirement benefits plan organised by relevant government authorities in the PRC on a monthly basis. The government authorities undertake to assume the retirement benefits obligations payable to all existing and future retired employees under these plans and the Group has no further obligations for post-retirement benefits beyond the contributions made.

Contributions to these defined contributions plans are expensed as incurred.

(b) *Housing funds, medical insurances and other social insurances*

PRC employees of the Group are entitled to participate in various government-supervised housing funds, medical insurance and other social insurance plan. The Group contributes to these funds based on certain percentages of the salaries of these employees on a monthly basis. The Group's liability in respect of these funds is limited to the contribution payable in each period. Contributions to the housing funds, medical insurances and other social insurance are expensed as incurred.

(c) *Bonus entitlements*

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) *Termination entitlements*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the

termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

*(e) Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

### **2.23 Share-based payments**

*Employee options*

The fair value of options granted under the Pre-IPO Share Option Scheme is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (e.g. the entity's share price)
- excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period), and
- including the impact of any non-vesting conditions (e.g. the requirement for employees to save or holdings shares for a specific period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

### **2.24 Provisions**

Provisions for legal claims are recognised under other gains – net in the consolidated income statements when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

### ***2.25 Convertible notes***

The Group classifies its convertible notes as financial liability at fair value through profit or loss, which are measured at fair value. The convertible notes and embedded derivative are classified entirely as liabilities because they were issued in a currency other than the functional currency of the Company. As the instrument contains an embedded derivative, it has been designated at fair value through profit or loss on initial recognition and as such the embedded conversion feature is not separated. All transaction costs related to financial instruments designated at fair value through profit or loss are expenses as incurred.

### ***2.26 Revenue recognition***

#### *Provision of ethanol production system technology integrated service*

The Group is engaged in the provision of ethanol production system technology integrated service in the ethanol fuel and alcoholic beverage industries. Revenue is recognised when control over the asset has been transferred to the customer. Control of the asset is transferred over time if 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. The equipment have generally no alternative use for the Group and the Group has an enforceable right to payment for performance completed to date due to contractual restrictions and the interpretation of the applicable laws that apply to the contract.

If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation.

The progress towards complete satisfaction of the performance obligation is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, that is, the actual costs incurred up to the end of the reporting period as a percentage of total estimated costs for each product in the contract.

The Group generally offers 12 months warranties for its product. The Group recognised retention money as contract assets as the Group's entitlement to the consideration was conditional on satisfactory completion of the warranty period. The retention money will be recognised as trade receivables at the end of warranty period.

The Group does not recognise the warranty service as a separate performance obligation in a single contract as the warranty service is assurance type, and the Group's obligation to repair or replace faulty products under the warranty terms is recognised as a provision.

### **2.27 Earnings per share**

#### *(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

#### *(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### **2.28 Interest income**

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in the consolidated income statements as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

### **2.29 Dividend income**

Dividends from subsidiaries are recognised in profit or loss when the right to receive payments is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI. However, the investment may need to be tested for impairment as a consequence.

### **2.30 Leases**

Before 1 January 2019, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

*The Group is the lessee*

Payments made under operating leases (net of any incentives received from the lessor), are charged to the profit or loss on a straight-line basis over the period of the lease.

### **2.31 Dividend distribution**

Dividend distribution to the owners of the Company is recognised as a liability in the Group's Historical Financial Information in the period in which the dividends are approved by the Company's shareholders.

### **2.32 Government grants**

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

## **3 Financial risk management**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### **3.1 Market risk**

#### *3.1.1 Foreign exchange risk*

Foreign exchange risk arises from future commercial transactions or recognised assets or liabilities denominated in a currency that is not the functional currency of the relevant group entity.

The Company was incorporated in Jersey and the investment and financing activities were mainly carried out in GBP and United States Dollar ("USD"). The Company was exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to RMB.

The group entities located in the PRC operates in the PRC with most of the transactions denominated and settled in RMB, which is the functional currency of the relevant group entities. Therefore, the PRC group entities were not exposed to material foreign exchange risk.

The Group has not hedged its foreign exchange rate risk exposure. However, management of the Group monitors foreign exchange risk exposure and will consider hedging significant foreign exchange risk exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the respective dates of consolidated balance sheets are as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>GBP</b>			
– Other receivables	4,989	–	–
– Cash and cash equivalents	235	22	–
– Other payables	1,991	3,386	1,798
<b>USD</b>			
– Cash and cash equivalents	6	65	379
– Restricted cash	21	–	–
– Other payables	–	–	96
<b>HKD</b>			
– Cash and cash equivalents	–	–	433
– Convertible notes	–	–	11,847
– Other payables	–	–	3,075
– Other receivables	–	–	42

The following table shows the sensitivity analysis of a 5% change in RMB against the relevant foreign currencies. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year-end for a 5% change in foreign currency rates. Should RMB strengthened/weakened by 5% against the relevant currencies, the effect on post-tax profit for the years would be as follows:

	Change of post-tax profit increase/(decrease)		
	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
RMB against GBP:			
Strengthened by 5%	(138)	143	77
Weakened by 5%	138	(143)	(77)
RMB against USD:			
Strengthened by 5%	(1)	(3)	(12)
Weakened by 5%	1	3	12
RMB against HKD:			
Strengthened by 5%	–	–	614
Weakened by 5%	–	–	(614)

The following table shows the sensitivity analysis of a 5% change in GBP against the relevant foreign currencies. The sensitivity analysis includes only foreign currency denominated monetary items and adjusts their translation at the year-end for a 5% change in foreign currency rates. Should GBP strengthened/weakened by 5% against the relevant currencies, the effect on post-tax profit for the years would be as follows:

	Change of post-tax profit increase/(decrease)		
	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
GBP against RMB:			
Strengthened by 5%	–	–	(2,065)
Weakened by 5%	–	–	2,065
GBP against USD:			
Strengthened by 5%	–	–	(12)
Weakened by 5%	–	–	12
GBP against HKD:			
Strengthened by 5%	–	–	614
Weakened by 5%	–	–	(614)

### *3.1.2 Fair value interest rate risk*

The Group's main interest rate risk arises from short-term borrowings with fixed rates, which expose the Group to fair value interest rate risk. The Group closely monitors trend of interest rate and its impact on the Group's interest rate risk exposure.

The Group has not entered into any interest rate swaps to hedge its exposure to interest rate risks.

### **3.2 Credit risk**

The Group is exposed to credit risk in relation to its contract assets, trade and bills receivables, other receivables and cash at banks. The carrying amounts of trade and bills receivables, other receivables and cash deposits at banks 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 cash deposits at banks 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.

In order to minimise the credit risk, management of the Group has delegated a team responsible for credit risk management. Management assessed the provision of impairment on the basis of ECL model. ECL for contract assets and trade and bills receivables is based on management's estimate of the lifetime ECL to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue, customers' repayment history and financial position and an assessment of both the current and forecast general economic environment.

#### *Contract assets and trade and bills receivables*

The Group applies the simplified approach to provide for ECL prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for contract assets and trade and bills receivables.

As at 31 December 2017, 2018 and 2019, to measure the ECL of contract assets and trade and bills receivables, contract assets and trade and bills receivables have been assessed for impairment.



Trade and bills receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments, in addition to the length of time the debtor has been overdue. However, before writing off a debtor, management considers balances on an individual basis as to whether there is any potential recovery based on their knowledge of the customer and circumstances relating to the failure to receive payment.

Customers are billed during the performance of a contract, based on the payment milestones. There is a requirement for customers to make an advanced payment with further payments then required on the delivery of the equipment and materials, installation of the equipment and it remaining in operation.

To measure the expected credit losses, trade and bills receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade and bills receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade and bills receivables are a reasonable approximation of the loss rates for contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months prior to each balance sheet date respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified that the GDP and the unemployment rate of the countries in which it sells its goods and services are the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Generally, trade and bills receivables are written off if past due for more than three years.

Trade and bills receivables and contract assets that were past due but not impaired had a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no loss allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Trade and bills receivables and contract assets	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 31 December 2017</b>					
Gross carrying amount – trade and bills receivables and contracts assets – SOEs	87,589	236	–	4,305	92,130
Expected loss rate ( <i>note (a)</i> )	0%	10%	20%	100%	
Loss allowance provision	–	(24)	–	(4,305)	(4,329)
Net carrying amount	<u>87,589</u>	<u>212</u>	<u>–</u>	<u>–</u>	<u>87,801</u>
Gross carrying amount – trade and bills receivables and contracts assets – Non-SOEs	26,942	7,911	4,327	2,868	42,048
Expected loss rate	2%	29%	41%	86%	
Loss allowance provision	(418)	(2,314)	(1,768)	(2,480)	(6,980)
Net carrying amount	<u>26,524</u>	<u>5,597</u>	<u>2,559</u>	<u>388</u>	<u>35,068</u>
Gross carrying amount – trade and bills receivables and contracts assets – Customers in liquidity issues	1,379	7,284	4,127	78,017	90,807
Expected loss rate	100%	100%	100%	100%	
Loss allowance provision	(1,379)	(7,284)	(4,127)	(78,017)	(90,807)
Net carrying amount	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total gross carrying amount – trade and bills receivables and contracts assets	115,910	15,431	8,454	85,190	224,985
Loss allowance provision	(1,797)	(9,622)	(5,895)	(84,802)	(102,116)
Net carrying amount	<u>114,113</u>	<u>5,809</u>	<u>2,559</u>	<u>388</u>	<u>122,869</u>

Trade and bills receivables and contract assets	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 31 December 2018</b>					
Gross carrying amount – trade and bills receivables and contracts assets – SOEs	58,804	20,196	–	337	79,337
Expected loss rate ( <i>note (a)</i> )	0%	10%	20%	100%	
Loss allowance provision	–	(2,020)	–	(337)	(2,357)
Net carrying amount	58,804	18,176	–	–	76,980
Gross carrying amount – trade and bills receivables and contracts assets – Non-SOEs	108,470	6,080	3,067	8,470	126,087
Expected loss rate	1%	4%	48%	96%	
Loss allowance provision	(1,098)	(267)	(1,475)	(8,133)	(10,973)
Net carrying amount	107,372	5,813	1,592	337	115,114
Gross carrying amount – trade and bills receivables and contracts assets – Customers in liquidity issues	22	904	7,158	–	8,084
Expected loss rate	100%	100%	100%	100%	
Loss allowance provision	(22)	(904)	(7,158)	–	(8,084)
Net carrying amount	–	–	–	–	–
Total gross carrying amount – trade and bills receivables and contracts assets	167,296	27,180	10,225	8,807	213,508
Loss allowance provision	(1,120)	(3,191)	(8,633)	(8,470)	(21,414)
Net carrying amount	166,176	23,989	1,592	337	192,094

(a) Since there has been no significant changes on both the historical payment profiles and business operations of SOEs, as well as forward looking information such as the prospect of China's economy and relevant macroeconomic data, the directors of the Company consider that the changes in expected credit loss rates for trade and bills receivables and contract assets-SOEs during the years ended 31 December 2017 and 2018 are insignificant.

Trade and bills receivables and contract assets	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 31 December 2019</b>					
Gross carrying amount – trade and bills receivables and contracts assets – SOEs	39,175	4,607	4,695	–	48,477
Expected loss rate	2%	10%	20%	100%	–
Loss allowance provision	(850)	(461)	(939)	–	(2,250)
Net carrying amount	38,325	4,146	3,756	–	46,227
Gross carrying amount – trade and bills receivables and contracts assets – Non-SOEs	165,959	6,571	1,475	7,377	181,382
Expected loss rate	3%	30%	50%	100%	–
Loss allowance provision	(4,787)	(1,971)	(738)	(7,377)	(14,873)
Net carrying amount	161,172	4,600	737	–	166,509
Gross carrying amount – trade and bills receivables and contracts assets – Customers in liquidity issues	–	–	–	–	–
Expected loss rate	–	–	–	–	–
Loss allowance provision	–	–	–	–	–
Net carrying amount	–	–	–	–	–
Total gross carrying amount – trade and bills receivables and contracts assets	205,134	11,178	6,170	7,377	229,859
Loss allowance provision	(5,637)	(2,432)	(1,677)	(7,377)	(17,123)
Net carrying amount	199,497	8,746	4,493	–	212,736

As at 31 December 2017, 2018 and 2019, the loss allowance provision for contract assets and trade and bills receivables reconciles to the opening loss allowance for that provision as follows:

	<u>Trade and bills receivables</u>	<u>Contract assets</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000
At 1 January 2017	94,626	10,961	105,587
Provision for loss allowance recognised in profit or loss	7,826	1,585	9,411
Unused amounts reversed	(2,962)	(256)	(3,218)
Receivables written off during the year as uncollectible	(2,719)	(6,945)	(9,664)
At 31 December 2017	<u>96,771</u>	<u>5,345</u>	<u>102,116</u>
At 1 January 2018	96,771	5,345	102,116
Provision for loss allowance recognised in profit or loss	3,109	1,078	4,187
Unused amounts reversed	(3,389)	(436)	(3,825)
Receivables written off during the year as uncollectible	(78,332)	(2,732)	(81,064)
At 31 December 2018	<u>18,159</u>	<u>3,255</u>	<u>21,414</u>
At 1 January 2019	18,159	3,255	21,414
Provision for loss allowance recognised in profit or loss	7,866	3,752	11,618
Unused amounts reversed	(7,065)	(998)	(8,063)
Receivables written off during the year as uncollectible	(7,836)	(10)	(7,846)
At 31 December 2019	<u>11,124</u>	<u>5,999</u>	<u>17,123</u>

#### *Other receivables*

As at 31 December 2017, 2018 and 2019, the Group has assessed that the expected loss rate for other receivables from related parties was immaterial considering the good finance position and credit history of the related parties. Thus no loss allowance provision for other receivables from related parties was recognised.

As at 31 December 2017, 2018 and 2019, the Group has assessed that other receivables from third parties were considered to have low credit risk, and thus the impairment provision recognised during the Track Record Period was limited to 12 months expected losses. Management considered other receivables from third parties to be low credit risk as they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

For the years ended 31 December 2017, 2018 and 2019, the provision for loss allowance were recognised in profit or loss in net impairment losses on financial assets and contract assets.

### 3.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through financial support of business partners and suppliers.

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserve of cash to meet its liquidity requirements in the short and long term. At present, the Group is financed by advance payments from customers and borrowings.

The table below summarises the maturity profile of the Group's financial liabilities at the reporting date based on contractual undiscounted payments:

	Less than one year	More than one year	Total
	RMB'000	RMB'000	RMB'000
<b>31 December 2017</b>			
Bank and other borrowings	10,683	–	10,683
Trade and other payables	66,640	–	66,640
	<u>77,323</u>	<u>–</u>	<u>77,323</u>
<b>31 December 2018</b>			
Bank and other borrowings	6,827	–	6,827
Trade and other payables	90,700	–	90,700
	<u>97,527</u>	<u>–</u>	<u>97,527</u>
<b>31 December 2019</b>			
Convertible notes	12,439	–	12,439
Bank borrowings	19,445	–	19,445
Trade and other payables	139,322	–	139,322
Lease liabilities	1,187	3,279	4,466
	<u>172,393</u>	<u>3,279</u>	<u>175,672</u>

### 3.4 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the following gearing ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total borrowings plus convertible notes plus lease liabilities less cash and cash equivalents. Total capital is calculated as total equity as shown in the consolidated balance sheets plus net debt.

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Lease liabilities	–	–	3,962
Total borrowings	10,107	6,540	18,941
Convertible notes	–	–	11,847
Less: cash and cash equivalents (excluding restricted cash)	(8,180)	(6,358)	(26,466)
Net debt	1,927	182	8,284
Total equity	29,650	71,026	130,430
Total capital	31,577	71,208	138,714
Gearing ratio	0.06	0.00	0.06

### 3.5 Fair value estimation

#### (a) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

#### *Recurring fair value measurements* At 31 December 2019

	Level 3	Total
	RMB'000	RMB'000
<b>Financial assets</b>		
Financial assets at fair value through other comprehensive income	5,015	5,015
<b>Financial liabilities</b>		
Convertible notes	11,847	11,847

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year ended 31 December 2019.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

(b) *Valuation techniques used to determine fair value*

Specific valuation techniques used to value financial instruments include:

- For financial assets at FVOCI, asset-based approach (*Note (i)*)
- For convertible notes, weighted scenario approach (*Note (ii)*)

*Note i:* The Group's financial assets at FVOCI represent 2.08% equity interests in an unlisted company, Inner Mongolia Zhongneng Biological Technology Co., Ltd. The investee was established on 4 April 2019 and as at 31 December 2019, the investee has not launched any operation, the majority of the assets are one building and land use right. Therefore, the valuer used asset-based approach for financial assets at FVOCI.

*Note ii:* The fair value of convertible notes was arrived at by calculating the weighted average fair value of the convertible notes under two scenarios: disapproval and approval of listing on the Hong Kong Stock Exchange. Under the disapproval and approval of listing on the Hong Kong Stock Exchange scenario, the fair value was arrived at using discounted cash flow analysis and market approach respectively.



*(c) Valuation inputs and relationships to fair value*

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements (see (b) above for the valuation techniques adopted):

Description	Fair value as at 31 December 2019	Significant unobservable inputs	Range of inputs as at 31 December 2019	Relationship of unobservable inputs to fair value
Financial assets at FVOCI	5,015	Rate of newness- Property, plant and equipment	85%-90%	If the rate of newness had been 10% higher/lower than management's estimates as at 31 December 2019, the fair value of financial assets at FVOCI would had been increased/decreased by RMB189,000.
		Market price (RMB/square metre)	128	If the market price had been 10% higher/lower than management's estimates as at 31 December 2019, the fair value of financial assets at FVOCI would had been increased/decreased by RMB120,000.
Convertible notes	11,847	Discount rate	20.3%	If the discounted rate applied to the discounted cash flows had been 10% higher/lower than management's estimates as at 31 December 2019, the fair value of convertible notes would had been decreased/increased by RMB40,000.
		Probability for approval of listing on the Hong Kong Stock Exchange	40%	If the probability for approval of listing on the Hong Kong Stock Exchange had been 10% higher/lower than management's estimates as at 31 December 2019, the fair value of convertible notes would had been increased/decreased by RMB79,000.

*(d) Valuation process*

The financial assets at FVOCI and convertible notes of the Group was valued by independent and qualified valuers. Discussions of valuation processes and results were held between the Chief Financial Officer and the valuers.

#### 4 Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

##### *(a) Revenue recognition*

The Group's revenue from provision of ethanol production system technology integrated service in the ethanol fuel and alcoholic beverage industries is recognised over time when the Group's performance do 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. The Group cannot change or substitute the product or redirect the product for another use as the product is tailor made to each customer's needs and thus the product does not have an alternative use to the Group. However, whether there is an enforceable right to payment depends on the terms of contract and the interpretation of the applicable laws that apply to the contract. Such determination requires significant judgments. In assessing whether the Group has an enforceable right to payment for its contracts, the Group has performed an assessment on the contractual terms as well as any legislation that could supplement or override those contractual terms, and conducted an evaluation of any existence of circumstances that could restrict the Group to enforce its right to payment for specific performance. Management uses judgments to classify contracts into those with right to payment and those without the right. Management will reassess their judgments on a regular basis to identify and evaluate the existence of any circumstances that could affect the Group's enforceable right to payment and the implication on the accounting for contracts.

The Group recognises revenue over time by reference to the progress towards complete satisfaction of the performance obligation at the reporting date. The progress is measured based on the Group's efforts or inputs to the satisfaction of the performance obligation, by reference to the contract costs incurred up to the end of reporting period as a percentage of total estimated costs for each product in the contract. Significant judgments and estimations are required in determining the completeness of the estimated total costs and the accuracy of progress towards complete satisfaction of the performance obligation at the reporting date. Changes in cost estimates in future periods can have effect on the Group's revenue recognised. In making the above estimations, the Group relies on past experience and work of contractors and, if appropriate, surveyors.

***(b) Capitalisation and amortisation of internal development costs***

The Group capitalises costs incurred on development projects as intangible assets when recognition criteria are met. Significant judgment is involved in assessing whether the criteria set out in the accounting standards required for capitalisation of such costs have been met, including the likelihood of the project delivering sufficient future economic benefits, and whether costs, including employment costs, were directly attributable to relevant projects. The Group starts to capitalise research and development expenditure upon patent application. Notwithstanding that the Group has used all available information to make this estimation and judgment, inherent uncertainty exists and the capitalised costs may have to be expensed if there are significant changes from previous estimates.

Capitalised development costs are amortised from the point at which the asset is ready for use on a straight-line basis over their estimated useful lives. The Group reviews the estimated useful lives of the assets semi-annually. The amortisation expense for future periods is adjusted if there are significant changes on the useful lives from previous estimates.

Development cost not yet ready for use, which are capitalised as intangible assets are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment assessment requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact both the carrying value of intangible assets and the impairment charge in the period in which such estimate has been changed.

***(c) Impairment of receivables and contract assets – Estimate***

The Group uses a provision matrix to calculate ECL for trade and bills receivables and contract assets in addition to the specific provisions. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

Trade and bills receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade and bills receivables for the same types of contracts. The Group has therefore concluded that the ECL for trade and bills receivables are a reasonable approximation for the loss rates for contract assets.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. In assessing forward looking factors, the Group considers factors including economic policies, macroeconomic indicators, industry risks and changes in customers' conditions.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECL on the Group's trade and bills receivables and contract assets is disclosed in note 3.2 to the financial statements.

State owned enterprises and non-state owned enterprises are deemed to have different credit risk based on experience of defaults and write offs. ECL for these customers is based on aging where there are no known disputes. Customers in liquidity issues relates to those who may be disputing invoices or in bankruptcy and so 100% provision is made against these debtors.

*(d) Recognition of income tax payable*

Tax computations are prepared and tax is paid on a basis where profit recognition follows actual invoicing rather than stage of completion revenue recognition accounting, and there are significant timing differences between when profits are recognised in the accounts versus the computations. Taxation is recognised within the financial statements on a basis consistent with how the accounting profit is recognised. The Group reassess judgments on a regular basis to identify and evaluate the appropriateness of the basis on which tax computations are prepared and therefore the risk that tax fines and interest may arise. Management also uses judgment to whether the tax arising based on accounting profits should be considered deferred taxation or current taxation.

## **5 Segment information**

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segment. The chief operating decision maker has been identified as the executive directors of the Company.

The Group is principally engaged in the provision of ethanol production system technology integrated service in the ethanol fuel and alcoholic beverage industries. Management reviews the operating results of the business as one segment to make decisions about resources to be allocated. Therefore, the executive directors of the Company regards that there is only one segment which is used to make strategic decisions. Revenue and profit before income tax are the measure reported to the executive directors for the purpose of resources allocation and performance assessment.

The Group's revenue is mainly derived in the PRC during the Track Record Period.

As at 31 December 2017, 2018 and 2019, all of the non-current assets were located in the PRC.

## 6 Revenue/Contract assets and contract refund liabilities

## (a) Revenue

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Ethanol fuel construction services	212,378	145,273	347,184
Alcoholic beverage construction services	42,210	88,697	45,080
Others	2,521	16,008	6,294
<b>Total</b>	<b>257,109</b>	<b>249,978</b>	<b>398,558</b>
– Recognised over time	257,109	249,978	396,534
– Recognised at a point in time	–	–	2,024

“Others” mainly refers to revenue generated from projects relating to the industry of ethyl acetate and vital fibre oligosaccharide.

The amount of the Group's revenue from external customers broken down by location of the customers is shown in the table below.

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
PRC	254,427	233,945	379,852
Canada	2,521	–	–
Russia	–	16,008	187
Indonesia	–	–	14,601
Other countries	161	25	3,918
<b>Total</b>	<b>257,109</b>	<b>249,978</b>	<b>398,558</b>

*(b) Assets and liabilities related to contracts with customers*

The Group has recognised the following assets and liabilities related to contracts with customers:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Current contract assets relating to construction contracts	66,003	91,720	124,107
Loss allowance	(5,345)	(3,255)	(5,999)
Total contract assets	<u>60,658</u>	<u>88,465</u>	<u>118,108</u>
Contract liabilities relating to construction contracts	21,997	21,028	15,140
Refund liabilities	11,237	–	–
Total contract and refund liabilities	<u>33,234</u>	<u>21,028</u>	<u>15,140</u>

*(i) Significant changes in contract assets and contract liabilities*

Contract assets have increased as the Group has provided more services ahead of the agreed payment schedules for service contracts. The Group also recognised a loss allowance for contract assets following the adoption of IFRS 9, see note 3.2 for further information.

Contract liabilities have decreased due to significant increase in project progress for the years ended 31 December 2018 and 2019.

Refund liabilities as at 31 December 2017 represented the payment previously received from a customer in quality dispute, which was returned to the customer during the year ended 31 December 2018.

*(ii) Revenue recognised in relation to contract liabilities*

The following table shows how much of the revenue recognised in the Track Record Period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in the Track Record Period.

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	25,007	21,997	21,028

*(iii) Unsatisfied long-term contracts*

The contracts entered into by the Group are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

**7 Expenses by nature**

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Subcontracting costs	36,126	28,247	52,256
Raw materials and consumables used	132,696	140,520	229,855
Employee benefit expenses	11,922	11,094	12,681
Depreciation charges	2,187	2,316	2,188
Amortisation charges	591	618	1,853
Office utilities	1,804	2,631	3,455
Travel and transportation and business entertainment expenses	7,754	6,618	5,620
Rental expense	2,038	693	134
Impairment of inventories	553	435	–
Legal and professional fees	1,424	753	1,305
Auditors' remuneration – audit services	274	913	1,584
Listing expenses	–	5,130	11,665
Other expenses	2,422	3,425	2,862
Total cost of sales, selling and marketing expenses and administrative expenses	199,791	203,393	325,458

**8 Employee benefit expenses**

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Salaries, wages, bonuses and other benefits	11,361	11,827	13,062
Contribution to pension scheme	910	1,087	1,324
Share-based payments	96	460	461
	<u>12,367</u>	<u>13,374</u>	<u>14,847</u>
Less: capitalised in intangible assets	(445)	(2,280)	(2,166)
	<u>11,922</u>	<u>11,094</u>	<u>12,681</u>
Amounts included in			
– Cost of sales	1,942	2,031	1,685
– Selling and marketing expenses	2,522	2,473	4,100
– Administrative expenses	7,458	6,590	6,896

**(a) Five highest paid individuals**

For the years ended 31 December 2017, 2018 and 2019, the five individuals whose emoluments were the highest in the Group included two directors whose emoluments is reflected in the note 40. The emoluments paid to the remaining three individuals during the years ended 31 December 2017, 2018 and 2019 are as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Salaries, wages, bonuses and other benefits	876	935	801
Contribution to pension scheme	84	89	86
Share-based payments	23	113	113
	<u>983</u>	<u>1,137</u>	<u>1,000</u>

The emoluments of these remaining individuals of the Group fell within the following band:

	Year ended 31 December		
	2017	2018	2019
<i>Emolument bands</i>			
Nil to HKD1,000,000	3	3	3



**9 Other income**

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Subsidy income	975	1,685	1,836
Others	86	—	—
	<u>1,061</u>	<u>1,685</u>	<u>1,836</u>

**10 Other gains – net**

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Reversal of litigation provisions	1,976	—	—
Exchange gains	80	4	744
Gains/(losses) on disposal of property, plant and equipment	20	—	(206)
Fair value losses on convertible notes	—	—	(1,241)
Gains on disposal of right to returned goods	—	—	3,099
Others	861	259	13
	<u>2,937</u>	<u>263</u>	<u>2,409</u>

**11 Finance income and costs**

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<i>Finance income</i>			
Interest income from financial assets held for cash management purposes	87	22	49
<i>Finance costs</i>			
Bank borrowings interest	544	841	1,095
Other borrowings interest	203	253	—
Lease liabilities interest	—	—	289
	<u>747</u>	<u>1,094</u>	<u>1,384</u>
Finance costs – net	<u>660</u>	<u>1,072</u>	<u>1,335</u>

**12 Financial assets at fair value through other comprehensive income**

During the year ended 31 December 2019, the Group invested in 2.08% equity interests in an unlisted company, Inner Mongolia Zhongneng Biological Technology Co., Ltd., which is not held for trading, and which the Group has investment irrevocably elected at initial recognition to recognise in this category. This is a strategic investment and the Group considers this classification to be more relevant.

Information about the methods and assumptions used in determining fair value is provided in note 3.5.

The financial assets at fair value through other comprehensive income are denominated in RMB.

## 13 Subsidiaries

The following is a list of subsidiaries at 31 December 2017, 2018 and 2019:

Company name	Place and date of incorporation/ establishment	Registered capital	Attributable equity interest of the Group as at 31 December 2017	Attributable equity interest of the Group as at 31 December 2018	Attributable equity interest of the Group as at 31 December 2019	Attributable equity interest of the Group at date of this report	Principal activities and place of operation	Name of statutory auditors and year covered (Note (i))
Directly owned:								
Guangdong Zhongke Tianyuan New Energy Science and Technology Co. Ltd. (“Zhongke Tianyuan”) 廣東中科天元新能源科技公司	The PRC, 2 September 2006	USD 10,955,529	100%	100%	100%	100%	Provision of ethanol production system technology integrated services in the PRC	廣東誠豐信會計師事務所有限公司 (“Guangdong Chengfeng Accountant’s Firm”) for each of the three years ended 31 December 2017, 2018 and 2019
Indirectly owned:								
Guangdong Boluo Zhongke Tianyuan High and New Technology Engineering Co., Limited (formerly Known as Guangdong Bolou Jiuneng High and New Technology Co., Limited) (“Boluo Tianyuan”) 廣東省博羅中科天元高新技術工程有限公司	The PRC, 30 September 1998	RMB 5,000,000	100%	100%	100%	100%	Fabrication and manufacture of equipment in accordance with project requirements and designs in the PRC	惠州安眾會計師事務所 (“Huizhou Anzhong Accountant’s Firm”) for each of the two years ended 31 December 2017 and 2018 廣東誠豐信會計師事務所有限公司 (“Guangdong Chengfeng Accountant’s Firm”) for the year ended 31 December 2019

(i) The statutory financial statements of these companies for the years ended 31 December 2017, 2018 and 2019 was prepared in accordance with China Accounting Standards.

**14 Investment in an associate**

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cost	1,700	1,700	1,700
Share of post-tax loss	(1,700)	(1,700)	(1,700)
Net book value	—	—	—

Nature of investment in an associate as at 31 December 2017, 2018 and 2019:

Name of entity	Place and date of establishment/ incorporation	Registered/paid-in capital	Proportion of ownership interest	Measurement method
Jilin Tianshun Bio-chemical Technology Co Ltd 吉林省天順生化科技有限公司	The PRC, 15 August 2013	Registered and paid-in capital of RMB5,000,000	34%	Equity

There are no contingent liabilities relating to the Group's interest in an associate.

**15 Income tax expenses***Overseas income tax*

The Company was incorporated in Jersey as a public company with limited liability under the Companies (Jersey) Law 1991. The Company is regarded as resident for tax purposes in Jersey and on the basis that the Group is neither a financial services group nor a utility group for the purposes of the Income Tax (Jersey) Law 1961, as amended; The Company is subject to income tax in Jersey at a rate of zero per cent. For other jurisdictions, the taxes arising from offshore are borne by the overseas customers according to the contract terms.

*PRC enterprise income tax*

The income tax provision of the Group in respect of the operations of its subsidiaries in mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the Track Record Period based on the existing legislation, interpretations and practices in respect thereof.

The enterprise income tax rate applicable to the group entities located in mainland China is 25% according to the Enterprise Income Tax Law of the People's Republic of China (the "EIT Law") effective on 1 January 2008 except Zhongke Tianyuan, which was qualified as "High and New Technology Enterprise" in 2016 and was entitled to a preferential income tax rate of 15% on its estimated assessable profits for the Track Record Period. On 19 February 2020, the filing of Zhongke Tianyuan's renewal of the High and New Technology Enterprise qualification for another 3 years starting from 2 December 2019 was completed.

The Group produces and files its annual local tax returns on a basis in line with generally accepted practices for companies in the same industry, especially those where accrued income can be recognised ahead of invoicing and there may be long settlement periods until invoices are paid. There can exist a difference between this basis and the basis on which profits are recognised in accordance with IFRS accounting principles, and further timing differences in when certain deductions are recognised within the accounts versus claimed for local tax purposes. Taxation is provided in these accounts on a basis that aligns to IFRS accounting principles and in line with local tax legislation, and therefore the taxation charges arising are generally recognised as current taxation due as opposed to deferred taxation, but as a result the taxation shown as paid within the consolidated statements of cash flows is in general lower than the current taxation charge within the financial statements.

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engaged in research and development activities are entitled to claim an additional tax deduction amounting to 50% of the qualified research and development expenses incurred in determining its assessable tax profits for that year. The additional tax deduction has been increased from 50% of the qualified research and development expenses to 75%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018 ("Super Deduction").

*PRC withholding income tax*

According to the EIT Law, starting from 1 January 2008, a withholding tax of 10% will be levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividend out of profits earned after 1 January 2008.

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<i>Current tax</i>			
Current tax on profits			
for the year	8,804	6,714	11,862
Withholding tax	–	316	–
<b>Total current tax expense</b>	<b>8,804</b>	<b>7,030</b>	<b>11,862</b>
<i>Deferred income tax</i>			
Recognition of temporary differences			
(note 22)	–	(5,752)	1,425
<b>Total deferred tax (credit)/expense</b>	<b>–</b>	<b>(5,752)</b>	<b>1,425</b>
<b>Income tax expenses</b>	<b>8,804</b>	<b>1,278</b>	<b>13,287</b>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit of the Group as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Profit before tax</b>	54,463	47,099	72,455
Tax calculated at applicable enterprise income tax rate: 25%	13,616	11,775	18,114
Difference in tax rates	(5,124)	(4,110)	(5,017)
Utilisation of previously unrecognised tax losses and temporary differences	–	(470)	–
Recognition of previously unrecognised temporary differences	–	(6,215)	–
Effect of tax losses and temporary difference not recognised as deferred tax assets	309	–	320
Expenses not deductible for tax purposes	209	172	139
Super Deduction of research and development expenditure	(206)	(190)	(269)
<b>PRC enterprise income tax</b>	8,804	962	13,287
<b>PRC withholding income tax</b>	–	316	–
	<u>8,804</u>	<u>1,278</u>	<u>13,287</u>

(a) *Tax losses*

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Unused tax losses for which no deferred tax asset has been recognised	3,368	1,485	2,766
Temporary differences calculated at applicable enterprise income tax rate	842	372	692

The unused tax losses were incurred by a subsidiary located in the PRC that is not likely to generate taxable income in the foreseeable future. Their respective expiry dates are as follows. See note 22 for information about deferred tax assets.

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
2019	1,176	–	–
2020	2,163	1,456	1,456
2022	29	29	29
2023	–	–	1,281
	3,368	1,485	2,766
	3,368	1,485	2,766

*(b) Unrecognised temporary differences*

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Temporary difference relating to investments in a subsidiary for which deferred tax liabilities have not been recognised:			
– Undistributed earnings	26,349	35,515	50,055

Zhongke Tianyuan has undistributed earnings of RMB26,349,000, RMB35,515,000 and RMB50,055,000 respectively as at 31 December 2017, 2018 and 2019, which, if paid out as dividends, would be subject to tax in the hands of the shareholder. An assessable temporary difference exists, but no deferred tax liability has been recognised as the parent entity is able to control the timing of distributions from the subsidiaries and is not expected to distribute these profits in the foreseeable future.

## 16 Earnings per share

*(a) Basic earnings per share*

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Profit attributable to Owners of the Company	45,659	45,821	59,168
Weighted average number of ordinary shares in issue (thousand shares)	480,997	449,319	444,448
Basic earnings per share	0.094	0.102	0.133

*(b) Diluted earnings per share*

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Profit attributable to Owners of the Company	45,659	45,821	60,409
Weighted average number of ordinary shares in issue (thousand shares)	480,997	449,319	471,402
Dilutive earnings per share	0.094	0.102	0.128

*(c) Reconciliations of earnings used in calculating earnings per share*

	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<i>Basic earnings per share</i>			
Profit from continuing operations attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:	45,659	45,821	59,168
<i>Diluted earnings per share</i>			
Profit from continuing operations attributable to the ordinary equity holders of the Company:			
Used in calculating basic earnings per share	45,659	45,821	59,168
Add: fair value loss on convertible notes	—	—	1,241
Used in calculating diluted earnings per share	45,659	45,821	60,409



*(d) Weighted average number of shares used as the denominator*

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Weighted average number of ordinary shares (thousand shares) used as the denominator in calculating basic earnings per share	480,997	449,319	444,448
Adjustments for calculation of diluted earnings per share:			
Share options granted under the Pre-IPO Share Option Scheme (thousand shares) ( <i>note i</i> )	–	–	5,979
Convertible notes (thousand shares) ( <i>note ii</i> )	–	–	20,975
	<u>–</u>	<u>–</u>	<u>20,975</u>
Weighted average number of ordinary shares (thousand shares) and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>480,997</u>	<u>449,319</u>	<u>471,402</u>

*Note i*

On 20 October 2017, the Group granted 39,300,508 share options for the long-term incentive of directors and senior employees of the Group. For details, please refer to Note 29.

The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per share for the year) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

The share options granted under the Pre-IPO Share Option Scheme are not included in the calculation of diluted earnings per share because they are antidilutive for the years ended 31 December 2017 and 2018.

*Note ii*

The Company issued 12% convertible notes for HKD5,250,000 and HKD6,250,000 on 8 February 2019 and 15 February 2019 respectively. For details, please refer to Note 31. Convertible notes are included in the determination of dilutive earnings per share from their date of issue.

**17 Dividends**

No dividends have been paid or declared by the Company during the years ended 31 December 2017, 2018 and 2019.

**18 Property, plant and equipment**

	<u>Buildings</u>	<u>Office equipment</u>	<u>Machinery</u>	<u>Motor vehicles</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2017</b>					
Cost	6,247	834	8,138	8,391	23,610
Accumulated depreciation and impairment	(3,617)	(604)	(3,023)	(6,901)	(14,145)
Net book amount	<u>2,630</u>	<u>230</u>	<u>5,115</u>	<u>1,490</u>	<u>9,465</u>
<b>Year ended 31 December 2017</b>					
Opening net book amount	2,630	230	5,115	1,490	9,465
Additions	–	69	405	213	687
Disposal	–	–	–	(78)	(78)
Depreciation	(297)	(58)	(1,232)	(600)	(2,187)
Closing net book amount	<u>2,333</u>	<u>241</u>	<u>4,288</u>	<u>1,025</u>	<u>7,887</u>
<b>At 31 December 2017</b>					
Cost	6,247	903	8,543	8,004	23,697
Accumulated depreciation and impairment	(3,914)	(662)	(4,255)	(6,979)	(15,810)
Net book amount	<u>2,333</u>	<u>241</u>	<u>4,288</u>	<u>1,025</u>	<u>7,887</u>
<b>Year ended 31 December 2018</b>					
Opening net book amount	2,333	241	4,288	1,025	7,887
Additions	–	71	818	–	889
Reclassification	(556)	–	556	–	–
Disposal	–	–	(3)	–	(3)
Depreciation	(272)	(65)	(1,277)	(702)	(2,316)
Closing net book amount	<u>1,505</u>	<u>247</u>	<u>4,382</u>	<u>323</u>	<u>6,457</u>
<b>At 31 December 2018</b>					
Cost	5,772	974	9,807	8,004	24,557
Accumulated depreciation and impairment	(4,267)	(727)	(5,425)	(7,681)	(18,100)
Net book amount	<u>1,505</u>	<u>247</u>	<u>4,382</u>	<u>323</u>	<u>6,457</u>
<b>Year ended 31 December 2019</b>					
Opening net book amount	1,505	247	4,382	323	6,457
Additions	–	116	7,410	–	7,526
Disposal	–	(15)	(191)	–	(206)
Depreciation	(133)	(82)	(1,863)	(110)	(2,188)
Closing net book amount	<u>1,372</u>	<u>266</u>	<u>9,738</u>	<u>213</u>	<u>11,589</u>
<b>At 31 December 2019</b>					
Cost	5,772	1,075	17,026	8,004	31,877
Accumulated depreciation and impairment	(4,400)	(809)	(7,288)	(7,791)	(20,288)
Net book amount	<u>1,372</u>	<u>266</u>	<u>9,738</u>	<u>213</u>	<u>11,589</u>

Depreciation of property, plant and equipment has been charged to the consolidated income statements as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Administrative expenses	463	809	67
Cost of sales	1,510	1,407	2,007
Selling and marketing expenses	214	100	114
	<u>2,187</u>	<u>2,316</u>	<u>2,188</u>

Buildings with a total carrying amount of RMB1,777,000 as at 31 December 2017 and RMB1,505,000 as at 31 December 2018 and RMB1,372,000 as at 31 December 2019 were pledged as collateral for the Group's borrowings (Note 30).

## 19 Land use rights

	Land use rights
	RMB'000
<b>At 1 January 2017</b>	
Cost	3,613
Accumulated amortisation	(842)
Net book amount	<u>2,771</u>
<b>Year ended 31 December 2017</b>	
Opening net book amount	2,771
Amortisation charge	(80)
Closing net book amount	<u>2,691</u>
<b>At 31 December 2017</b>	
Cost	3,613
Accumulated amortisation	(922)
Net book amount	<u>2,691</u>
<b>Year ended 31 December 2018</b>	
Opening net book amount	2,691
Amortisation charge	(83)
Closing net book amount	<u>2,608</u>
<b>At 31 December 2018</b>	
Cost	3,613
Accumulated amortisation	(1,005)
Net book amount	<u>2,608</u>

	<u>Land use rights</u>
	RMB'000
<b>Year ended 31 December 2019</b>	
Opening net book amount	2,608
Reclassified to right-of-use assets upon adoption of IFRS 16	<u>(2,608)</u>
Closing net book amount	<u>–</u>
<b>At 31 December 2019</b>	
Cost	–
Accumulated amortisation	<u>–</u>
Net book amount	<u><u>–</u></u>

All land use rights of the Group are located in Boluo, mainland China and are held on leases of 50 years.

Amortisation of land use rights has been charged to cost of sales in the consolidated income statements.

Land use rights with a total carrying amount of RMB2,691,000 as at 31 December 2017 and RMB2,608,000 as at 31 December 2018 were pledged as collateral for the Group's borrowings (Note 30).

## 20 Intangible assets

	<u>Computer software</u>	<u>Patents</u>	<u>Trademarks</u>	<u>Development costs</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 1 January 2017</b>					
Cost	60	6,936	–	–	6,996
Accumulated amortisation	<u>(57)</u>	<u>(1,034)</u>	<u>–</u>	<u>–</u>	<u>(1,091)</u>
Net book amount	<u><u>3</u></u>	<u><u>5,902</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>5,905</u></u>
<b>Year ended 31 December 2017</b>					
Opening net book amount	3	5,902	–	–	5,905
Additions	–	–	–	595	595
Amortisation charge	<u>(3)</u>	<u>(508)</u>	<u>–</u>	<u>–</u>	<u>(511)</u>
Closing net book amount	<u><u>–</u></u>	<u><u>5,394</u></u>	<u><u>–</u></u>	<u><u>595</u></u>	<u><u>5,989</u></u>
<b>At 31 December 2017</b>					
Cost	60	6,936	–	595	7,591
Accumulated amortisation	<u>(60)</u>	<u>(1,542)</u>	<u>–</u>	<u>–</u>	<u>(1,602)</u>
Net book amount	<u><u>–</u></u>	<u><u>5,394</u></u>	<u><u>–</u></u>	<u><u>595</u></u>	<u><u>5,989</u></u>

	Computer software	Patents	Trademarks	Development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Year ended 31 December 2018</b>					
Opening net book amount	–	5,394	–	595	5,989
Additions	–	–	1,374	5,954	7,328
Transfer to patents	–	456	–	(456)	–
Amortisation charge	–	(512)	(23)	–	(535)
Closing net book amount	–	5,338	1,351	6,093	12,782
<b>At 31 December 2018</b>					
Cost	60	7,392	1,374	6,093	14,919
Accumulated amortisation	(60)	(2,054)	(23)	–	(2,137)
Net book amount	–	5,338	1,351	6,093	12,782
<b>Year ended 31 December 2019</b>					
Opening net book amount	–	5,338	1,351	6,093	12,782
Additions	–	–	–	6,192	6,192
Transfer to patents	–	1,001	–	(1,001)	–
Amortisation charge	–	(585)	(137)	–	(722)
Closing net book amount	–	5,754	1,214	11,284	18,252
<b>At 31 December 2019</b>					
Cost	60	8,393	1,374	11,284	21,111
Accumulated amortisation	(60)	(2,639)	(160)	–	(2,859)
Net book amount	–	5,754	1,214	11,284	18,252

Amortisation of the intangible assets is included in cost of sales in the consolidated income statements.

*(a) Impairment tests for development costs not yet available for use*

The following table sets out the key assumptions for impairment tests for development costs not yet available for use.

	2017	2018	2019
Revenue annual growth rate (%)	24.01	29.28	20.08
Budgeted gross profit (%)	30	30	30
Annual capital expenditure (RMB'000)	556	1,763	8,087
Long term growth rate (%)	2.5	2.5	2.5
Pre-tax discount rate (%)	13	13	13

Management has determined the values assigned to each of the above key assumptions as follows:

- Revenue annual growth rate (%): Average annual growth rate over the five-year forecast period.
- Budgeted gross profit (%): Based on past performance and management's expectations for the future.
- Annual capital expenditure: Expected cash costs in the cash generating unit. This is based on the historical experience of management, and the planned refurbishment expenditure. No incremental revenue or cost savings are assumed in the value-in-use model as a result of this expenditure.
- Long term growth rate (%): This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rates are consistent with forecasts included in industry reports.
- Pre-tax discount rate (%): Reflect specific risks relating to the relevant industries and the countries in which they operate. The pre-tax discount rate adopted in the impairment testing for development cost not yet available for use is the same throughout the Track Record Period, as the directors of the Company considered there was no significant change on the capital structure, business plan or economic environment during the Track Record Period.

***(b) Impact of possible changes in key assumptions***

As at 31 December 2017, 2018 and 2019, the headrooms of the cash generating unit of development costs calculated based on value-in-use are RMB309,000,000, RMB347,000,000 and RMB443,000,000, respectively.

The directors and management of the Company considered if the revenue growth rate, budgeted gross profit, long term growth rate or estimated pre-tax discount rate used in the value-in-use calculation for the cash generating unit of development cost had been 10% lower, 10% lower, 10% lower or 10% higher than management's estimates as at 31 December 2017, 2018 and 2019 respectively, with all other assumptions remaining unchanged, the Group would not have recognised an impairment of development costs.

The directors and management of the Company have considered and assessed reasonably possible changes for the key assumptions and have not identified any instances that could cause the carrying amount of development costs to exceed its recoverable amount.

**21 Leases**

This note provides information for leases where the Group is a lessee.

**(i) Amounts recognised in the consolidated balance sheets**

The balance sheet shows the following amounts relating to leases:

	As at	
	31 December 2019	1 January 2019
	RMB'000	RMB'000
<b>Right-of-use assets</b>		
Land use rights	2,525	2,608
Buildings	3,756	4,804
	<u>6,281</u>	<u>7,412</u>
<b>Lease liabilities</b>		
Current	1,073	1,489
Non-current	2,889	3,315
	<u>3,962</u>	<u>4,804</u>

Right-of-use assets with a total carrying amount of RMB2,525,000 as at 31 December 2019 were pledged as collateral for the Group's borrowings (Note 30).

**(ii) Amounts recognised in the consolidated income statements**

The consolidated income statements shows the following amounts relating to leases:

	Year ended 31 December 2019
	RMB'000
<b>Depreciation charge of right-of-use assets</b>	
Land use rights	83
Buildings	1,048
	<u>1,131</u>
Interest expense (included in finance cost)	289
Expense relating to short-term leases (included in administrative expenses)	134

The total cash outflow for leases in 2019 was RMB1,252,000.

## 22 Deferred tax assets

(i) *Deferred tax assets*

The analysis of deferred tax assets is as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Deferred tax assets:			
– to be recovered after more than 12 months	–	4,090	2,569
– to be recovered within 12 months	–	1,662	1,758
	–	5,752	4,327

The movements on the deferred tax assets are as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
At beginning of the year	–	–	5,752
Credited/(charged) to profit or loss	–	5,752	(1,425)
At end of the year	–	5,752	4,327

The movements in deferred tax assets for the years ended 31 December 2018 and 2019, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets	Bad debt provision	Accruals	Inventory impairment	Lease	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	–	–	–	–	–
Credited to profit or loss	2,862	1,662	1,228	–	5,752
At 31 December 2018	2,862	1,662	1,228	–	5,752
At 1 January 2019	2,862	1,662	1,228	–	5,752
(Charged)/credited to profit or loss	(293)	65	(1,228)	31	(1,425)
At 31 December 2019	2,569	1,727	–	31	4,327



*(ii) Deferred tax liabilities*

The movements in deferred tax liabilities for the year ended 31 December 2019, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

<b>Deferred tax liabilities</b>	<b>Financial assets at FVOCI</b>
	<b>RMB'000</b>
At 1 January 2019	–
Charged to other comprehensive income	2
At 31 December 2019	<u>2</u>

**23 Financial instruments by category**

The Group holds the following financial instruments:

	<b>As at 31 December</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Financial assets</b>			
Financial assets at amortised cost			
Trade and bills receivables	62,211	103,629	94,628
Other receivables	16,076	6,517	79,328
Cash and cash equivalents	8,180	6,358	26,466
Restricted cash	11,188	1,230	2,321
Financial assets at fair value through other comprehensive income	–	–	5,015
	<u>97,655</u>	<u>117,734</u>	<u>207,758</u>
<b>Financial liabilities</b>			
Financial liabilities at amortised cost			
Trade and other payables excluding non-financial liabilities	66,640	90,700	139,322
Lease liabilities	–	–	3,962
Bank and other borrowings	10,107	6,540	18,941
Financial liabilities at fair value through profit or loss			
Convertible notes	–	–	11,847
	<u>76,747</u>	<u>97,240</u>	<u>174,072</u>

The Group's exposure to various risks associated with the financial instruments is discussed in note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

**24 Inventories**

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Raw materials	175	201	226
Work-in-progress for standard parts	11,939	2,267	3,132
Right to returned goods	9,379	9,379	—
	<u>21,493</u>	<u>11,847</u>	<u>3,358</u>
Less: impairment losses on right to returned goods	(7,751)	(8,186)	—
	<u>13,742</u>	<u>3,661</u>	<u>3,358</u>

**25 Trade and bills receivables**

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Trade and bills receivables			
— third parties	158,982	121,788	105,752
Less: allowance for impairment of trade and bills receivables	(96,771)	(18,159)	(11,124)
Trade and bills receivables — net	<u>62,211</u>	<u>103,629</u>	<u>94,628</u>

An ageing analysis of trade and bills receivables based on invoice date (net of impairment losses) is as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Within one year	54,202	78,482	80,880
One to two years	5,724	23,326	8,315
Two to three years	1,920	1,573	5,433
Over three years	365	248	—
	<u>62,211</u>	<u>103,629</u>	<u>94,628</u>

As at 31 December 2017, 2018 and 2019, the fair value of trade and bills receivables approximated their carrying amounts.

As at 31 December 2017, 2018 and 2019, trade and bills receivables are denominated in RMB.

Trade receivables of RMB15,000,000 as at 31 December 2017 and 2018 was pledged as security for the Group's bank borrowings (Note 30).

## 26 Other receivables and prepayments

Details of other receivables and prepayments are as follows:

	Group			Company		
	As at 31 December			As at 31 December		
	2017	2018	2019	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties ( <i>note 39</i> )	3,481	–	–	–	–	–
Other prepayments	4,259	9,897	22,650	–	–	–
Prepayments related to listing expenses	–	1,566	8,710	–	–	8,710
Advances to employees	6,658	5,684	447	–	–	–
Tendering deposits	388	258	460	–	–	–
Deposits receivables	–	–	78,000	–	–	–
Others	5,549	575	421	4,989	–	42
	<u>20,335</u>	<u>17,980</u>	<u>110,688</u>	<u>4,989</u>	<u>–</u>	<u>8,752</u>

Deposits receivables represents up-front payments to Inner Mongolia Zhongneng Biological Technology Co., Ltd., for guaranteeing performance of the contract. The amounts will be refunded upon once the project completes.

Advances to employees are interest free, unsecured and repayable on demand.

Other receivables and prepayments are denominated in:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
RMB	15,346	17,980	104,410
GBP	4,989	–	47
USD	–	–	585
HKD	–	–	5,646
	<u>20,335</u>	<u>17,980</u>	<u>110,688</u>

## 27 Restricted cash and cash and cash equivalents

	Group			Company		
	As at 31 December			As at 31 December		
	2017	2018	2019	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	19,368	7,588	28,787	240	22	778
Less: restricted cash ( <i>Note (a)</i> )	(11,188)	(1,230)	(2,321)	—	—	—
	<u>8,180</u>	<u>6,358</u>	<u>26,466</u>	<u>240</u>	<u>22</u>	<u>778</u>

- (a) Due to a quality dispute with a customer, Tangshan Chenhong Industrial Co. Ltd (“Tangshan Chenhong”), the court froze cash in amount of RMB11,188,000 as at 31 December 2017. As the Group has settled the case in 2018, such restriction was relieved.

Restricted cash of RMB1,230,000 and RMB2,321,000 as at 31 December 2018 and 2019 respectively was pledged as security for the Group’s bank borrowings (Note 30).

Cash at banks and on hand were denominated in:

	Group			Company		
	As at 31 December			As at 31 December		
	2017	2018	2019	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RMB	7,937	6,267	25,648	—	—	—
GBP	235	22	—	234	22	—
USD	6	65	379	6	—	345
Other currencies	2	4	439	—	—	433
	<u>8,180</u>	<u>6,358</u>	<u>26,466</u>	<u>240</u>	<u>22</u>	<u>778</u>

Restricted cash were denominated in:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
RMB	11,167	1,230	2,321
USD	21	—	—
	<u>11,188</u>	<u>1,230</u>	<u>2,321</u>

**28 Share capital**

	<u>Number of ordinary shares</u>	<u>Share capital</u> £'000	<u>Share capital</u> RMB'000
<b>Authorised:</b>			
As at 31 December 2017 and 2018 and 2019	40,000,000,000	10,000	N/A
<b>Issued and fully paid:</b>			
At 1 January 2017	<u>444,447,541</u>	<u>111</u>	<u>1,441</u>
Issuance of shares ( <i>Note (a)</i> )	<u>46,808,809</u>	<u>12</u>	<u>100</u>
At 31 December 2017	<u>491,256,350</u>	<u>123</u>	<u>1,541</u>
At 31 December 2018	<u>491,256,350</u>	<u>123</u>	<u>1,541</u>
Cancellation of treasury shares ( <i>Note (b)</i> )	<u>(46,808,809)</u>	<u>(12)</u>	<u>(97)</u>
At 31 December 2019	<u>444,447,541</u>	<u>111</u>	<u>1,444</u>

- (a) On 30 March 2017, the Company placed 46,808,809 new ordinary shares of £0.00025 each at a price of £0.015 per share, raising gross proceeds of £702,132.
- (b) On 18 January 2018, the Company repurchased its 46,808,809 ordinary shares each at a price of £0.012 per share, paying gross proceeds of £561,706 (approximately RMB4,681,000). On 23 October 2019, the Company cancelled the treasury shares it repurchased.

## 29 Reserves

Group	Share premium	Combination reserves	Statutory reserves	Share-based payment reserves	Foreign currency translation reserves	Treasury shares reserves	Financial assets at FVOCI reserves	(Accumulated losses)/ retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note (a)	Note (b)	Note (c)	Note (d)	Note (e)	Note (f)	Note (g)		
<b>Balance at 1 January 2017</b>	62,905	(33,156)	12,328	–	24,091	–	–	(89,823)	(23,655)
Profit for the year	–	–	–	–	–	–	–	45,659	45,659
Other comprehensive income	–	–	–	–	84	–	–	–	84
Share-based payment expenses	–	–	–	96	–	–	–	–	96
Issuance of shares	5,925	–	–	–	–	–	–	–	5,925
<b>Balance at 31 December 2017</b>	<u>68,830</u>	<u>(33,156)</u>	<u>12,328</u>	<u>96</u>	<u>24,175</u>	<u>–</u>	<u>–</u>	<u>(44,164)</u>	<u>28,109</u>
<b>Balance at 1 January 2018</b>	68,830	(33,156)	12,328	96	24,175	–	–	(44,164)	28,109
Profit for the year	–	–	–	–	–	–	–	45,821	45,821
Other comprehensive income	–	–	–	–	(224)	–	–	–	(224)
Share-based payment expenses	–	–	–	460	–	–	–	–	460
Buy-back of shares	–	–	–	–	–	(4,681)	–	–	(4,681)
<b>Balance at 31 December 2018</b>	<u>68,830</u>	<u>(33,156)</u>	<u>12,328</u>	<u>556</u>	<u>23,951</u>	<u>(4,681)</u>	<u>–</u>	<u>1,657</u>	<u>69,485</u>
<b>Balance at 1 January 2019</b>	68,830	(33,156)	12,328	556	23,951	(4,681)	–	1,657	69,485
Profit for the year	–	–	–	–	–	–	–	59,168	59,168
Other comprehensive income	–	–	–	–	(238)	–	13	–	(225)
Transfer to statutory reserves	–	–	7,498	–	–	–	–	(7,498)	–
Share-based payment expenses	–	–	–	461	–	–	–	–	461
Cancellation of treasury shares	(4,584)	–	–	–	–	4,681	–	–	97
<b>Balance at 31 December 2019</b>	<u>64,246</u>	<u>(33,156)</u>	<u>19,826</u>	<u>1,017</u>	<u>23,713</u>	<u>–</u>	<u>13</u>	<u>53,327</u>	<u>128,986</u>

Company	Share premium	Share-based payment reserves	Foreign currency translation reserves	Treasury shares reserves	Retained earnings/ (Accumulated loss)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note (a)	Note (d)	Note (e)	Note (f)		
<b>Balance at 1 January 2017</b>	62,905	–	(7,680)	–	(49,157)	6,068
Profit for the year	–	–	–	–	(2,234)	(2,234)
Other comprehensive income	–	–	340	–	–	340
Share-based payment expenses	–	96	–	–	–	96
Issuance of shares	5,925	–	–	–	–	5,925
<b>Balance at 31 December 2017</b>	<u>68,830</u>	<u>96</u>	<u>(7,340)</u>	<u>–</u>	<u>(51,391)</u>	<u>10,195</u>
<b>Balance at 1 January 2018</b>	68,830	96	(7,340)	–	(51,391)	10,195
Profit for the year	–	–	–	–	412	412
Other comprehensive income	–	–	(338)	–	–	(338)
Share-based payment expenses	–	460	–	–	–	460
Buy-back of shares	–	–	–	(4,681)	–	(4,681)
<b>Balance at 31 December 2018</b>	<u>68,830</u>	<u>556</u>	<u>(7,678)</u>	<u>(4,681)</u>	<u>(50,979)</u>	<u>6,048</u>
<b>Balance at 1 January 2019</b>	68,830	556	(7,678)	(4,681)	(50,979)	6,048
Profit for the year	–	–	–	–	(15,243)	(15,243)
Other comprehensive income	–	–	254	–	–	254
Share-based payment expenses	–	461	–	–	–	461
Cancellation of treasury shares	(4,584)	–	–	4,681	–	97
<b>Balance at 31 December 2019</b>	<u>64,246</u>	<u>1,017</u>	<u>(7,424)</u>	<u>–</u>	<u>(66,222)</u>	<u>(8,383)</u>

**(a) Share premium**

Share premium arising from the issue of shares can be utilised in increasing paid-in capital as approved by the directors.

**(b) Combination reserves**

Combination reserve represents the differences between the nominal amount of net assets of the combining entities under common control at the date on which they were acquired by the Group and the nominal amount of the consideration for the acquisition.

**(c) Statutory reserves**

According to the rules and regulations applicable to the Group's subsidiaries incorporated in the PRC, when distributing net profits of each year, these subsidiaries are required to transfer an amount of their net profits as reported in their statutory accounts to statutory reserves until the accumulated balance of such reserves reaches 50% of their registered capital. Depending on the nature, the statutory reserves can be used to set off accumulated losses of the subsidiaries or distribute to the owners in form of bonus issue.

*(d) Share-based payment reserves*

The share-based payments reserves is used to recognise the grant date fair value of options issued to employees but not exercised.

On 20 October 2017, the Group granted two share option schemes for the long-term incentive of directors and senior employees of the Group (the "Pre-IPO Share Option Scheme"). An aggregate of 39,300,508 options were granted to allow directors and senior employees to acquire ordinary shares at a price of 1.5 pence per share subject to vesting conditions under these schemes while there are 27,633,167 options being accepted. The 27,633,167 share options may be exercised after the third anniversary of the grant date on the condition that the participant remains an employee of the Group. The remaining 11,667,341 share options vest as to one third on the date of grant and an additional one third on each of the first and second anniversaries of the date of grant and are exercisable for a period of three years.

Set out below are summaries of options granted under the plan:

	Year ended 31 December		
	2017	2018	2019
	Number of options	Number of options	Number of options
At beginning of the year	–	39,300,508	39,300,508
Granted during the year	39,300,508	–	–
At end of the year	39,300,508	39,300,508	39,300,508
Vested and exercisable at end of the year	–	–	–

*Fair value of options granted*

The fair value of the options was RMB1,381,000, which was calculated using the Black Scholes option pricing mode, with this amount to be charged over the vesting period. The share-based payment charge included within expense in the consolidated income statements and in the share-based payment reserves in equity are RMB96,000, RMB460,000 and RMB461,000 for the years ended 31 December 2017, 2018 and 2019.

The model inputs for options granted during the year ended 31 December 2017 included:

- a. Exercise price: GBP0.015
- b. Time to maturity: 3 years
- c. Grant date: 20 October 2017



- d. Expiry date: 17 October 2020
- e. Share price at grant date: GBP0.0145
- f. Expected price volatility of the Company's shares: 20%
- g. Risk-free interest rate: 0.76%

The expected volatility is based on the historic share prices to the management's best estimate.

**(e) Foreign currency translation reserves**

Exchange differences arising on translation of foreign operations are recognised in other comprehensive income as described in note 2.5 and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

**(f) Treasury shares reserves**

Treasury shares reserves is used to recognise the consideration paid when group companies purchase the Company's shares and the shares are not yet cancelled or reissued.

On 18 January 2018, the Company repurchased its 46,808,809 ordinary shares each at a price of £0.012 per share, paying gross proceeds of £561,706 (approximately RMB4,681,000). On 23 October 2019, the Company cancelled the treasury shares it repurchased.

**(g) Financial assets at FVOCI reserves**

The Group has elected to recognise changes in the fair value of investments in equity securities in other comprehensive income. These changes are accumulated within the financial assets at FVOCI reserves within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

**(h) Accumulated losses of the Company**

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
At beginning of the year	(49,157)	(51,391)	(50,979)
(Loss)/profit for the year	(2,234)	412	(15,243)
At end of the year	<u>(51,391)</u>	<u>(50,979)</u>	<u>(66,222)</u>

**30 Bank and other borrowings**

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
<b>Bank borrowings</b>			
– Secured	7,447	6,140	18,941
<b>Other borrowings from employee</b>			
– Secured	2,660	400	–
	<u>10,107</u>	<u>6,540</u>	<u>18,941</u>

- (a) As at 31 December 2017, 2018 and 2019, all of the Group's borrowings are denominated in RMB.
- (b) The Group's bank borrowings as at 31 December 2017, 2018 and 2019 of RMB7,447,000, RMB6,140,000 and RMB18,941,000 were secured by the following.

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	1,777	1,505	1,372
Land use rights	2,691	2,608	–
Right-of-use assets	–	–	2,525
Trade and bills receivables	15,000	15,000	–
Restricted cash	–	1,230	2,321
	<u>19,468</u>	<u>20,343</u>	<u>6,218</u>

In addition to pledge of assets, bank borrowings of RMB7,447,000, RMB6,140,000 and RMB18,941,000 as at 31 December 2017, 2018 and 2019 were guaranteed by Mr. Yu Weijun, the chairman of the board and a shareholder of the Company.

- (c) The Group's borrowings were repayable within 1 year as at 31 December 2017, 2018 and 2019.

- (d) The weighted average effective interest rates as at 31 December 2017, 2018 and 2019 were as follows:

	As at 31 December		
	2017	2018	2019
Bank borrowings	6.09%	6.74%	6.36%
Other borrowings from employee	10.00%	10.00%	—
	<u>7.12%</u>	<u>6.94%</u>	<u>6.36%</u>

- (e) The carrying amounts of borrowings approximated their fair values as at 31 December 2017, 2018 and 2019 as the impact of discounting borrowings with fixed interest rates was not significant.
- (f) The Group entered into one-year loan agreements with fifty-eight staffs from 17 February 2017 to 17 August 2017, which amounted to RMB2,810,000. The interest rate of these borrowings was 10% per annum. For the years ended 31 December 2017, 2018 and 2019, RMB150,000, RMB2,260,000 and RMB400,000 has been repaid.

### 31 Convertible notes

	Year ended 31 December 2019
	RMB'000
Opening balance	—
Addition	10,606
Change in fair value and charged to profit or loss	1,241
Closing balance	<u>11,847</u>

The Company issued 12% convertible notes for HKD5,250,000 and HKD6,250,000 on 8 February 2019 and 15 February 2019 respectively. The notes are convertible into ordinary shares of the Company upon the Company obtaining the approval for listing in Hong Kong, or repayable at 12 months following the respective issue dates. The Company extended in December 2019 the termination date of the notes by 3 months with other terms unchanged. The conversion price is HK\$0.48067875 per conversion share subject to adjustments for consolidation or sub-division, in the event of which, the conversion price in force immediately prior thereto shall be adjusted by multiplying it by the revised nominal amount and dividing the result by the former nominal amount.

The convertible notes and embedded derivative are classified entirely as liabilities because they were issued in a currency other than the functional currency of the Company. As the instrument contains an embedded derivative, it has been designated at fair value through profit or loss on initial recognition and as such the embedded conversion feature is not separated. All transaction costs related to financial instruments designated at fair value through profit or loss are expenses as incurred.

**32 Trade payables**

	Note	As at 31 December		
		2017	2018	2019
		RMB'000	RMB'000	RMB'000
Trade payables	(a)	<u>52,097</u>	<u>69,250</u>	<u>114,755</u>

The fair value of trade payables approximated to their carrying amounts as at 31 December 2017, 2018 and 2019 due to their short maturities.

The Group's trade payables as at 31 December 2017, 2018 and 2019 were denominated in RMB.

(a) As at 31 December 2017, 2018 and 2019, the ageing analysis of trade payables based on invoice date were as follows:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
1-90 days	25,849	2,374	53,584
90-180 days	7,798	1,139	24,655
180-365 days	2,177	45,644	16,726
1-2 years	4,285	8,982	8,800
2-3 years	2,340	1,462	3,438
over 3 years	9,648	9,649	7,552
	<u>52,097</u>	<u>69,250</u>	<u>114,755</u>

**33 Other payables**

	Group			Company		
	As at 31 December			As at 31 December		
	2017	2018	2019	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Wages payables	639	710	787	–	–	–
Other payables and accruals	11,879	18,028	24,141	444	1,119	3,592
Amounts due to directors ( <i>note 39(c)</i> )	2,064	2,922	426	1,546	2,267	255
Amounts due to related parties ( <i>note 39(c)</i> )	600	500	–	–	–	–
VAT payable	29,857	37,195	47,562	–	–	–
	<u>45,039</u>	<u>59,355</u>	<u>72,916</u>	<u>1,990</u>	<u>3,386</u>	<u>3,847</u>

The fair value of other payables approximated to their carrying amounts as at 31 December 2017, 2018 and 2019 due to their short maturities.

Other payables were denominated in:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
– RMB	43,048	55,969	67,947
– GBP	1,991	3,386	1,798
– USD	–	–	96
– HKD	–	–	3,075
	<u>45,039</u>	<u>59,355</u>	<u>72,916</u>

### 34 Provisions

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Legal claim	<u>4,636</u>	<u>–</u>	<u>–</u>

The movements in provisions during the years are as follows:

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
At beginning of the year	6,612	4,636	–
Settlement	–	(4,636)	–
Reversal	(1,976)	–	–
At end of the year	<u>4,636</u>	<u>–</u>	<u>–</u>

On 26 June 2015, an unfavourable judgement was handed down against the Group by the Intermediate Court in respect of a legal claim made by a customer, Tangshan Chenhong in relation to a project entered into in 2010. However, after taking appropriate legal advice, the directors have decided to appeal against the decision. The Intermediate Court reopened the case in 2016 and concluded on 20 January 2017 that the Group should compensate Tangshan Chenhong for its loss, which amounted to RMB6,612,000. The Group appealed to the Supreme Court, which concluded on 25 December 2017 that the compensation should be reduced to RMB4,636,000. The Group settled the case by paying the compensation amount during the year ended 31 December 2018.

The recognised provision reflects the directors' best estimate of the most likely outcome at respective balance sheet dates.

## 35 Cash flow information

*(a) Cash generated from/(used in) operations*

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Profit before income tax	54,463	47,099	72,455
Adjustments for:			
– Finance costs – net	660	1,072	1,335
– Depreciation of property, plant and equipment ( <i>Note 18</i> )	2,187	2,316	2,188
– Amortisation of land use rights, intangible assets and right-of-use assets ( <i>Note 19, Note 20 and Note 21</i> )	591	618	1,853
– Net impairment losses on financial assets and contract assets	6,193	362	3,555
– Share-based payment ( <i>Note 8</i> )	96	460	461
– Fair value losses on convertible notes	–	–	1,241
– Exchange gains	(80)	(4)	(744)
	64,110	51,923	82,344
Changes in working capital:			
– Contract assets	(53,488)	(27,807)	(29,643)
– Inventories	(8,123)	10,081	303
– Restricted cash	–	11,188	–
– Trade and bills receivables and other receivables and prepayments	(39,623)	(49,185)	(83,402)
– Contract and refund liabilities	(3,010)	(12,206)	(5,888)
– Trade and other payables	26,999	26,075	61,221
	(13,135)	10,069	24,935

*(b) Non-cash investing activities*

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Receipt of intangible assets as settlement of receivables	–	1,374	–
Acquisition of right-of-use assets by means of leases	–	–	4,804

*(c) Net debt reconciliation*

This section sets out an analysis of net debt and the movements in net debt for each of the year presented.

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	8,180	6,358	26,466
Borrowings and convertible notes and lease liabilities-current – repayable within one year	(10,107)	(6,540)	(31,861)
Lease liabilities-non-current	–	–	(2,889)
<b>Net debt</b>	<b>(1,927)</b>	<b>(182)</b>	<b>(8,284)</b>

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	8,180	6,358	26,466
Gross debt – fixed interest rates	(10,107)	(6,540)	(34,750)
<b>Net debt</b>	<b>(1,927)</b>	<b>(182)</b>	<b>(8,284)</b>

	Cash and cash equivalents	Borrowings due within 1 year	Convertible notes due within 1 year	Lease liabilities-current	Lease liabilities-non-current	Total
<b>Net debt as at 1 January 2017</b>	2,666	–	–	–	–	2,666
Cash flows	5,434	(10,107)	–	–	–	(4,673)
Translation differences	80	–	–	–	–	80
<b>Net debt as at 31 December 2017</b>	<b>8,180</b>	<b>(10,107)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1,927)</b>
Cash flows	(1,826)	3,567	–	–	–	1,741
Translation differences	4	–	–	–	–	4
<b>Net debt as at 31 December 2018</b>	<b>6,358</b>	<b>(6,540)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(182)</b>
Impact of first adoption of IFRS 16	–	–	–	(1,489)	(3,315)	(4,804)
<b>Net debt as at 1 January 2019</b>	<b>6,358</b>	<b>(6,540)</b>	<b>–</b>	<b>(1,489)</b>	<b>(3,315)</b>	<b>(4,986)</b>
Cash flows	19,364	(12,401)	(10,606)	842	–	(2,801)
Fair value losses	–	–	(1,241)	–	–	(1,241)
Translation differences	744	–	–	(426)	426	744
<b>Net debt as at 31 December 2019</b>	<b>26,466</b>	<b>(18,941)</b>	<b>(11,847)</b>	<b>(1,073)</b>	<b>(2,889)</b>	<b>(8,284)</b>

**36 Dividend receivables and amounts due to a subsidiary**

As at 31 December 2017, 2018 and 2019, dividend receivables represented the dividend receivables from Zhongke Tianyuan.

As at 31 December 2017, 2018 and 2019, amounts due to a subsidiary represented the cash advance from Zhongke Tianyuan, which are interest free, unsecured and repayable on demand.

**37 Contingencies**

As at 31 December 2017 and 2018, the Group had no material contingencies except the settlement of the legal case with Tangshan Chenhong which was described in details in note 34.

As at 31 December 2019, the Group had no material contingencies.

**38 Commitments***(a) Capital commitment*

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Acquisition of financial assets	—	5,000	—

*(b) Operating lease commitment*

As at 31 December 2017, 2018 and 2019, the Group had the following non-cancellable operating lease commitments:

	As at 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
No later than 1 year	971	1,409	129
Later than 1 year and no later than 5 years	74	4,610	—
	<u>1,045</u>	<u>6,019</u>	<u>129</u>



## 39 Related party transactions

*(a) Name and relationship with related parties*

Name	Relationship
Guangdong Zhongke Tianyuan Regeneration Resources Engineering Co., Ltd. 廣東中科天元再生資源工程有限公司	Controlled by the key management
Bengbu Boerte Biotechnology Co., Ltd 蚌埠博而特生物科技有限公司	Controlled by the key management
Mr. Jiang Xinchun	General manager of the Group
Ms. Yu Huiya	A close family member of a director

*(b) Transactions with related parties*

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	
Receipt of intangible asset (i)	—	1,374	—
	—	1,374	—

- (i) The Group received certain trademarks with carrying amount of RMB1,374,000 from Guangdong Zhongke Tianyuan Regeneration Resources Engineering Co., Ltd. during the year ended 31 December 2018 as settlement of receivables amounting to RMB1,374,000. There was no gains or losses from the transaction.
- (ii) Bank borrowings of RMB7,447,000, RMB6,140,000 and RMB18,941,000 as at 31 December 2017, 2018 and 2019 were guaranteed by Mr. Yu Weijun, the chairman of the board and a shareholder of the Company.

*(c) Amounts due from/to related parties*

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Amounts due from Ms. Yu Huiya			
Beginning of the year	1,000	–	
Additions	–	–	
Cash repayments	(1,000)	–	–
End of year	–	–	–
Amounts due from Guangdong Zhongke Tianyuan Regeneration Resources Engineering Co., Ltd. and Bengbu Boerte Biotechnology Co., Ltd.			
Beginning of the year	10,595	3,481	
Cash advanced	41,616	10,015	–
Cash repayments received	(48,730)	(13,496)	–
End of year	3,481	–	–
Amounts due to directors			
Beginning of the year	1,543	2,064	2,922
Additions	1,020	1,508	669
Repayments	(499)	(650)	(3,165)
End of year	2,064	2,922	426
Amounts due to Ms. Yu Huiya			
Beginning of the year	–	500	500
Additions	500	–	–
Repayments	–	–	(500)
End of year	500	500	–
Amounts due to Mr. Jiang Xinchun			
Beginning of the year	–	100	–
Additions	1,160	400	–
Repayments	(1,060)	(500)	–
End of year	100	–	–

Amounts due from/to related parties are non-trade in nature, interest free, unsecured and repayable on demand. They will be settled prior to the listing.

*(d) Key management compensation*

	Year ended 31 December		
	2017	2018	2019
	RMB'000	RMB'000	RMB'000
Salaries, wages, bonuses and other benefits	1,723	1,942	2,012
Fees	597	591	–
Share-based compensations	71	343	343
	<u>2,391</u>	<u>2,876</u>	<u>2,355</u>

**40 Directors' benefits and interests***(a) Directors' emoluments*

The remuneration of each director for the year ended 31 December 2017 is set out below:

Name	Fees	Salaries, wages, bonuses and other benefits	Contribution to pension scheme	Share-based compensations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>					
Mr. Yu Weijun ( <i>note (i)</i> )	298	314	–	59	671
Mr. Tang Zhaoxing ( <i>note (i)</i> )	298	355	30	59	742
<b>Non-executive directors</b>					
Mr. Richard Antony Bennett ( <i>note (i)</i> )	174	–	–	59	233
Mr. Nicholas Martin Brooks ( <i>note (i)</i> )	193	–	–	59	252
	<u>963</u>	<u>669</u>	<u>30</u>	<u>236</u>	<u>1,898</u>

The remuneration of each director for the year ended 31 December 2018 is set out below:

Name	Fees	Salaries, wages, bonuses and other benefits	Contribution to pension scheme	Share-based compensations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>					
Mr. Yu Weijun <i>(note (i))</i>	295	332	–	3	630
Mr. Tang Zhaoxing <i>(note (i))</i>	295	375	32	3	705
<b>Non-executive directors</b>					
Mr. Richard Antony Bennett <i>(note (i))</i>	174	–	–	3	177
Mr. Nicholas Martin Brooks <i>(note (i))</i>	130	–	–	3	133
	894	707	32	12	1,645

The remuneration of each director for the year ended 31 December 2019 is set out below:

Name	Fees	Salaries, wages, bonuses and other benefits	Contribution to pension scheme	Share-based compensations	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>					
Mr. Yu Weijun <i>(note (i))</i>	–	379	–	51	430
Mr. Tang Zhaoxing <i>(note (i))</i>	–	376	33	51	460
<b>Non-executive directors</b>					
Mr. Richard Antony Bennett <i>(note (i))</i>	179	–	–	51	230
	179	755	33	153	1,120

(i) Mr. Yu Weijun, Mr. Tang Zhaoxing and Mr. Richard Antony Bennett served as directors of the Company in 2017, 2018 and 2019. Mr. Nicholas Martin Brooks was appointed as a director of the Company on 26 October 2016 and resigned as a director of the Company on 31 August 2018.

(ii) Pursuant to a board resolution dated 23 April 2019, fees for executive directors has been cancelled since 1 January 2019.

*(b) Benefits and interests of directors*

The following disclosures are made pursuant to section 383(1) (b) to (f) of the Companies Ordinance (Cap. 622) and Parts 2 to 4 of the Companies (Disclosure of Information about Benefits of Directors) Regulation Cap. 622G.

For the years ended 31 December 2017, 2018 and 2019, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable. No consideration was provided to or receivable by third parties for making available directors' services. There are no loans, quasi-loans or other dealings in favour of the directors, their controlled body's corporate and connected entities.

No directors of the Company and their connected entities had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the years ended 31 December 2017, 2018 and 2019 or at any time during the reported periods.

**41 Subsequent events**

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the financial statements as a result of the COVID-19 outbreak.

**III SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 31 December 2019 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the other companies of the Group in respect of any period subsequent to 31 December 2019.

The following information does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" and the "Accountant's Report" set forth in Appendix I to this prospectus.

#### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative 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 of 31 December 2019 as if the Global Offering had taken place on 31 December 2019.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 December 2019 or at any future dates following the Global Offering.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2019	Conversion of Pre-IPO Investments	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2019	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000 (Note 3)	RMB'000	RMB (Note 4)	HK\$ (Note 5)
Based on an Offer Price of HK\$0.98 per Share	112,178	11,847	43,710	167,735	0.30	0.33
Based on an Offer Price of HK\$1.28 per Share	112,178	11,847	63,887	187,912	0.34	0.37

*Notes:*

- The audited consolidated net tangible assets attributable to owners of the Company as at 31 December 2019 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2019 of approximately RMB130,430,000 adjusted for intangible assets of approximately RMB18,252,000.

2. *On 1 February 2019, one pre-IPO investor entered into a convertible loan agreement with the Company pursuant to which the pre-IPO investor subscribed for convertible bond in the aggregate principal amount of HK\$11,500,000 (the “Pre-HKIPO Loan”).*

*As at 31 December 2019, the Pre-HKIPO Loan’s carrying amount was RMB11,847,000. The Pre-HKIPO Loan will be automatically converted into Shares of the Company upon Listing, and the Pre-HKIPO Loan will be re-designated from liability to equity. Such adjustment represents the impact of conversion on the unaudited pro forma net tangible assets of the Group should the issuance of additional shares and conversion of the Pre-HKIPO Loan take place at 31 December 2019.*

3. *The estimated net proceeds from the Global Offering are based on 82,600,000 Shares and the indicative Offer Prices of HK\$0.98 per Share and HK\$1.28 per Share, being the low end and high end of the indicative Offer Price range, respectively, after deduction of the underwriting fees and other related expenses, excluding Listing expenses of approximately RMB16,795,000 which has been accounted for in the consolidated income statements up to 31 December 2019, and does not take account of any Shares which may be issued upon the exercise of options which have been granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as described in “Share Capital” to the Prospectus.*
4. *The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 550,972,043 Shares were in issue (including pursuant to convertible loan agreement referred to in the preceding paragraph) assuming that the Global Offering had been completed on 31 December 2019 but without taking into account of any Shares which may be issued upon the exercise of options which have been granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as described in “Share Capital” to the Prospectus.*
5. *For the purpose of this unaudited pro forma adjusted net tangible assets, the balance stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.91496 to HKD1.00000 set by the PBOC prevailing on the Latest Practicable Date. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.*
6. *No adjustment has been made to the unaudited pro forma adjusted net tangible assets to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2019.*

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

## INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of China New Energy Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China New Energy Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company ("the Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 December 2019, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 30 June 2020, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 December 2019 as if the proposed initial public offering had taken place at 31 December 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the year ended 31 December 2019, on which an accountant's report has been published.

### Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("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 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.

---

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com



**Reporting Accountant's 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 accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 31 December 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, 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 by the Directors 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.

**PricewaterhouseCoopers**

Certified Public Accountants

Hong Kong, 30 June 2020

---

## APPENDIX III      SUMMARY OF THE CONSTITUTION OF THE COMPANY AND JERSEY COMPANIES LAW

---

Set out below is a summary of certain provisions of the Memorandum and Articles of the Company and of certain aspects of the Jersey Companies Law.

The Company was incorporated in Jersey as a public company with limited liability on 2 May 2006 under the Jersey Companies Law. The Memorandum and the Articles comprise its constitution.

### 1 MEMORANDUM OF ASSOCIATION

1.1 The Memorandum states, inter alia, that:

- (a) the name of the Company is China New Energy Limited;
- (b) the liability of each member arising from his holding of a share in the Company is limited to the amount (if any) unpaid on it;
- (c) the Company has unrestricted corporate capacity;
- (d) the Company is a par value company;
- (e) the Company is a public company; and
- (f) the share capital of the Company is £10,000,000 divided into 40,000,000,000 ordinary shares of £0.00025 each.

1.2 The Company may by special resolution alter its Memorandum.

### 2 ARTICLES OF ASSOCIATION

The Articles were adopted on 23 October 2019 with effect from the admission of Shares to trading on the Main Board of the Hong Kong Stock Exchange. The following is a summary of certain provisions of the Articles:

#### 2.1 Directors

(a) *Power to allot and issue shares and warrants*

- (i) Subject to the provisions of the Jersey 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.

---

**APPENDIX III      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND JERSEY COMPANIES LAW**

---

- (ii) The Directors 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.
- (iii) Subject to the provisions of the Jersey Companies Law and the Articles and, where applicable, the rules of the Hong Kong 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 Directors who 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 their absolute discretion think fit.
- (iv) Neither the Company or 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.

(b) ***Power to dispose of the assets of the Company or any subsidiary***

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The business of the Company shall be managed by the Directors who may pay all expenses incurred in promoting and registering the Company and may exercise all such powers of the Company as are not by the Jersey Companies Law or the Articles required to be exercised. 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, any Directors given by special resolutions of the Shareholders or the Jersey Companies Law to be exercised or done by the Company in general meeting.

(c) ***Compensation or payments for loss of office***

The Directors shall obtain the approval of the Company in general meeting before making any payment to any Director or past Director of the Company by way of compensation for loss of office, or as consideration for or in connection with his retirement from office (not being payment to which the Director is contractually entitled).

(d) ***Loans to Directors***

There are comprehensive provisions in the Articles prohibiting the making of loans to Directors.

---

**APPENDIX III      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND JERSEY COMPANIES LAW**

---

*(e) Giving of financial assistance to purchase the shares of the Company or any of its subsidiaries*

The Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company in any manner authorised or not prohibited by the Jersey Companies Law, provided always that for so long as the shares are listed on the Hong Kong Stock Exchange, any such provision of financial assistance shall also comply with the requirements of the Companies Ordinance (Cap.622 of the Laws of Hong Kong) from time to time in force as if the Company was incorporated in Hong Kong unless the Hong Kong Stock Exchange waives this requirement for companies incorporated outside Hong Kong (in which case the Company shall then comply with the requirements of the Hong Kong Stock Exchange from time to time in force, if any).

*(f) Disclosure of interests in contracts with the Company or any of its subsidiaries*

- (i) A Director who, to his knowledge, is in any way (directly or indirectly) interested in any contract, arrangement, transaction or proposal to be entered into or proposed to be entered into by the Company and such interest conflicts or may conflict to a material extent with the interests of the Company shall declare the nature of his interest at the earliest meeting of the Directors at which it is practicable for him to do so, either specifically or by way of a general notice in writing delivered to the secretary, at the earliest meeting of the Directors after he knows that he is or has become so interested.
- (ii) For the purpose of the above:
  - (A) a general notice given to the Directors by a Director that he is to be regarded as having an interest (of the nature and extent specified in the notice) in any contract, transaction, arrangement or proposal in which a specified person or class of persons is interested shall be deemed to be a sufficient disclosure under the Articles in relation to such contract, transaction, arrangement or proposal; and
  - (B) an interest of which a Director has no knowledge and of which it is unreasonable to expect him to have knowledge shall not be treated as an interest of his.
- (iii) Save in limited circumstances, a Director shall not vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors or of a committee of the Directors concerning any contract, transaction, arrangement, or any other proposal whatsoever to which the Company is or is to be a party and in which he or any of his associates has an interest which is to his knowledge a material interest otherwise than by virtue of his interests in shares or debentures or other securities of or otherwise in or through the Company.

(g) *Remuneration*

- (i) The Directors shall be entitled to such remuneration as the Directors may determine subject to any limitation as the Company may by ordinary resolution determine.
- (ii) The Directors shall be paid out of the funds of the Company their travelling hotel and other expenses properly and necessarily incurred by them in connection with their attendance at meetings of the Directors or members or otherwise in connection with the discharge of their duties.

(h) *Appointment, retirement and removal*

- (i) Any Director holding office prior to the adoption of the Articles shall continue to hold office until he resigns or is disqualified or removed in accordance with the provisions of the Articles.
- (ii) The Directors shall have power at any time and from time to time to appoint any person (other than one disqualified or ineligible by law to act as a director of a company) to be a Director either to fill a casual vacancy or as an addition to the existing Directors provided that the appointment does not cause the number of Directors to exceed any number fixed by or in accordance with the Articles as the maximum number of Directors. Any Director so appointed shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election at such meeting (but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation).
- (iii) The Company may by ordinary resolution:
  - (A) appoint any person (other than one disqualified or ineligible by law to act as a director of a company) as a Director; and
  - (B) remove any Director from office before the expiration of his period in office (without prejudice to a claim for damages for breach of contract or otherwise).
- (iv) The office of a Director shall be vacated if the Director:
  - (A) resigns his office by notice to the Company;
  - (B) ceases to be a Director by virtue of any provision of the Jersey Companies Law or he becomes prohibited or disqualified by law from being a Director;
  - (C) becomes bankrupt or makes any arrangement or composition with his creditors generally;
  - (D) becomes of unsound mind; or
  - (E) is removed from office by ordinary resolution.

---

**APPENDIX III      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND JERSEY COMPANIES LAW**

---

- (v) There is no shareholding qualification for Directors nor is there any specified age limit for Directors.
- (vi) At every annual general meeting one-third of the Directors or, if their number is not three or a multiple of three, the number nearest to one-third shall retire from office; but if any Director has at the start of the annual general meeting been in office for three years or more since his last appointment or re-appointment, he shall retire at that annual general meeting.
- (vii) Subject to the provisions of the Jersey Companies Law and the Articles, the Directors to retire by rotation shall be, first, those who wish to retire and not be re-appointed to office, and, second, those who have been longest in office since their last appointment or re-appointment. As between persons who became or were last re-appointed directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot. The Directors to retire on each occasion (both as to number and identity) shall be determined by the composition of the Directors at the date of the notice convening the annual general meeting. No Director shall be required to retire or be relieved from retiring or be retired by reason of any change in the number or identity of the Directors after the date of the notice but before the close of the meeting.
- (viii) If the Company does not fill the vacancy at the meeting at which a Director retires by rotation or otherwise, the retiring Director shall, if willing to act, be deemed to have been re-appointed unless at the meeting it is resolved not to fill the vacancy or unless a resolution for the re-appointment of the Director is put to the meeting and lost.
- (ix) No person other than a Director retiring by rotation shall be appointed a Director at any general meeting unless he is recommended by the Directors or during a period, being not less than seven days, between a day that is not less than seven days before the date appointed for the meeting and the day after the despatch of the notice of such meeting, notice by a Member qualified to vote at the meeting (not being the person to be proposed) has been received by the Company of the intention to propose that person for appointment stating the particulars which would, if he were so appointed, be required to be included in the Company's register of Directors, together with notice by that person of his willingness to be appointed.
- (x) The Directors may delegate any of their powers to committees consisting of such Director or Directors or such other persons as they think fit, and it may from time to time revoke such delegation or revoke the appointment of an 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 regulation that may from time to time be imposed upon it by the board.

(i) ***Borrowing powers***

The Directors may exercise all such powers of the Company as are not by the Jersey Companies Law or the Articles required to be exercised by the Company in general meeting. As set out in the Memorandum, the Company has unrestricted corporate capacity.

(j) ***Quorum for board meetings***

The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed at any other number shall be two provided that, where at least two Directors have been appointed, whether before or after the adoption of the Articles, who were initially proposed in a proposal by proposers (as such terms are set out in paragraph 2(h)(x) above), whether before or after the adoption of the Articles, then the quorum shall consist of an aggregate number of Directors (or their alternates) equal to such number representing one Director so appointed by each proposer unless any such Director is prohibited from voting for any reason in which case the quorum shall be reduced accordingly provided that the quorum shall not be less than two. In the event that a quorum is not present at a duly convened meeting, then such meeting shall be adjourned for at least ten business days and each Director shall be notified of the time, date and place for the reconvened meeting and the quorum at such meeting, in the event that all Directors have been duly notified of the time, date and place for the reconvened meeting, shall be two Directors howsoever appointed. An alternate Director shall be counted in a quorum but so that not less than two individuals will constitute the quorum. A resolution in writing signed by a majority of the Directors entitled to receive notice of a meeting of Directors or of a committee of Directors provided that such resolution is signed by at least one Director appointed by each proposer shall be valid and effectual as if it had been passed at a meeting of the Directors or of a committee of Directors duly convened and held.

**2.2 Alterations to constitutional documents**

The Articles state that the Memorandum and the Articles are only capable of being amended by the passing of a special resolution.

**2.3 Variation of rights of existing shares or classes of shares**

Whenever the capital of the Company is divided into different classes of shares the special rights attached to any class may (unless otherwise provided by the terms of issue of the shares of that class) be varied or abrogated either whilst the Company is a going concern or during or in contemplation of a winding up with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of shares of that class.

**2.4 Special resolutions — majority required**

A special resolution is defined in the Articles as a resolution of the Company passed as a special resolution by a majority of not less than three quarters of members who (being entitled to do so) vote in person, or by proxy, at a general meeting of the Company of which not less than twenty-one clear days' notice, specifying the intention to propose the special resolution, has been given. Provided that, if it is so agreed by a majority in number of the members having the right to attend and vote at such meeting upon



---

**APPENDIX III      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND JERSEY COMPANIES LAW**

---

the resolution, being a majority together holding not less than ninety-five per cent. of the total voting rights of the members who have that right a resolution may be proposed and passed as a special resolution at a meeting at which less than twenty-one clear days' notice has been given in accordance with the Jersey Companies Law.

**2.5 Voting rights (generally and on a poll)**

- (a) Subject to any special rights restrictions or prohibitions as regards voting for the time being attached to any shares as may be specified in the terms of issue thereof or the Articles:
  - (i) on a show of hands, every member present in person shall have one vote and every proxy who has been appointed by a member entitled to vote on the resolution has one vote (except where multiple proxies have been appointed by a member); and
  - (ii) on a poll, every member present in person or by proxy shall have one vote for each share of which he is the holder.
- (b) In the case of joint holders of any share such persons shall not have the right of voting individually in respect of such share but shall elect one of their number to represent them and to vote whether personally or by proxy in their name. In default of such election the person whose name appears first in order in the register in respect of such share shall be the only person entitled to vote in respect thereof.
- (c) No member shall be entitled to vote at any general meeting unless all calls or other sums presently payable by him in respect of shares in the Company of which he is holder or one of the joint holders have been paid.
- (d) Where any shares of the Company are held in trust for the Company, such shares shall not, for so long as they are so held, confer any right to vote at meetings of the Company.
- (e) For as long as the shares of the Company are admitted to trading on the Hong Kong Stock Exchange, at any general meeting a resolution put to the meeting shall be decided in the manner as prescribed in the Listing Rules (i.e. on a poll).
- (f) Where any member under the Listing Rules is required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

**2.6 Requirements for annual general meetings**

The Company shall in each calendar year hold a general meeting as its annual general meeting at such time and place as may be determined by the Directors. Not more than 15 months (or such longer period as the Designated Stock Exchange or the Jersey Companies Law may authorise) shall elapse between subsequent annual general meetings.

**2.7 Accounts and audit**

- (a) The Company shall keep accounting records, prepared in accordance with and subject to the provisions of the Jersey Companies Law, which are sufficient to show and explain the Company's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company at that time and enable the Directors to ensure that any accounts prepared by the Company comply with requirements of the Jersey Companies Law and International Financial Reporting Standards.
- (b) The Directors shall prepare accounts of the Company made up to such date in each year as the Directors shall from time to time determine in accordance with and subject to the provisions of the Jersey Companies Law and International Financial Reporting Standards.
- (c) No member shall (as such) have any right to inspect any accounting records or other book or document of the Company except as conferred by the Jersey Companies Law or authorised by the Directors or by ordinary resolution of the Company.
- (d) Subject to the Jersey Companies Law, copies of either (i) the Company's balance sheet (including every document required by the Jersey Companies Law to be annexed thereto) and profit and loss account, together with a copy of the Directors' report for that financial year and the auditors' report on those accounts, or (ii) the summary financial report shall, at least twenty-one clear days before the date of the meeting at which copies of those documents are to be laid in accordance with the provisions of the Jersey Companies Law, be delivered or sent by post to every member and to every holder of the Company's debentures of whose address the Company is aware and to every other person who is entitled to receive notice of meetings of the Company under the provisions of the Jersey Companies Law or the Articles, or in the case of joint holders of any share or debenture to one of the joint holders. Copies need not be sent to a person for whom the Company does not have a current address.
- (e) The Directors or the Company by ordinary resolution shall appoint auditors to hold office until the conclusion of the next annual general meeting for any period or periods to examine the accounts of the Company and to report thereon in accordance with the Jersey Companies Law. A Director, officer or any employee of such Director and officer shall not be appointed the auditors of the Company.

**2.8 Notice of meetings and business to be conducted thereat**

**(a) *Notice of meetings***

- (i) At least 21 clear days' written notice shall be given of every annual general meeting and of every general meeting called for the passing of a special resolution and at least 14 clear days' written notice shall be given of all other general meetings.
- (ii) A meeting of the Company shall notwithstanding that it is called by shorter notice than that specified above be deemed to have been duly called if it is so agreed in the case of an annual general meeting by all the members entitled to attend and vote thereat and in the case of any other meeting by a majority in number of the members having a right to attend and vote at the meeting being a majority together holding not less than 95% in nominal value of the shares giving that right.
- (iii) Every notice shall specify the place the day and the time of the meeting and the general nature of the business to be transacted and in the case of an annual general meeting shall specify the meeting as such.
- (iv) Subject to the provisions of the Articles and to any restrictions imposed on any shares, notice of every general meeting shall be given to all the members, to all persons entitled to a share in consequence of the death, bankruptcy or incapacity of a member, to the auditors (if any) and to every Director who has notified the secretary in writing of his desire to receive notice of general meetings.
- (v) In every notice calling a meeting of the Company there shall appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not also be a member.
- (vi) The accidental omission to give notice of a meeting to or the non-receipt of notice of a meeting by any person entitled to receive notice shall not invalidate the proceedings at that meeting.
- (vii) Where the Company gives notice of its intention to move a resolution at a general meeting of the Company or a meeting of any class of members, the notice shall include or be accompanied by a statement containing such information and explanation, if any, as is reasonably necessary to indicate the purpose of the resolution and disclosing any material interests of any Director in the matter dealt with by the resolution so far as the resolution affects those interests differently from the interests of other members.

**(b) *Business of general meetings***

The business of an annual general meeting shall be to receive and consider the accounts of the Company and the reports of the Directors and auditors, to elect Directors (if proposed), to elect auditors and fix their remuneration, to sanction a dividend (if thought fit so to do) and to transact any other business of which notice has been given.

**2.9 Transfer of shares**

- (a) Save as otherwise permitted under the provisions of the Jersey Companies Law, all transfers of shares shall be affected using an instrument of transfer. The instrument of transfer of any share shall be in writing in any usual common form or in any form approved by the Hong Kong Stock Exchange or any form approved by the Directors and may be under hand or, if the transferor or the transferee is a clearing house or its nominee(s) by hand or machine imprinted signature or by such other manner of execution as the board of Directors may approve from time to time. The instrument of transfer of any share shall be signed by or on behalf of the transferor and in the case of an unpaid or partly paid share 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 thereof. A Shareholder may transfer all or any uncertificated Shares in accordance with the Companies (Uncertificated Securities) (Amendment No.2) (Jersey) Order 1999, as amended.
- (b) Fully paid shares of the Company shall be free from any restriction on transfer (except where permitted by the Designated Stock Exchange) and shall also be free from all liens. The Directors may in their absolute discretion and without assigning any reason therefor refuse to register the transfer of a certificated share which is not fully paid up including without limitation a transfer of such shares to a person of whom they do not approve and a transfer of a certificated share on which the Company has a lien. The Directors may also refuse to register the transfer of a share unless the instrument of transfer is lodged at the Company's registered office or at such other place as the Directors may appoint accompanied by the certificate for the shares to which it relates and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer, is in respect of only one class of shares and is in favour of not more than four transferees.
- (c) If the Directors refuse to register a transfer of a share they shall within two months after the date on which the instrument of transfer was lodged with the Company send to the proposed transferor and transferee notice of the refusal.
- (d) The registration of transfers of shares or of transfers of any class of shares may be suspended at such times and for such periods as the Directors may determine, provided always that such registration shall not be suspended for more than thirty days in any calendar year. Unless otherwise permitted by the Companies (Uncertificated Securities) (Amendment No.2) (Jersey) Order 1999, as amended, the Company may not close any register relating to a participating security without the consent of the approved operator of the relevant system.
- (e) Unless otherwise decided by the Directors in their sole discretion no fee shall be charged in respect of the registration of any instrument of transfer or other document relating to or affecting the title to any share. To the extent that the Directors decide to charge a fee in respect of the registration, the fee shall be the same or less than the maximum amount prescribed by the Designated Stock Exchange from time to time.

- (f) In respect of any allotment of any share the Directors shall have the same right to decline to approve the registration of any renounee of any allottee as if the application to allot and the renunciation were a transfer of a share under the Articles.

#### **2.10 Power for the Company to purchase its own shares**

Subject to the provisions of the Jersey Companies Law, the Company may purchase its own shares (including redeemable shares) in any manner authorised or not prohibited by the Jersey Companies Law, provided always that for so long as the shares are listed on the Hong Kong Stock Exchange, any such purchase shall also comply with the requirements of the Companies Ordinance from time to time in force as if the Company was incorporated in Hong Kong unless the Hong Kong Stock Exchange waives this requirement for companies incorporated outside Hong Kong (in which case the Company shall then comply with the requirements of the Hong Kong Stock Exchange from time to time in force, if any).

#### **2.11 Power for 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.

#### **2.12 Dividends and other methods of distribution**

- (a) Subject to the provisions of the Jersey Companies Law, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members but no dividend shall exceed the amount recommended by the Directors. The Directors may also if they think fit from time to time pay to the members such interim dividends as they may determine. If at any time the share capital of the Company is divided into different classes the Directors may pay such interim dividends in respect of those shares which confer on the holders thereof deferred or non-preferred rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend. Furthermore, the Directors may also pay half-yearly or at other suitable intervals to be settled by them any dividend which may be payable at a fixed rate. Provided the Directors act bona fide they shall not incur any personal liability to the holders of shares conferring a preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferred rights.
- (b) Subject to any particular rights or limitations as to dividend for the time being attached to any shares as may be specified in the Articles or upon which such shares may be issued, all dividends shall be declared apportioned and paid pro rata according to the amounts paid up on the shares on which the dividend is paid (otherwise than in advance of calls) provided that if any share is issued on terms providing that it shall rank for dividend as if paid up (in whole or in part) or as from a particular date (either past or future) such share shall rank for dividend accordingly.
- (c) The Directors may before recommending any dividend set aside such sums as they think proper as a reserve or reserves which shall at the discretion of the Directors be applicable for any purpose to which such sums may be properly applied and pending such application may at the

like discretion be employed in the business of the Company or be invested in such investments as the Directors may from time to time think fit. The Directors may carry forward to the account of the succeeding year or years any balance which they do not think fit either to dividend or to place to reserve.

- (d) A general meeting declaring a dividend may upon the recommendation of the Directors direct that payment of such dividend shall be satisfied wholly or in part by the distribution of specific assets and in particular of paid-up shares or debentures of any other company and the Directors shall give effect to such resolution. Where any difficulty arises in regard to the distribution the Directors may settle the same as they think expedient.
- (e) Any resolution declaring a dividend on the shares of any class whether a resolution of the Company in general meeting or a resolution of the Directors or any resolution of the Directors for the payment of a fixed dividend on a date prescribed for the payment thereof may specify that the same shall be payable to the persons registered as the holders of shares of the class concerned at the close of business on a particular date notwithstanding that it may be a date prior to that on which the resolution is passed (or as the case may be that prescribed for payment of a fixed dividend) and thereupon the dividend shall be payable to them in accordance with their respective holdings so registered but without prejudice to the rights inter se in respect of such dividend of transferors and transferees of any shares of the relevant class.
- (f) The Directors may deduct from any dividend or other monies payable to any member on or in respect of a share all sums of money (if any) presently payable by him to the Company on account of calls or otherwise in relation to the shares of the Company.
- (g) All unclaimed dividends may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed. No dividend shall bear interest as against the Company. Any dividend which has remained unclaimed for a period of ten years from the date of declaration thereof shall if the Directors so resolve be forfeited and cease to remain owing by the Company and shall thenceforth belong to the Company absolutely.

### **2.13 Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company shall be 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 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.

**2.14 Calls on shares and forfeiture of shares**

**(a) *Calls on shares***

- (i) The Directors may subject to the provisions of the Articles and to any conditions of allotment from time to time make calls upon the members in respect of any monies unpaid on their shares (whether on account of the nominal value of the shares or by way of premium) and each member shall (subject to being given at least fourteen clear days' notice specifying the time or times and place of payment) pay to the Company at the time or times and place so specified the amount called on his shares. A call may be required to be paid by instalments. A call may before receipt by the Company of any sum due thereunder be revoked in whole or in part and payment of a call may be postponed in whole or in part. A person upon whom a call is made shall remain liable for calls made upon him notwithstanding the subsequent transfer of the shares in respect whereof the call was made. A call shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and all other payments to be made in respect of such share.
- (ii) If a sum called in respect of a share is not paid before or on the day appointed for payment thereof the person from whom the sum is due may be required to pay interest on the sum from the day appointed for payment thereof to the time of actual payment at a rate determined by the Directors but the Directors shall be at liberty to waive payment of such interest wholly or in part.
- (iii) Any sum which by or pursuant to the terms of issue of a share becomes payable upon allotment or at any fixed date whether on account of the nominal value of the share or by way of premium shall for the purposes of the Articles be deemed to be a call duly made and payable on the date on which by or pursuant to the terms of issue the same becomes payable and in case of non-payment all the relevant provisions of the Articles as to payment of interest, forfeiture, surrender or otherwise shall apply as if such sum had become due and payable by virtue of a call duly made and notified.
- (iv) The Directors may on the issue of shares differentiate between the holders as to the amount of calls to be paid and the times of payment.
- (v) The Directors may if they think fit receive from any member an advance of monies which have not yet been called on his shares or which have not yet fallen due for payment. Such advance payments shall, to their extent, extinguish the liability in respect of which they are paid. The Company may pay interest on any such advance, at such rate as the Directors think fit, for the period covering the date of payment to the date when the monies would have been due had they not been paid in advance. For the purposes of entitlement to dividends, monies paid in advance of a call or instalment shall not be treated as paid until the due date.

(b) *Forfeiture of shares*

- (i) If a member fails to pay any call or instalment of a call on or before the day appointed for payment thereof the Directors may at any time thereafter during such time as any part of such call or instalment remains unpaid serve a notice on him requiring payment of so much of the call or instalment as is unpaid together with any interest which may have accrued and any costs, charges and expenses which may have been incurred by the Company by reason of such non-payment. The notice shall name a further day (not earlier than the expiration of fourteen clear days from the date of service of such notice) on or before which the payment required by the notice is to be made and the place where payment is to be made and shall state that in the event of non-payment at or before the time appointed and at the place appointed the shares in respect of which the call was made will be liable to be forfeited.
- (ii) If the requirements of any such notice as aforesaid are not complied with any share in respect of which such notice has been given may at any time thereafter before payment of all calls and interest due in respect thereof has been made be forfeited by a resolution of the Directors to that effect and such forfeiture shall include all dividends which shall have been declared on the forfeited shares and not actually paid before the forfeiture.
- (iii) A forfeited or surrendered share shall become the property of the Company and may be sold, re-allotted or otherwise disposed of either to the person who was before forfeiture or surrender the holder thereof or entitled thereto or to any other person upon such terms and in such manner as the Directors think fit and at any time before a sale, re-allotment or other disposition the forfeiture or surrender may be cancelled on such terms as the Directors think fit.
- (iv) A member whose shares have been forfeited or surrendered shall cease to be a member in respect of the forfeited or surrendered shares and shall (if he has not done so already) surrender to the Company for cancellation the certificate for the shares forfeited or surrendered. Notwithstanding the forfeiture or the surrender such member shall remain liable to pay to the Company all monies which at the date of forfeiture or surrender were presently payable by him in respect of those shares with interest thereon at the rate at which interest was payable before the forfeiture or surrender or at such rate as the Directors may determine from the date of forfeiture or surrender until payment, provided that the Directors may waive payment wholly or in part or enforce payment without any allowance for the value of the shares at the time of forfeiture or surrender or for any consideration received on their disposal.

**2.15 Inspection of register of members**

The register of members and any overseas branch register of members as the case may be, shall be open to inspection by the members and other persons in accordance with the Jersey Companies Law. Subject to applicable law, the register of members including any overseas or local or other branch register of members may, after notice has been given by advertisement in an appointed newspaper or any other newspapers in accordance with the requirements of the Designated Stock Exchange, be closed at such times or for such periods not exceeding in the whole 30 days in each year as the Directors may determine and either generally or in respect of any class of shares. The period of 30 days may be subsequently extended in respect of any year in relation to the register of members by an ordinary resolution passed at



a general meeting of the Company in that year, provided that the said period shall not be extended beyond 60 days in any year. The Company shall, on demand, furnish any person seeking to inspect the register of members or part of the register of members which is closed with a certificate under the hand of the secretary stating the period for which, and by whose authority, it is closed.

**2.16 Quorum for meetings and separate class meetings**

- (a) No business shall be transacted at any general meeting except the adjournment of the meeting unless a quorum of members is present at the time when the meeting proceeds to business. Such quorum shall consist of not less than two members present together holding not less than 50% of the total voting rights of the members but so that not less than two individuals will constitute the quorum.
- (b) To every separate meeting of the holders of a class of shares all the provisions of the Articles and of the Jersey Companies Law relating to general meetings of the Company or to the proceedings thereat shall apply mutatis mutandis except that the necessary quorum shall be two persons holding or representing at least one-third in nominal amount of the issued shares of that class but so that if at any adjourned meeting of such holders a quorum as above defined is not present those holders who are present shall be a quorum.

**2.17 Rights of the 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 Jersey law, as summarised in paragraph 3.6 of this Appendix.

**2.18 Procedures on liquidation**

- (a) Subject to any particular rights or limitations for the time being attached to any shares as may be specified in the Articles or upon which such shares may be issued if the Company is wound up, the assets available for distribution among the members shall be applied first in repaying to the members the amount paid up on their shares respectively and if such assets shall be more than sufficient to repay to the members the whole amount paid up on their shares the balance shall be distributed among the members in proportion to the amount which at the time of the commencement of the winding up had been actually paid up on their said shares respectively.
- (b) If the Company is wound up, the Company may with the sanction of a special resolution and any other sanction required by the Jersey Companies Law divide the whole or any part of the assets of the Company among the members in specie and the liquidator or where there is no liquidator the Directors may for that purpose value any assets and determine how the division shall be carried out as between the members or different classes of members and with the like sanction vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as the liquidator or the Directors (as the case may be) with the like sanction determine but no member shall be compelled to accept any assets upon which there is a liability.

**2.19 Other provisions material to the Company or its shareholders**

(a) *Alteration of share capital*

- (i) The Company may by special resolution:
  - (A) increase its share capital by such sum to be divided into shares of such amount and in such currency or currencies as the resolution prescribes;
  - (B) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
  - (C) convert all or any of its fully paid shares into stock, and reconvert that stock into fully paid shares of any denomination;
  - (D) subject to the provisions of the Jersey Companies Law, sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the Memorandum and the resolution may determine that, as between the shares resulting from the sub-division, any of them may have any preference or advantage as compared with the others;
  - (E) subject to the provisions of the Jersey Companies Law convert or denominate any of its shares the nominal value of which is expressed in one currency into shares of a nominal value of another currency; and
  - (F) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.
- (ii) Any new shares created on an increase or other alteration of share capital shall be issued upon such terms and conditions as the Company may by ordinary resolution determine.
- (iii) Subject to the provisions of the Jersey Companies Law, the Company may by special resolution reduce its share capital and its share premium account in any way.

(b) *Lien*

- (i) The Company shall have a first and paramount lien on every share (not being a fully paid share) for all monies (whether presently payable or not) called or payable at a fixed time in respect of that share and the Company shall also have a first and paramount lien on all shares (other than fully paid shares) registered in the name of a single member for all the debts and liabilities of such member or his estate to the Company whether the period for the payment or discharge of the same shall have actually commenced or not and notwithstanding that the same are joint debts or liabilities of such member or his estate and any other person whether a member or not. The Company's lien (if any) on a share shall extend to all dividends or other monies payable thereon or in respect thereof. The Directors may resolve that any share shall for such period as they think fit be exempt from such provisions.

- (ii) The Company may sell in such manner as the Directors think fit any shares on which the Company has a lien but no sale shall be made unless the monies in respect of which such lien exists or some part thereof are or is presently payable nor until fourteen clear days have expired after a notice stating and demanding payment of the monies presently payable and giving notice of intention to sell in default shall have been served on the holder for the time being of the shares or the person entitled thereto by reason of the death, bankruptcy or incapacity of such holder.
- (iii) The net proceeds of such sale after payment of the costs of such sale shall be applied in or towards payment or satisfaction of the debt or liability in respect of which the lien exists so far as the same is presently payable and any residue shall (subject to a like lien for debts or liabilities not presently payable as existed upon the shares prior to the sale) be paid to the person entitled to the shares at the time of the sale.

(c) *Untraceable members*

- (i) Subject to the Companies (Uncertificated Securities) (Amendment No.2) (Jersey) Order 1999, as amended, the Company shall have the power to sell, in such manner as the Directors think fit, any shares of a member who is untraceable, but no such sale shall be made unless:
  - (A) all cheques or warrants in respect of dividends of the shares in question, being not less than three in total number, for any sum payable in cash to the holder of such shares in respect of them sent during the relevant period (which is the period commencing twelve years before the date of publication of the advertisement referred to at (C) below and ending at the expiry of the period referred to at (C) below) in the manner authorised by the Articles have remained uncashed;
  - (B) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operation of law; and
  - (C) the Company, if so required by the Listing Rules has given notice to, and caused advertisement in newspapers in accordance with the requirements of, the Designated Stock Exchange to be made of its intention to sell such shares in the manner required by the Designated Stock Exchange, and a period of three months or such shorter period as may be allowed by the Designated Stock Exchange has elapsed since the date of such advertisement.
- (ii) The net proceeds of the sale will belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds. No trust shall be created in respect of such debt and no interest shall be payable in respect of it and the Company shall not be required to account for any money earned from the net proceeds which may be employed in the business of the Company or as it thinks fit. Any such sale shall be valid and effective notwithstanding that the member holding the shares sold is dead, bankrupt or otherwise under any legal disability or incapacity.

(d) *Capitalisation of profits*

The Directors may with the authority of an ordinary resolution of the Company:

- (i) subject as provided below, resolve that it is desirable to capitalise any undistributed profits of the Company (including profits carried and standing to any reserve or reserves) not required for paying any fixed dividends on any shares entitled to fixed preferential dividends with or without further participation in profits or to capitalise any sum carried to reserve as a result of the sale or revaluation of the assets of the Company (other than goodwill) or any part thereof or to capitalise any sum standing to the credit of the Company's share premium account or capital redemption reserve fund;
- (ii) appropriate the profits or sum resolved to be capitalised to the members in the proportion in which such profits or sum would have been divisible amongst them had the same been applicable and had been applied in paying dividends and to apply such profits or sum on their behalf either in or towards paying up any amount for the time being unpaid on any shares held by such members respectively or in paying up in full either at par or at such premium as the said resolution may provide any unissued shares or debentures of the Company such shares or debentures to be allotted and distributed credited as fully paid up to and amongst such members in the proportions aforesaid or partly in one way and partly in the other provided that the share premium account and the capital redemption reserve fund and any unrealised profits may for these purposes only be applied in the paying up of unissued shares to be allotted to members credited as fully paid up;
- (iii) make all appropriations and applications of the profits or sum resolved to be capitalised thereby and all allotments and issues of fully paid shares or debentures if any and generally shall do all acts and things required to give effect thereto with full power to the Directors to make such provision by the issue of certificates representing part of a shareholding or fractions of shares or by payments in cash or otherwise as they think fit in the case of shares or debentures becoming distributable in fractions; and
- (iv) authorise any person to enter on behalf of all the members entitled to the benefit of such appropriations and applications into an agreement with the Company providing for the allotment to them respectively credited as fully paid up of any further shares or debentures to which they may be entitled upon such capitalisation and any agreement made under such authority shall be effective and binding on all such members.

(e) *Indemnity of directors*

- (i) In so far as the Jersey Companies Law allows, every present or former director, secretary or liquidator of the Company shall be indemnified out of the assets of the Company against any loss or liability incurred by him by reason of being or having been such an individual.
- (ii) The Directors may without sanction of the Company in general meeting authorise the purchase or maintenance by the Company for any such individual or former individual of any such insurance as is permitted by the Jersey Companies Law in respect of any liability which would otherwise attach to such individual or former individual.

(f) *Director's qualification shares*

A director need not be a member of the Company.

(g) *Corporate members*

If a clearing house (or its nominee(s)), being a corporation, is a member, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of members 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 representative is so authorised. Each person so authorised shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the clearing house (or its nominee(s)) as if such person was the registered holder of the shares in the Company held by the clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

### **3 JERSEY COMPANY LAW**

The Company is incorporated in Jersey subject to the Jersey Companies Law and, therefore, operates subject to Jersey law. Set out below is a summary of certain provisions of Jersey company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Jersey company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

#### **3.1 Operations**

- (a) The Company is restricted from trading in Jersey insofar as, if it wanted to carry out business activities in Jersey (including, in particular, employing staff in Jersey), it may need to obtain a licence pursuant to the Regulation of Undertakings and Development (Jersey) Law 1973, as amended.
- (b) The Company is required to file an annual return each year with the Jersey Registrar of Companies. The current filing fee is £210.

**3.2 Share capital**

(a) *Alteration of share capital*

The Articles provide substantially similar provisions in relation to alteration of share capital as those set out in the Jersey Companies Law.

(b) *Share premium accounts*

- (i) The Jersey Companies Law sets out what is meant by share premium and what share premium may be used for. If the Company allots shares at a premium (whether for cash or otherwise) where the premiums arise as a result of the issue of a class of limited shares, a sum equal to the aggregate amount or value of those premiums shall be transferred, as and when the premiums are paid up, to a share premium account for that class.
- (ii) A share premium account may be applied by the Company for any of the following purposes:
  - (A) in paying up unissued shares to be allotted to members as fully paid bonus shares;
  - (B) in writing off the Company's preliminary expenses;
  - (C) in writing off the expenses of and any commission paid on any issue of shares of the Company;
  - (D) in the redemption or purchase of shares under Part 11 of the Jersey Companies Law (Redemption and Purchase of Shares); and
  - (E) in the making of a distribution in accordance with Part 17 of the Jersey Companies Law.
- (iii) Subject to the above, the provisions of the Jersey Companies Law relating to the reduction of the Company's share capital apply as if each of its share premium accounts were part of its paid up share capital.
- (iv) The Company may also make a distribution in accordance with Part 17 of the Jersey Companies Law (Distributions) from a share premium account (see 3.5 (Dividends and distributions) below).

(c) *Reductions of capital*

The Jersey Companies Law provides that, subject to confirmation by the Royal Court of Jersey except in certain limited circumstances, the Company may by special resolution reduce its capital accounts in any way. The redemption, purchase or cancellation by a Jersey company of its shares under Part 11 of the Jersey Companies Law is not, for the purposes of Part 12 of the Jersey Companies Law, a reduction of capital. A reduction of capital is not for the purposes of Part 17 of the Jersey Companies Law a distribution.

(d) *Variation of rights*

The Jersey Companies Law provides for variation of class rights in accordance with the Articles or, where this is not specified in the Articles, with the consent in writing of holders of not less than 2/3rds in nominal value of the issued shares of that class or by a special resolution of the members of that class. The Articles provide for a higher majority for written consent by holders of three-fourths of the issued shares of the class.

(e) *Treasury shares*

The Jersey Companies Law provides that the Company may hold as treasury shares any of the limited shares that it has redeemed or purchased under the Jersey Companies Law, to the extent that it is not prohibited by the Memorandum or Articles and it is authorised by a resolution of the Company to hold shares as treasury shares.

**3.3 Financial assistance to purchase shares of a company or its holding company**

There is no specific restriction under the Jersey Companies Law on the provision of financial assistance by the Company to another person for the purchase of, or subscription for, its own or its holding company's shares. However, the Articles contain a prohibition on financial assistance (as mentioned above). Accordingly, subject to the restrictions under the Articles, the Company may provide financial assistance if the Directors of the Company consider, in discharging their fiduciary duties, that such assistance can properly be given. The Directors will need to be mindful of their statutory obligations in relation to making distributions (as set out below) if any financial assistance is made by way of a payment to a member in their capacity as a member and such payment constitutes a distribution of the Company's assets.

**3.4 Purchase of shares and warrants by a company and its subsidiaries**

(a) *Redemptions*

- (i) Subject to the provisions of the Jersey Companies Law, the Company may, if authorised by the Articles (which the Articles so provide), issue or convert existing non-redeemable limited shares, whether issued or not, into, limited shares which are to be redeemed, or are liable to be redeemed, either in accordance with their terms or at the option of the Company or the

---

**APPENDIX III      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND JERSEY COMPANIES LAW**

---

shareholder. The Articles provide for the issue of redeemable shares (or conversion of non-redeemable shares) on such terms and in such manner as may be determined by special resolution.

- (ii) The redeemable limited shares of the Company shall be capable of being redeemed from any source, but only if they are fully paid up.
- (iii) The redeemable limited shares are not capable of being redeemed unless all the directors of the Company who authorise the redemption make a statement as to the solvency of the Company at the time of redemption which is forward looking for a 12-month period following the redemption.
- (iv) Any shares redeemed under the Jersey Companies Law (other than shares that are, immediately after being purchased or redeemed, held as treasury shares) are treated as cancelled on redemption.

(b) ***Share purchases***

- (i) In addition, the Company may purchase its own shares (including any redeemable shares). Such a purchase shall be sanctioned by a special resolution of the Company.
- (ii) If the shares are to be purchased otherwise than on a stock exchange, they may only be purchased in pursuance of a contract approved in advance by a resolution of the Company and they shall not carry the right to vote on the resolution sanctioning the purchase or approving the contract.
- (iii) If the shares are to be bought on a stock exchange, the resolution authorising the purchase shall specify the maximum number of shares to be purchased, the maximum and minimum prices which may be paid for them and a date, not being later than 18 months after the passing of the resolution, on which the authority to purchase is to expire.
- (iv) A purchase also requires the authorising Directors to make a solvency statement in the same terms as that required for a redemption.

(c) ***Warrants***

The Jersey Companies Law does not contain provisions relating to the issue, redemption or purchase of share warrants although the Articles provide that the Directors may issue warrants to subscribe for any class of shares or other securities of the Company, which warrants may be issued on such terms as the Directors may from time to time determine.



### **3.5 Dividends and distributions**

Pursuant to the Jersey Companies Law, the Company may make a distribution (which includes dividends) at any time which shall be debited to the share premium account or any other account other than the capital redemption reserve or nominal capital account provided that the Directors authorising the distribution make a statement as to the solvency of the Company immediately following payment of the distribution which is forward looking for a 12-month period following the payment in the form set out in the Jersey Companies Law.

### **3.6 Protection of minorities**

- (a) The principle under English case law (which is not binding but, in respect of the Jersey Companies Law, can be of persuasive authority) that, if any wrong is done to a company (e.g. if the directors have acted in breach of duty in some way), the proper claimant in any legal action for breach of such duty is the company itself has been held to form a part of Jersey law. However, in exceptional situations a minority shareholder is permitted to bring a derivative action in a company's name, and on a company's behalf, in particular where:
  - (i) the majority cannot ratify what has been done (e.g. where the company acts illegally or where a resolution has been improperly passed); or
  - (ii) where it would be unfair not to allow a derivative action (e.g. where there exists fraud on the minority or unfairly prejudicial conduct of the directors or the majority shareholder(s)).
- (b) Under the Jersey Companies Law, a member of the Company may apply to the Royal Court of Jersey for an order that the Company's affairs are being or have been conducted in a manner which is unfairly prejudicial to the interests of its members generally or of some part of its members (including at least the member) or that an actual or proposed act or omission of the Company (including an act or omission on its behalf) is or would be so prejudicial. If the Royal Court of Jersey is satisfied that such an application is well founded, it may make such order as it thinks fit for giving relief in respect of the matters complained of.
- (c) Under the Jersey Companies Law, inspectors may be appointed to investigate the affairs of the Company, whether or not the Company is being wound up, on the following basis:
  - (i) The Minister for Economic Development (the "Minister") or the Jersey Financial Services Commission (the "Commission") may appoint one or more competent inspectors to investigate the affairs of the Company and to report on them as the Minister or the Commission may direct.
  - (ii) The appointment may be made on the application of the registrar, the Company or a member, officer or creditor of the Company.

- (iii) The Minister or the Commission may, before appointing inspectors, require the applicant, other than the registrar, to give security, to an amount not exceeding £10,000 or such other sum as may be prescribed for payment of the costs of the investigation.
  
- (d) Any member of the Company may apply to the Royal Court of Jersey to wind the Company up on just and equitable grounds.

### **3.7 Management**

Except in relation to distributions, reductions of capital, share buybacks and share redemptions, as mentioned above and in respect of a solvent winding up or in situations of insolvency, the Jersey Companies Law contains no specific restrictions on the power of the Directors in respect of the assets of the Company. However, under the Jersey Companies Law, the Directors, in exercising their powers and discharging their duties, must (a) act honestly and in good faith with a view to the best interests of the Company; and (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Under the Jersey Companies Law, a Director will not be held to have breached his duties if all of the members of the Company authorise or ratify his act or omission and after the act or omission the Company will be able to discharge its liabilities as they fall due.

### **3.8 Accounting and auditing requirements**

Under the Jersey Companies Law, the Company must keep accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy, at any time, the financial position of the Company. Accounts must be prepared in accordance with generally accepted accounting principles and audited accounts must show a true and fair view of, or be presented fairly in all material respects, so as to show the company's profit or loss for the period covered by the accounts and the state of its affairs at the end of the period.

### **3.9 Exchange control**

There are no exchange control regulations or currency restrictions under Jersey law.

### **3.10 Taxation**

Under current Jersey law, there are no capital gains, capital transfer, gift, wealth or inheritance taxes or any death or estate duties. No capital or stamp duty is levied in Jersey on the issue, conversion, redemption or transfer of Shares. On the death of an individual holder of Shares (whether or not such individual was domiciled in Jersey), duty at rates of up to 0.75 per cent., of the value of the relevant Shares may be payable on the registration of any Jersey probate or letters of administration which may be required in order to transfer, convert, redeem or make payments in respect of, Shares held by a deceased individual sole Shareholder.

Under the Income Tax (Jersey) Law 1961 (as amended) ("**Tax Law**"), the standard rate of income tax on the profits of companies regarded as resident in Jersey or having a permanent establishment in Jersey is zero per cent. The Company is currently subject to a zero tax rating.

Shareholders who are not resident for taxation purposes in Jersey will be exempt from Jersey income tax on dividends from the Company. Shareholders who are resident for income tax purposes in Jersey will be subject to income tax in Jersey at the standard rate of 20 per cent., on any dividends paid on the Shares held by them or on their behalf and income tax may be withheld by the Company on payment of any such dividends.

In Jersey, no stamp duty is levied on the issue or transfer of securities (unless there is any element of Jersey residential property being transferred, in which case a land transaction tax may apply pursuant to the Taxation (Land Transactions) (Jersey) Law 2009) except that stamp duty is payable on Jersey grants of probate and letters of administration, which will generally be required to transfer shares on the death of a holder of such shares.

### **3.11 Loans to directors**

There is no express provision in the Jersey Companies Law prohibiting the making of loans by the Company to any of the Directors. However, the Articles include certain prohibitions on such loans.

### **3.12 Inspection of corporate records**

Under the Jersey Companies Law, the Company's register of members shall during business hours be open to the inspection of a member of the Company without charge and may, on the payment of such sum (if any), not exceeding the published maximum, as the Company may require. On submission to the Company of a declaration under the Jersey Companies Law (as to the use of the copy) a person may require a copy of the register and the Company shall, within 10 days after receipt of the payment and the declaration, cause the copy so required to be available at the place where the register is kept for collection by that person during business hours.

### **3.13 Winding up**

- (a) The Company may be placed into liquidation under Jersey law by a summary or creditors' winding up, by order of the Royal Court of Jersey on just and equitable grounds or following a declaration "en désastre" by the Royal Court of Jersey pursuant to Jersey bankruptcy law.
- (b) The Company may be wound up summarily if the company is solvent and the Directors make a statement to that effect. The winding up would commence upon the members passing a special resolution to wind the Company up summarily.
- (c) A creditors' winding up would commence if the members passed a special resolution to wind the Company up by way of creditors' winding up or if the Company is being summarily wound up and becomes insolvent. The Jersey Companies Law set out comprehensive provisions with regard to, amongst other things, meetings of creditors and procedures thereat, appointment, powers and duties of liquidators, the involvement of the Royal Court of Jersey and the disposal and clawback of the Company's property. Pursuant to the Jersey Companies Law, a liquidator must report possible criminal offences relating to the Company, those involved with it or the Directors. As soon as the affairs of the Company in a creditors' winding up were fully wound up, the liquidator would make up an account of the winding up, showing how it had been conducted and the Company's property had been disposed of, and thereupon call a general meeting of the Company and a meeting of the creditors for the purpose of laying the account before the meetings and giving an explanation of it.

- (d) Jersey bankruptcy law allows for the Company to be declared “en désastre” by the Royal Court of Jersey upon an application by the Company or by a creditor with a claim of not less than £3,000 against the Company and if the Royal Court of Jersey considers it just and equitable to do so. The Company would have the ability to recall the declaration if it was not insolvent (i.e. not unable to pay its debts as they fell due). The Royal Court of Jersey would, on such a declaration, appoint the Viscount of Jersey to administer the liquidation of the Company and all the property and assets of the Company would vest in the Viscount. The Viscount has similar powers to a liquidator under a creditor’s winding up. In a désastre, the first duty of the Viscount is to liquidate the estate for the benefit of the creditors who prove their claims. Co-extensive with the Viscount’s duty to protect and realise the Company’s property would be a duty requiring him to investigate the circumstances giving rise to the désastre. The Viscount also has a duty to report possible misconduct. The Viscount would have an obligation to supply all the creditors with a report and accounts relating to the désastre when he had realised all the Company’s property.

### 3.14 Reconstructions

Under the Jersey Companies Law, the Company has the power to compromise with creditors and members. Where a compromise or arrangement is proposed between the Company and its creditors, or a class of them, or between the Company and its members, or a class of them, the Royal Court of Jersey may on the application of the Company or a creditor or member of it or, in the case of the Company being wound up, of the liquidator, order a meeting of the creditors or class of creditors, or of the members of the Company or class of members (as the case may be), to be called in a manner as the Royal Court of Jersey directs. If a majority in number representing:

- (a) 3/4ths in value of the creditors or class of creditors; or
- (b) 3/4ths of the voting rights of the members or class of members,

as the case may be, present and voting either in person or by proxy at the meeting, agree to a compromise or arrangement, the compromise or arrangement, if sanctioned by the Royal Court of Jersey, is binding on:

- (a) all creditors or the class of creditors; or
- (b) all the members or class of members,

as the case may be and also on the Company or, in the case of the Company in the course of being wound up, on the liquidator and contributories of the Company.

### **3.15 Compulsory acquisition**

- (a) Under the Jersey Companies Law, if, following a takeover offer (which is defined as “an offer to acquire all the shares, or all the shares of any class or classes, in a company (other than shares which at the date of the offer are already held by the offeror), being an offer on terms which are the same in relation to all the shares to which the offer relates or, where those shares include shares of different classes, in relation to all the shares of each class”), an offeror has acquired or contracted to acquire not less than nine-tenths in nominal value of the shares to which the offer relates, the offeror may give notice, in accordance with the Jersey Companies Law, to the holders of those shares to which the offer relates which the offeror has not acquired or contracted to acquire, that it desires to acquire those shares. Subject to the provisions of the Jersey Companies Law, upon service of the notice by the offeror, it shall become entitled and be bound to acquire the shares. A minority shareholder also has a right, pursuant to the Jersey Companies Law, to be bought out by an offeror where such threshold (i.e. acquisition of 9/10ths in nominal value of all the shares to which the offer relates) has been met.
- (b) Where a notice is given under the Jersey Companies Law to the holder of any shares the Royal Court of Jersey may, on an application made by the shareholder within 6 weeks from the date on which the notice was given, order that the offeror shall not be entitled and bound to acquire the shares or specify terms of acquisition different from those of the offer.

### **3.16 Indemnification**

- (a) Subject to the exceptions in (b) below, the Jersey Companies Law prohibits any provision whether contained in the Articles or in a contract with the Company or otherwise whereby the Company or any of its subsidiaries or any other person, for some benefit conferred or detriment suffered directly or indirectly by the Company, agrees to exempt any person from, or indemnify him against, any liability which by law would otherwise attach to him by reason of the fact that he is or was an officer of the Company.
- (b) The above prohibitions do not apply to a provision for exempting a person from or indemnifying him against:
  - (i) any liabilities incurred in defending any proceedings (whether civil or criminal):
    - (A) in which judgment is given in his favour or he is acquitted; or
    - (B) which are discontinued otherwise than for some benefit conferred by him or on his behalf or some detriment suffered by him; or
    - (C) which are settled on terms which include such benefit or detriment and, in the opinion of a majority of the Directors (excluding any Director who conferred such benefit or on whose behalf such benefit was conferred or who suffered such detriment), he was substantially successful on the merits in his resistance to the proceedings;

---

**APPENDIX III      SUMMARY OF THE CONSTITUTION OF THE COMPANY  
AND JERSEY COMPANIES LAW**

---

- (ii) any liability incurred otherwise than to the Company if he acted in good faith with a view to the best interests of the Company; or
- (iii) any liability incurred in connection with an application made under the Jersey Companies Law in which relief is granted to him by the Royal Court of Jersey; or
- (iv) any liability against which the Company normally maintains insurance for persons other than our Directors.

**4    GENERAL**

Ogier, the Company's legal counsel on Jersey law, have sent to our Company a letter of advice summarising certain aspects of Jersey Islands company law. This letter, together with a copy of the Jersey Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Jersey company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR COMPANY****1. Incorporation**

Our Company was incorporated in Jersey as a public company limited by shares on 2 May 2006 under the Jersey Companies Law. Our registered office is situated at 13 Castle Street, St Helier, Jersey, Channel Islands, JE1 1ES. Our Company has established its principal place of business in Hong Kong at Unit 2406, 24/F., Strand 50, 50 Bonham Strand, Sheung Wan, Hong Kong and has been registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance since 28 May 2019. Mr. Sin Chi Yuen Edward has been appointed as our agent for the acceptance of service of process in Hong Kong. As our Company was incorporated in Jersey, its corporate structure, Articles of Association and Memorandum of Association are subject to the relevant laws of Jersey. A summary of certain relevant parts of our Company's Articles of Association, Memorandum of Association and certain relevant aspects of the Jersey Companies Law are set out in Appendix III to this prospectus.

**2. Changes in share capital of our Company**

- (a) On 23 October 2019, our Company cancelled 46,808,809 Shares held by us, being all the treasury Shares.
- (b) As at the Latest Practicable Date, our Company has issued 444,447,541 Shares.
- (c) On 14 July 2020, our Company will allot and issue to Double River 23,924,502 Shares.
- (d) Immediately following the completion of the Global Offering, 550,972,043 Shares will be issued fully paid or credited as fully paid.

There had been no alteration in our Company's authorised share capital within two years immediately preceding the date of this prospectus.

**3. Changes in share capital and particulars of our subsidiaries**

Below are the brief particulars of the subsidiaries of our Company:

- (a) Zhongke Tianyuan

Established	2 September 2006
Place of incorporation	PRC
Type of entity	Corporation
General nature of business	Provision of ethanol production system technology integrated services

Equity interest	100% directly owned by our Company
Registered capital	USD10,955,529
(b) Boluo Tianyuan	
Established	30 September 1998
Place of incorporation	PRC
Type of entity	Corporation
General nature of business	Fabrication and manufacture of equipment in accordance with project requirements and designs
Equity interest	100% directly owned by Zhongke Tianyuan
Registered capital	RMB5 million

Further information about the subsidiaries of our Company are listed in the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

There has been no alteration to the share capital or registered capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

#### 4. Resolutions of our Shareholders passed at the general meeting

Pursuant to the resolutions passed by our Shareholders at the general meeting of the Company held on 23 October 2019, among other things:

- (a) the new Memorandum of Association and the Articles of Association in substitution for and to the exclusion of the existing memorandum and articles of association were approved and adopted, subject to and with effect from the Listing;
- (b) cancellation of 46,808,809 Shares held us, being all the treasury Shares, was approved;
- (c) the Loan Agreement, the Pre-HKIPO Loan and the allotment and issue of 23,924,502 Shares to Double River pursuant thereunder were approved, conditional upon our Company has obtained the approval in principle of the Listing granted by the Stock Exchange.

Pursuant to the resolutions passed by our Shareholders at the general meeting of the Company held on 16 April 2020, among other things:

- (a) pursuant to Rule 41 of the AIM Rules, the cancellation of the admission of our Shares to trading on the AIM was approved, conditional upon and with effect from the Listing provided that the Listing should occur within three months from the date of this resolution;



- (b) conditional on, among others, the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in our Shares in issue and to be issued as mentioned in this prospectus and on the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the Underwriting Agreements 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 under the Global Offering;
  - ii. a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and otherwise deal with additional relevant securities (as defined in the existing articles of association) of our Company and to make or grant offers, agreements and options which might require the exercise of such powers up to a maximum aggregate number which is not more than 20% of the aggregate nominal value of the Shares issued and to be allotted and issued pursuant to the Global Offering (taking no account of any Shares which may be allotted and issued pursuant to the exercise of options which have been granted under the Pre-IPO Share Option Schemes), otherwise than by way of rights, scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of whole or part of a dividend on Shares in accordance with the Articles of Association, or pursuant to the exercise of any options which has been granted under the Pre-IPO Share Option Schemes or similar arrangement for the time being adopted, to such persons, at such times and on such terms as they think fit (the “**Issuing Mandate**”);
  - iii. a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase or otherwise acquire on any stock exchange on which our securities are listed or admitted to trading, our securities up to an aggregate nominal amount not exceeding 10% of the aggregate nominal value of the share capital of our Company issued and to be allotted and issued pursuant to the Global Offering (taking no account of any Shares which may be allotted and issued pursuant to the exercise of options which have been granted under the Pre-IPO Share Option Schemes) (the “**Repurchase Mandate**”);
  - iv. each of the Issuing Mandate and the Repurchase Mandate is to remain in effect until the earlier of:
    - (a) the conclusion of the next annual general meeting of our Company; or
    - (b) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law of Jersey or the Articles to be held; or
    - (c) the date on which such mandate is revoked or varied by special resolution in general meeting; and

- v. save that our Company may, before such expiry, (A) in respect of the Issuing Mandate, make or grant an offer, agreement or option which would or might require Shares to be allotted after such expiry and our Directors may allot and issue Shares pursuant to such offer, agreement or option as if the Issuing Mandate had not expired, and (B) in respect of the Repurchase Mandate, enter into a contract to purchase or otherwise acquire the securities of our Company which will or may be executed wholly or partly after the expiry of such authority.

## **5. Corporate reorganisation**

In preparation for the Listing, our Group has undergone the Reorganisation. Please refer to the section headed “History, Reorganisation and Corporate Structure — Reorganisation” in this prospectus for further details.

## **6. Repurchase of our Shares**

Set out below is the information relating to the repurchase of our Shares, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase:

### ***(a) Relevant legal and regulatory requirements***

The Listing Rules permit our Shareholders to grant to our Directors a general mandate to repurchase our Shares that are listed on the Stock Exchange. The mandate is required to be given by way of special resolution passed by our Shareholders at a general meeting.

Pursuant to Article 57(4) of the Jersey Companies Law, if our Shares are to be purchased on a stock exchange, the resolution authorising the purchase shall specify (a) the maximum number of Shares to be purchased; (b) the maximum and minimum prices which may be paid; and (c) a date, not being later than 5 years after the passing of the resolution, on which the authority to purchase is to expire. Under Articles 57(6) of the Jersey Companies Law, our Company may only purchase our Shares if our Shares are fully paid and our Directors authorising the purchase make a prior solvency statement in the statutory for set out in the Jersey Companies Law.

### ***(b) Shareholders’ approval***

All proposed repurchases of Shares (which must be fully paid up) must be sanctioned by a special resolution of our Shareholders at a general meeting, either by way of general mandate or by specific approval of a particular transaction, except where the purchase is by a wholly-owned subsidiary of our Company.

On 16 April 2020, our Directors were granted a general unconditional mandate to repurchase up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of options that have been granted under the Pre-IPO Share Option Schemes) on the Stock Exchange or on any other stock exchange on which our Company’s securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose. This mandate will expire at the earliest of (i) the conclusion of our Company’s next annual general

meeting, (ii) the date by which our Company's next annual general meeting is required by the Articles or the Jersey Companies Law or applicable laws in Jersey to be held; or (iii) such mandate being revoked or varied by special resolutions of our Shareholders at a general meeting (the "**Relevant Period**").

*(c) Source of funds*

Our Company's repurchase of our Shares listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with the Memorandum, the Articles, the Jersey Companies Law and the applicable laws of Jersey. Our Company may not repurchase our Shares on the Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, under Jersey law, a share repurchase may be funded from any source, including the nominal capital account and the share premium account of our Company subject to our Articles. Any premium payable on the purchase over the par value of our Shares to be repurchased must be provided for out of either or both the profits of our Company or our Company's share premium account, or if so authorised by the Articles and subject to the Jersey Companies Law, out of capital.

*(d) Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority to execute repurchases of our Shares in the market. The repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets value per Share and/or earnings per Share and will only be made where our Directors believe that the repurchases will benefit our Company and its Shareholders.

*(e) Funding of repurchases*

In repurchasing its securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association, Memorandum of Association, the Listing Rules, the Jersey Companies Law and the applicable laws of Jersey.

*(f) Exercise of Repurchase Mandate*

On the basis of 550,972,043 Shares in issue immediately after the Global Offering (without taking into account any Shares which may be allotted and issued upon the exercise of the options which have been granted under the Pre-IPO Share Option Schemes), our Directors would be authorised to repurchase up to 55,097,204 Shares during the Relevant Period under the Repurchase Mandate.

*(g) Dealing Restrictions*

Pursuant to the Listing Rules, our Company:

- (i) shall not purchase our Shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its Shares were traded on the Stock Exchange;
- (ii) shall not purchase our Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time;
- (iii) shall not knowingly purchase our Shares from a core connected person and a core connected person shall not knowingly sell our Shares to our Company, on the Stock Exchange;
- (iv) shall procure that any broker appointed by our Company to effect the purchase of our Shares shall disclose to the Stock Exchange such information with respect to purchase made on behalf of our Company as the Stock Exchange may request;
- (v) shall not purchase our Shares on the Stock Exchange at any time after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information is made publicly available. In particular, during the period of one month immediately preceding the earlier of:
  - a. the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for approval of our Company's results for any year, half year, quarterly or any other interim period (whether or not required under the Listing Rules); and
  - b. the deadline for our Company to publish an announcement of its results for any year, half year under the Listing Rules, or any other interim period (whether or not required under the Listing Rules),and ending on the date of the results announcement, our Company may not purchase our Shares on the Stock Exchange, unless the circumstances are exceptional;
- (vi) may not purchase our Shares on the Stock Exchange if that purchase would result in the number of listed securities which are in the hands of the public falling below 25% of the total number of Shares in issue (or the relevant prescribed minimum percentage for our Company as determined by the Listing Rules from time to time).

The Stock Exchange may waive all or part of the above restrictions if, in its opinion, there are exceptional circumstances.

**(h) Reporting requirements**

Our Company shall:

- (i) submit for publication to the Stock Exchange no later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the business day following any day on which our Company makes a purchase of Shares (whether on the Stock Exchange or otherwise), information required under the Listing Rules and/or by the Stock Exchange. Our Company should make arrangements with its brokers to ensure that they provide to our Company in a timely fashion the necessary information to enable our Company to make the report to the Stock Exchange; and
- (ii) include in its annual report and accounts a monthly breakdown of purchases of our Shares made during the financial year under review pursuant to the Listing Rules.

**(i) Status of purchased Shares**

The listing of all our Shares which are repurchased by our Company (whether on the Stock Exchange or otherwise) shall be automatically cancelled upon repurchase. Our Company shall ensure that the documents of title of the repurchased Shares are cancelled and destroyed as soon as reasonably practicable following settlement of any such repurchase.

**(j) General**

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates, have any present intention to sell any of our Shares to our Company.

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, the Articles of Association, the Memorandum of Association, the Jersey Companies Law and any other applicable laws of Hong Kong and Jersey. Our Company shall procure the broker who effects the purchase to disclose to the Stock Exchange such information in relation to the purchase as the Stock Exchange may request.

Our Company is prohibited from knowingly purchasing securities on the Stock Exchange from a core connected person and such person is prohibited from knowingly selling our securities owned by him/her/it to our Company.

No core connected person of our Company has notified our Group that he, she or it has a present intention to sell our Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If, as a result of any repurchase of our Shares, a Shareholder's proportionate interest in our Company's voting rights is increased, the 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 could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as mentioned above, our Directors are not aware of any consequences of repurchases pursuant to the Repurchase Mandate which would arise under the Takeovers Code.

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 falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

## **B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP**

### **1. Summary of material contracts**

The following contracts (not being contracts in the ordinary and usual course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the cooperation framework and capital injection agreement dated 28 December 2018 entered into among ZTE Energy (Inner Mongolia) Company Limited\* (中興能源(內蒙古)有限公司) and Inner Mongolia Li Cheng Biological Refinery Company Limited\* (內蒙古利晟生物精煉有限公司) and Zhongke Tianyuan, pursuant to which the relevant parties agreed to, among others, form a project company in the PRC;
- (b) the termination agreement dated 15 May 2019 entered into among ZTE Energy (Inner Mongolia) Company Limited\* (中興能源(內蒙古)有限公司) and Inner Mongolia Li Cheng Biological Refinery Company Limited\* (內蒙古利晟生物精煉有限公司) and Zhongke Tianyuan pursuant to which the relevant parties agreed to mutually terminate the cooperation framework and capital injection agreement;
- (c) the convertible loan agreement dated 1 February 2019 entered into among our Company, Double River, Mr. Yu, Mr. Tang and Mr. Jiang, in connection with the Pre-HKIPO Loan;
- (d) the supplemental deed to the convertible loan agreement dated 3 January 2020 entered into among our Company, Double River, Mr. Yu, Mr. Tang and Mr. Jiang, extending the term of the Pre-HKIPO Loan;
- (e) the second supplemental deed to the convertible loan agreement dated 29 April 2020 entered into among our Company, Double River, Mr. Yu, Mr. Tang and Mr. Jiang, further extending the term of the Pre-HKIPO Loan;
- (f) the Deed of Indemnity;
- (g) the deed of non-competition dated 16 June 2020 and entered into by Tewin Capital and Mr. Yu in favour of our Company (for ourselves and for the benefit of each of our subsidiaries);
- (h) the deed of non-competition dated 16 June 2020 and entered into by Tonzest Capital and Mr. Tang in favour of our Company (for ourselves and for the benefit of each of our subsidiaries);
- (i) the deed of non-competition dated 16 June 2020 and entered into by Jojo and Mr. Jiang in favour of our Company (for ourselves and for the benefit of each of our subsidiaries);
- (j) the Hong Kong Underwriting Agreement.

## 2. Intellectual property rights of our Group

### *Patents*

As at the Latest Practicable Date, our Group was the registered owner of certain patents which, in the opinion of our Directors, are material to our Group's business and are listed as follows:

<u>No.</u>	<u>Invention type</u>	<u>Title of patent</u>	<u>Place of registration</u>	<u>Patent holder</u>	<u>Patent number</u>	<u>Expiry date</u>
1	Utility model	A liquid distributor structure applicable to falling-film evaporators (一種應用於降膜蒸發器的料液分佈器結構)	PRC	Zhongke Tianyuan	ZL201820211197.7	5 February 2028
2	Utility model	A common tower structure for isolating two materials (一種可全隔離兩種物料的共用塔釜結構)	PRC	Zhongke Tianyuan and GIEC CAS	ZL201820113707.7	21 January 2028
3	Utility model	A seven-tower device with multi effect distillation technology to jointly produce quality alcohol and ethanol fuel (七塔多效差壓蒸餾技術聯產優級酒精和燃料乙醇裝置)	PRC	Zhongke Tianyuan	ZL201420807044.0	16 December 2024
4	Invention	A device and energy-saving technique to jointly produce ordinary and quality edible alcohol (普級和優級食用酒精聯產蒸餾節能裝置及其節能工藝)	PRC	Zhongke Tianyuan	ZL201410505451.0	25 September 2034
5	Invention	A coupling device and technique for quality alcohol distillation with molasses raw materials and waste heat concentration (糖蜜原料優級酒精蒸餾及廢液濃縮熱耦合裝置及工藝)	PRC	Zhongke Tianyuan	ZL201410357357.5	23 July 2034
6	Utility model	Falling film evaporator (降膜式蒸發器)	PRC	Zhongke Tianyuan	ZL201420062720.6	10 February 2024

No.	Invention type	Title of patent	Place of registration	Patent holder	Patent number	Expiry date
7	Utility model	A coupling system for quality alcohol distillation with molasses raw materials and waste heat concentration (糖蜜原料的酒精常壓蒸餾及廢液濃縮熱耦合系統)	PRC	Zhongke Tianyuan	ZL201420054615.8	26 January 2024
8	Invention	Fermentation method for welan gum (一種威蘭膠的發酵方法)	PRC	Zhongke Tianyuan	ZL201310498848.7	21 October 2033
9	Invention	Method and application using industrial waste water and waste gas of bio-butanol to produce microalga (利用生物丁醇的工業廢水廢氣生產微藻的方法及其應用)	PRC	Zhongke Tianyuan	ZL201310039099.1	30 January 2033
10	Invention	Production method for absolute ethanol (無水乙醇的生產方法)	PRC	Zhongke Tianyuan	ZL201210539812.4	12 December 2032
11	Utility model	Alcohol mash tower reboiler system using centrifugal clarified effluent as circulating medium (以離心清液為循環介質的酒精膠塔再沸系統)	PRC	Zhongke Tianyuan	ZL201120266900.2	25 July 2021
12	Invention	A six-tower differential distillation device for super-fine grade edible alcohol and its technique (特級食用酒精六塔差壓蒸餾裝置及其工藝)	PRC	Zhongke Tianyuan	ZL200610035346.0	29 April 2026
13	Invention	Mixed raw materials fermentation technique for alcohol production (酒精生產的混合原料發酵工藝)	PRC	Zhongke Tianyuan	ZL200610035452.9	11 May 2026
14	Invention	Horizontal alcohol fermentation tank with division plates (臥式隔板酒精發酵罐)	PRC	Zhongke Tianyuan	ZL200510036204.1	27 July 2025



No.	Invention type	Title of patent	Place of registration	Patent holder	Patent number	Expiry date
15	Invention	A device and technique to produce absolute ethanol using fermentation mesh as raw materials (一種以發酵醪液為原料生產無水乙醇的裝置及工藝)	PRC	Zhongke Tianyuan	ZL200810028047.3	12 May 2028
16	Invention	A coupling device and technique for alcohol differential pressure distillation with molasses raw materials and waste heat concentration (糖蜜原料的酒精差壓蒸餾和廢液濃縮熱耦合裝置及工藝)	PRC	Zhongke Tianyuan	ZL200810025622.4	2 January 2028
17	Invention	An immobilized carrier for microorganism and its preparation method (一種微生物固定化載體及其製備方法)	PRC	Zhongke Tianyuan	ZL200810218641.9	26 October 2028
18	Invention	A production method to jointly produce bio-butanol and bio-ethanol (生物丁醇聯合發酵生物乙醇的生產方法)	PRC	Zhongke Tianyuan	ZL200910192761.0	27 September 2029
19	Invention	A distillation and dehydration device and technique to jointly produce ethanol fuel and ordinary alcoholic beverage (一種燃料乙醇和普級食用酒精聯產蒸餾脫水裝置及工藝)	PRC	Zhongke Tianyuan	ZL201010545523.6	15 November 2030
20	Invention	Device and method to recycle low pressure triple effect rectified ethanol (低壓三效精餾乙醇回收裝置及方法)	PRC	Zhongke Tianyuan	ZL201010595965.1	19 December 2030
21	Utility model	Multi anti-clogging tube shell heat exchanger (多管束防堵塞管殼換熱器)	PRC	Zhongke Tianyuan	ZL201020661563.2	14 December 2020

No.	Invention type	Title of patent	Place of registration	Patent holder	Patent number	Expiry date
22	Invention	A device and method to acidize and remove sand from raw materials in ethanol production (乙醇生產中對原料酸化除沙的裝置及方法)	PRC	Zhongke Tianyuan	ZL201010587458.3	13 December 2030
23	Utility model	Vertical alcohol continuous fermentation tank (一種立式酒精連續發酵罐)	PRC	Zhongke Tianyuan and Chen Xiansheng (陳憲笙)	ZL201020666097.7	16 December 2020
24	Invention	A clean production method for starch based ethanol fuel (一種澱粉基燃料乙醇的清潔生產方法)	PRC	GIEC CAS, Zhongke Tianyuan and Anhui COFCO Biochemical Fuel Alcohol Co., Ltd.* (安徽中糧生化燃料酒精有限公司)	ZL201110196546.5	13 July 2031
25	Invention	Six tower differential pressure distillation equipment and process for producing superfine grade edible alcohol (一種特級食用酒精六塔差壓蒸餾裝置及工藝)	PRC	Boluo Tianyuan	ZL200910194089.9	22 November 2029
26	Invention	Five tower differential pressure distillation equipment and process for producing alcohol (酒精五塔差壓蒸餾裝置及其工藝)	PRC	Boluo Tianyuan	ZL200510035598.9	29 June 2025
27	Invention	A five-tower second grade differential distillation device and technique for quality edible alcohol (優級食用酒精五塔二級差壓蒸餾裝置及其工藝)	PRC	Zhongke Tianyan	ZL200710030550.8	26 September 2027
28	Utility model	An energy-saving device for production of alcohol and fuel ethanol (一種應用於酒精及燃料乙醇生產的節能裝置)	PRC	Zhongke Tianyuan	ZL201820606409.1	24 April 2028

No.	Invention type	Title of patent	Place of registration	Patent holder	Patent number	Expiry date
29	Utility model	A multi-tower negative pressure distillation device for alcohol and fuel ethanol (一種酒精及燃料乙醇多塔負壓蒸餾裝置)	PRC	Zhongke Tianyuan	ZL201820606410.4	24 April 2028
30	Invention	A differential pressure distillation energy-saving device and technique to produce premium alcohol with double thick tower (雙粗塔生產優級酒精的差壓蒸餾節能裝置及其生產工藝)	PRC	Zhongke Tianyuan	ZL201610952207.8	25 October 2036
31	Invention	A strain of sphingomonas paucimobilis and its application (一株少動鞘氨醇單胞菌及其應用)	PRC	Zhongke Tianyuan	ZL201510893987.9	6 December 2035
32	Utility model	A device for energy-saving with liquefaction and saccharification of starch as raw materials (一種澱粉質原料液糖化節能裝置)	PRC	Zhongke Tianyuan	ZL201920810307.6	29 May 2029

As at the Latest Practicable Date, our Group had filed certain patents applications which, in the opinion of our Directors, are material to our Group's business and are listed as follows:



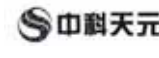
No.	Title of patent	Place of registration	Patent applicant	Application number	Application date
1	A technique for producing fuel ethanol with corn starch as a raw material (一種以玉米澱粉質原料生產燃料乙醇的工藝)	PRC	Zhongke Tianyuan	2018101359096	9 February 2018
2	A technique for producing fuel ethanol with starch and lignocellulosic as raw materials (一種以澱粉質和木質纖維素為原料生產燃料乙醇的工藝)	PRC	Zhongke Tianyuan	2017112770788	6 December 2017

<u>No.</u>	<u>Title of patent</u>	<u>Place of registration</u>	<u>Patent applicant</u>	<u>Application number</u>	<u>Application date</u>
3	A device and technique for producing neutral alcohol and super neutral alcohol (生產中性酒精、超中性酒精的裝置及其生產工藝)	PRC	Zhongke Tianyuan	2017111745721	22 November 2017
4	A device and method to jointly produce absolute ethanol and electronic grade absolute ethanol (一種聯產無水乙醇、電子級無水乙醇的裝置及其方法)	PRC	Zhongke Tianyuan	2017110716064	3 November 2017
5	A device and technique for producing premium alcohol, fuel ethanol and electronic grade absolute ethanol (優級酒精、燃料乙醇、電子級無水乙醇生產裝置及其生產工藝)	PRC	Zhongke Tianyuan	2017109551431	13 October 2017
6	A device and technique for producing medicinal alcohol and high purity alcohol (醫藥酒精和高純度酒精生產裝置及其生產工藝)	PRC	Zhongke Tianyuan	2017108012937	7 September 2017
7	A differential pressure distillation device and technique for producing ultra-pure super-fine grade edible alcohol (一種超純淨特級食用酒精差壓蒸餾生產裝置及其生產工藝)	PRC	Zhongke Tianyuan	2018104215814	4 May 2018
8	A eight-towers differential pressure distillation device for special grade alcohol and its energy efficient production technology (一種特級酒精八塔差壓蒸餾裝置與節能生產工藝)	PRC	Zhongke Tianyuan	2019102674567	3 April 2019

No.	Title of patent	Place of registration	Patent applicant	Application number	Application date
9	A technique and device for jointly production of ethanol fuel by compressing steam and molecular sieve (一種壓縮蒸氣、分子篩膜聯合生產燃料乙醇的工藝和裝置)	PRC	Zhongke Tianyuan	2019102586388	1 April 2019
10	A device and technique for energy-saving with liquefaction and saccharification of starch as raw materials (一種澱粉質原料液糖化節能裝置和工藝)	PRC	Zhongke Tianyuan	2019104654290	30 May 2019
11	A device and technique for distillation of fuel ethanol (一種燃料乙醇蒸餾裝置和工藝)	PRC	Zhongke Tianyuan	2019107180934	5 August 2019
12	A technique for producing fuel ethanol with corn starch as a raw material (一種以玉米澱粉質原料生產燃料乙醇的工藝)	Brazil	Zhongke Tianyuan	PCT/CN2019/073107	25 January 2019
13	A device to jointly produce fuel ethanol and super-fine grade edible alcohol and its technique (一種聯產燃料乙醇和特級食用酒精的生產裝置及其工藝)	PRC	Zhongke Tianyuan	2019112150572	2 August 2019
14	A device to jointly produce super-fine grade edible alcohol and dehydrated ethanol and its technique (一種聯產特級食用酒精和無水乙醇的生產裝置及其工藝)	PRC	Zhongke Tianyuan	2019109127960	25 September 2019
15	A technique for production of fuel ethanol by distillation and dehydration through two coarse fractionating towers with differentiated negative pressure (一種燃料乙醇雙負壓粗餾塔差壓蒸餾脫水生產工藝)	PRC	Zhongke Tianyuan	2019112949250	16 December 2019
16	A device to jointly produce superior grade edible alcohol and dehydrated ethanol (一種優級食用酒精和無水酒精的聯產裝置)	PRC	Zhongke Tianyuan	202020549712X	14 April 2020

*Trademark*

As at the Latest Practicable Date, our Group was the registered owner of the following trademarks that are material to the business of our Group:

Trademark	Place of registration	Trademark applicant	Registration number	Registration Class	Duration of validity
	PRC	Zhongke Tianyuan	9316763	Class 42	21 April 2012– 20 April 2022
	PRC	Zhongke Tianyuan	9316746	Class 7	21 April 2012– 20 April 2022
	PRC	Zhongke Tianyuan	9316709	Class 37	21 April 2012 – 20 April 2022
	PRC	Zhongke Tianyuan	9316578	Class 33	21 April 2012– 20 April 2022
	PRC	Zhongke Tianyuan	9316526	Class 4	21 April 2012– 20 April 2022
	PRC	Zhongke Tianyuan	9316414	Class 1	21 April 2012– 20 April 2022
	PRC	Zhongke Tianyuan	8569576	Class 42	28 January 2012– 27 January 2022
	PRC	Zhongke Tianyuan	5667430	Class 42	7 May 2010– 6 May 2030
	Hong Kong	Zhongke Tianyuan	304767652	Class 1, 4, 7, 33, 37, 42	12 December 2018– 11 December 2028

*Domain names*

As at the Latest Practicable Date, our Group was the registered owner of the following domain names that are material to the business of our Group:

Domain Name	Registrant	Expiry Date
www.chinanewenergy.co.uk	our Company	28 January 2022
www.zkty.com.cn	Zhongke Tianyuan	11 March 2021
www.zkty.com	Zhongke Tianyuan	21 March 2021
www.zkty.cn	Zhongke Tianyuan	5 December 2020
www.1361.com	Zhongke Tianyuan	24 September 2020
www.itipsy.cn	Zhongke Tianyuan	3 May 2021

**C. DISCLOSURE OF INTERESTS****1. Interests and short positions of our Directors in our Shares, underlying Shares and debentures of our Company and its associated corporations following the Global Offering**

Immediately following completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which have been granted under the Pre-IPO Share Option Schemes), so far as the Directors are aware, the interests or short positions of our Directors in our Shares, underlying Shares or debentures of our Company or any of the 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 any interests and 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 as referred to therein, or will be required, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to our Company and the Stock Exchange, once our Shares are listed, will be as follows:

*Long position in Shares*

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding interests (%)
Yu Weijun	Interest in a controlled corporation <sup>1</sup> (Note 1)	99,012,168	17.97
Tang Zhaoxing	Interest in a controlled corporation <sup>2</sup> (Note 2)	48,000,000	8.71
Richard Antony Bennett	Beneficial interest	837,747	0.15

*Notes:*

- (1) *Tewin Capital was wholly owned by Mr. Yu. Therefore, Mr. Yu is deemed, or taken to be, interested in 99,012,168 Shares held by Tewin Capital for the purpose of the SFO.*
- (2) *Both Asia Tianxing and Tonzest Capital were wholly owned by Mr. Tang. As at the date of this prospectus, Asia Tianxing has transferred all our Shares to Tonzest Capital. Therefore, Mr. Tang is deemed, or taken to be, interested in 48,000,000 Shares held by either Tonzest Capital or Asia Tianxing for the purpose of the SFO.*

## **2. Interests and short positions of substantial shareholders in our Shares, underlying Shares and debentures of our Company and its associated corporations**

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Directors are not aware of any other persons (other than a Director or chief executive of our Company) who will have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group immediately following the completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which have been granted under the Pre-IPO Share Option Schemes).

### **D. PRE-IPO SHARE OPTION SCHEMES**

#### **The Pre-IPO Share Option Schemes**

The Pre-IPO Share Option Schemes are not subject to Chapter 17 of the Listing Rules as it does not involve the grant by our Company of options to subscribe for our Shares after the Listing.

Pursuant to the resolutions passed by our Board on 17 October 2017, the plan of the Pre-IPO Share Option Schemes were approved and adopted. The following is a summary of the principal terms of the Pre-IPO Share Option Schemes.

#### ***Summary of terms***

##### ***(a) Purpose of the Pre-IPO Share Option Schemes***

The Pre-IPO Share Option Schemes were put in place for the long-term incentive of directors and senior employees of the Company and its subsidiaries.

##### ***(b) Who may be entitled to the options under the Pre-IPO Share Option Schemes***

Our Company (acting through our Board) may grant an option to any employee of our Group as we choose.



(c) *Price of Shares*

Our Company (acting through our Board) can determine the exercise price of the options for the allotment and issue of our Shares under the Pre-IPO Share Option Schemes at our discretion so long as the exercise price is not lower than the nominal value of our Shares.

The exercise price of each of the 39,300,508 options granted was set at £0.015.

(d) *Grant of options*

Our Company may grant options under the Pre-IPO Share Option Schemes at any time unless when that grant would be prohibited by, or in breach of, any law or regulation with the force of law.

No amount shall be paid by an employee for the grant of an option under the Pre-IPO Share Option Schemes.

(e) *Maximum number of Shares available for subscription*

The maximum number of Shares subject to the Pre-IPO Share Option Schemes is 49,125,635 Shares, representing 10.0% of the then total issued Shares immediately before the adoption of the Pre-IPO Share Option Schemes.

(f) *Exercise of options*

An option may be exercised in accordance with the terms of the Pre-IPO Share Option Schemes and the relevant option certificate at any time during the exercise period (the “**Exercise Period**”) subject to the provisions of early termination thereof.

39,300,508 options under the Pre-IPO Share Option Schemes were granted in October 2017 and were exercisable for a period of three years from 17 October 2017. No further options will be granted under the Pre-IPO Share Option Schemes prior to the Listing Date. All options granted under the Pre-IPO Share Option Schemes were vested on the date of the relevant grant which have been exercisable from the relevant grant date and will be exercisable until the day immediately before the third anniversary of the relevant grant date.

(g) *Rights are personal to grantee*

An option holder may not transfer or assign, or have any charge or other security interest created over an option (or any right arising under it). An option shall lapse if the relevant option holder attempts to do any of those things. However, the plan of the Pre-IPO Share Option Schemes does not prevent the transmission of an option to an option holder’s personal representatives on the death of the option holder.

*(h) Rights on cessation of employment by death*

If an option holder dies, the option holder's personal representatives may exercise such proportion of the option as our Board may specify during the period ending 12 months after the option holder's death. Such option shall lapse on the first anniversary of the option holder's death.

*(i) Rights on cessation of employment*

Subject to the plan of the Pre-IPO Share Option Schemes, an option holder who gives or receives notice of termination of employment (whether or not lawful) may not exercise an option under any rule of the plan of the Pre-IPO Share Option Schemes at any time while the notice remains effective.

Furthermore, an option holder who ceases to be an employee (whether or not following notice) may not exercise an option at any time after ceasing to be an employee under any rule of the plan of the Pre-IPO Share Option Schemes unless:

- (a) the cessation is for reason other than death, injury, ill health, disability, retirement, redundancy, or employer ceasing to be our Group, our Board permits the exercise of the option before (i) the earliest date on which the option may be exercised as set out in the relevant certificate; or (ii) any exercise condition relating to that option has been satisfied by such option holder such proportion of the option as our Board may specify during the next exercise period, or such other period (not to be shorter than 14 days) as our Board may specify. The option shall lapse, to the extent not exercised, on the expiry of the relevant exercise period, or such other period specified by our Board as applicable;
- (b) the cessation is for the reason of injury, ill health, disability, retirement, redundancy, or employer ceasing to be our Group, the option holder may exercise such proportion of the option as our Board may specify during the next exercise period, or such other period (not to be shorter than 14 days) as our Board may specify;
- (c) an option holder who gives or receives notice of termination of employment or who ceases to be an employee (i) for any reason other than summary dismissal, (ii) on or after the earliest date on which the option may be exercised as set out in the relevant option certificate; and (iii) after any exercise condition relating to that option has been satisfied, may exercise the option during the next exercise period or such other period (not to be shorter than 14 days) as our Board may specify. The option shall lapse, to the extent not exercised, on the expiry of the relevant exercise period, or such other period specified by our Board, as applicable.

Except where the option holder has died, an option shall lapse on the earliest of the following:

- (a) any attempted action by the option holder falling within paragraph (g) above;
- (b) when our Board so decides in accordance with the plan of the Pre-IPO Share Option Schemes, to the extent that an exercise condition has become wholly or partly incapable of being met;
- (c) any date on which the option shall lapse, as specified in the relevant option certificate;
- (d) if paragraph (i)(a) above applies, and our Board (i) decides that it will not permit the option holder to exercise the option, the date our Board decides; or (ii) makes no decision, 90 days after the option holder ceases to be an employee;
- (e) if paragraph (i) applies, the end of the relevant exercise period or such period as is determined by our Board;
- (f) when the option holder becomes bankrupt under Part IX of the Insolvency Act 1986, applies for an interim order under Part VIII of the Insolvency Act 1986, proposes or makes a voluntary arrangement under Part VIII of the Insolvency Act 1986, takes similar steps or is similarly affected, under laws of any jurisdiction that correspond to those provisions of the Insolvency Act 1986.

(j) *Rights on a general offer*

Subject to the plan of the Pre-IPO Share Option Schemes, if a person (i) makes an offer to acquire the whole of the issued share capital of our Company, which is made on a condition such that, if it is satisfied, that person will have control of our Company; (ii) makes an offer to acquire all our Shares; or (iii) negotiates a share sale and purchase agreement with our Shareholders which contemplates that that person will obtain control of our Company on completion, then our Board may in its absolute discretion direct that the option holder may exercise the proportion of the options determined by our Board within a reasonable period to be specified by the Board for that purpose and ending immediately before the change of control. Any options not exercised at the end of the period specified by our Board shall lapse.

Subject to the plan of the Pre-IPO Share Option Schemes, if a person obtains control of our Company as a result of (i) making an offer to acquire the whole of the issued share capital of our Company; or (ii) making an offer to acquire all our Shares; or (iii) entering into a sale and purchase agreement with our Shareholders, then the option holder may exercise the proportion of the options determined by our Board within 90 days after the time when that person has obtained control of our Company. The option shall lapse at the end of the 90 day period.

*(k) Rights on winding-up*

If our Shareholders receive notice of a resolution for the voluntary winding up of our Company, any option holder may exercise the proportion of the options determined by our Board at any time before that resolution is passed, conditional upon the passing of that resolution, and if the option holder does not exercise the option, it shall lapse when the winding up begins.

*(l) Rights on compromise or arrangement*

Unless the relevant compromise or arrangement includes appropriate provisions that our Board considers to be fair in its reasonable opinion for (i) the replacement of options; or (ii) other compensation for option holders for the loss of options, the option holder may exercise a proportion of their option within six weeks after any person who obtains control of our Company as a result of the court sanctioning a compromise or arrangement under section 899 of the Companies Act 2006.

*(m) Alteration to the Pre-IPO Share Option Schemes*

Our Board may amend the plan of the Pre-IPO Share Option Schemes from time to time, except that our Board may not amend the plan if the amendment (i) applies to options granted before the amendment was made; and (ii) materially adversely affects the interests of option holders, except that each option holder may consent to the application to their option of such an amendment.

***Outstanding options granted under the Pre-IPO Share Option Schemes***

Options to subscribe for an aggregate of 39,300,508 Shares (representing approximately 7.13% of the total issued share capital of our Company immediately upon completion of the Global Offering (without taking into account any Shares which may be allotted and issued upon the exercise of the options which have been granted under the Pre-IPO Share Option Schemes) have been granted by our Company under the Pre-IPO Share Option Schemes. The options were granted to 90 Grantees, 30 and 60 of which are the Disclosed Grantees and the Other Grantees, respectively.

Particulars of the options granted under the Pre-IPO Share Option Schemes and which are outstanding are set out below:

Name and position of Grantee of our Group	Residential address	Number of Shares subject to the option	Percentage of issued share capital of our Company immediately after completion of the Global Offering without taking into account any Shares which may be allotted and issued upon the exercise of the options which have been granted under the Pre-IPO Share Option Schemes
Mr. Yu ( <i>Executive Director</i> )	Room 702, No. 128 Dai Yuan, No. 81 Xian Lie Zhong Road, Yuexiu District, Guangzhou, PRC	3,070,352	0.56
Mr. Tang ( <i>Executive Director</i> )	Room 202, No. 20 Liyang Street, Tianhe District, Guangzhou, PRC	3,070,352	0.56
Mr. Bennett ( <i>Independent non-executive Director</i> )	26 Bristol Road, Brighton BN2 1AP, United Kingdom	3,070,352	0.56
Mr. Jiang ( <i>General manager</i> )	Flat 703, Block C3A, Fu Li Yuan Shi Ting No. 28-4, Tianhe District, Guangzhou, PRC	3,070,352	0.56
Nicholas Martin Brooks ( <i>A director of our consultant of our Group</i> )	14 Fernlea, Great Bookham, Surrey, United Kingdom	3,070,352	0.56
Zhou Hongcai ( <i>Deputy general manager</i> )	Unit 107, Block 47, No. 32 Wuyi Road, Shigu District, Hengyang City, Hunan	2,149,247	0.39
Mr. Cen ( <i>Finance director</i> )	Room 803, No. 39, Xiaoyuan Quarter, Haizhu District, Guangzhou	1,535,176	0.28
Ms. Xu ( <i>Joint company secretary</i> )	No. 2, Nengyuan Road, Tianhe District, Guangzhou	1,535,176	0.28
Dr. Ou ( <i>R&amp;D department director</i> )	No. 60 Shamian Street, Liwan, Guangzhou	146,758	0.03
Pan Jinfeng ( <i>Assistant general manager</i> )	No. 181, Yuexiu South Road, Yuexiu District, Guangzhou	1,535,176	0.28

Name and position of Grantee of our Group	Residential address	Number of Shares subject to the option	Percentage of issued share capital of our Company immediately after completion of the Global Offering without taking into account any Shares which may be allotted and issued upon the exercise of the options which have been granted under the Pre-IPO Share Option Schemes
Li Guanyao ( <i>Engineering director</i> )	Kangfuhuayuan, Dabei Road, Shiqiao Street, Panyu District, Guangzhou	1,535,176	0.28
Li Chao ( <i>Assistant general manager</i> )	Room 701, No.6 Baoning Street, Tianhe District, Guangzhou	1,535,176	0.28
Tang Fan ( <i>Marketing manager</i> )	Room 1004, No.15 Zhishan Third Road Kaichuang Avenue, Huangpu District, Guangzhou, Guangdong Province	818,760	0.15
Li Zexiong ( <i>Financial manager</i> )	Room 302, No.16, Lane 1, Chongli Street, Changgang Middle, Zhuhai District, Guangzhou	818,760	0.15
Li Jinying ( <i>Project manager</i> )	No.8, Lane 2, Xingfu Third Road, Gaodi Neighbourhood Committee, Chengnan, Huaicheng Town, Huaiji County, Guangdong Province	818,760	0.15
Tan Jiafa ( <i>Administration department manager</i> )	Room 301, No.19, Yueran First Street, Huangpu District, Guangzhou, Guangdong Province	366,975	0.07
Yang Lili ( <i>Deputy manager of administration department</i> )	No.65, Changban West Three Street, Tianhe District, Guangzhou	220,137	0.04
Liu Fanrong ( <i>Inventory management manager</i> )	Room 301, No.337 Yuangang Road, Tianhe District, Guangzhou, Guangdong Province	220,137	0.04
Yang Huazhen ( <i>Human resources manager</i> )	Room 701, No. 3 Yiheng Road, Dongguan Zhuang, Tianhe District, Guangzhou	220,137	0.04

Name and position of Grantee of our Group	Residential address	Number of Shares subject to the option	Percentage of issued share capital of our Company immediately after completion of the Global Offering without taking into account any Shares which may be allotted and issued upon the exercise of the options which have been granted under the Pre-IPO Share Option Schemes
Zhang Zhenghui ( <i>Manager of East China region</i> )	No. 8, Lane 3, West section of Xiangli Road, Beiguan Office, Dongqiao District, Suzhou, Anhui Province	220,137	0.04
Xie Ronghua ( <i>Chief engineer of electrical instrument</i> )	No. 511, Building 14, Living Area 4, Baoxing Neighborhood Committee, Heqing Town, Lengshuijiang, Hunan Province	220,137	0.04
Yao Lei ( <i>General manager – North East region</i> )	Group 16, Yuhuawei, Xinhua Street, Huadian, Jilin Province	220,137	0.04
Cao Yongcun ( <i>Technical support manager</i> )	Group 3, Xihuayuan Village, Shancheng Town, Meihoukou, Jilin Province	220,137	0.04
Jiang Guangsheng ( <i>Assistant engineer</i> )	Room 602, No. 222 Xinshun Road, Baiyun District, Guangzhou	220,137	0.04
Yang Huijing ( <i>Engineering support manager</i> )	No. 46, Yushui Street, Huaguan Road, Tianhe District, Guangzhou	220,137	0.04
Chen Weimin ( <i>Assistant to head of faculty</i> )	1 of No. 4, Shangze Beizhou Village, Ruifen Town, Taishan, Guangdong Province	220,137	0.04
Tan Jiacheng ( <i>Assistant manager</i> )	No. 16 Daxin Middle Road, Shiwei Neighborhood Committee, Luocheng Street, Luoding, Guangdong Province	220,137	0.04
Wujiang ( <i>Engineering manager</i> )	Room 801, Building 9, Jinyusonghu, No.2 West Gongyebei Road, Songshan Lake High-tech Industrial Development Zone, Dongguan, Guangdong Province	220,137	0.04

Name and position of Grantee of our Group	Residential address	Number of Shares subject to the option	Percentage of issued share capital of our Company immediately after completion of the Global Offering without taking into account any Shares which may be allotted and issued upon the exercise of the options which have been granted under the Pre-IPO Share Option Schemes
He Peng <i>(Head of Boluo plant)</i>	Room 503, Block 3, Second Street of Fengyiyuan, Phoenix City, Zengcheng District, Guangdong	220,137	0.04
Xu Shenglong <i>(Engineering department assistant)</i>	Room 504, No. 165, Cuijing Street, Changxing Road, Tianhe District, Guangzhou	220,137	0.04
Other Grantees	–	8,071,690	1.46
Total		<u>39,300,508</u>	<u>7.13</u>

Save as disclosed above, no other options have been granted or agreed to be granted by our Company under the Pre-IPO Share Option Schemes as at the date of this prospectus.

Assuming all the above options granted under the Pre-IPO Share Option Schemes were exercised on the Listing Date, the shareholding of our Shareholders immediately following the Listing would be diluted by approximately 6.66% as calculated based on 590,272,551 Shares then in issue and assuming our Company had been listed on the Stock Exchange since 1 January 2020 with 590,272,551 Shares in issue and all the options granted under the Pre-IPO Share Option Schemes were exercised on 1 January 2020, the dilution effect on our earnings per Share attributable to owners of the parent on a pro forma basis would be approximately 6.66% for the year ending 31 December 2020.



**E. FURTHER INFORMATION ABOUT OUR DIRECTORS****1. Particulars of service agreements and appointment letters***(a) Executive Director*

Our executive Directors have entered into service agreements with our Company pursuant to which they have agreed to act as executive Directors for a fixed term of three years with effect from the Listing Date and the annual director's fee is ranging from HK\$575,000 to HK\$635,000, excluding discretionary benefits or bonus or other fringe benefits. The term of service shall be terminable by either party giving at least three months' written notice or payment in lieu of notice.

*(b) Independent non-executive Directors*

Each of our independent non-executive Directors has been or will be appointed for a fixed term of three years with effect from the Listing Date and is entitled to an annual director's fee ranging from HK\$120,000 to approximately HK\$200,000. Save for our Directors' fees, none of our independent non-executive Directors are expected to receive any other emolument for holding his office as an independent non-executive Director.

Save as disclosed above, none of our Directors have or are proposed to have a service agreement with our Company or any of the subsidiaries (other than the contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

**2. Directors' emoluments**

- (a) For each of the three years ended 31 December 2019, the aggregate emoluments paid and benefits in kind granted by our Group to our Directors were approximately RMB1.90 million, RMB1.65 million and RMB1.12 million, respectively.
- (b) Under the arrangements currently in force, the aggregate emoluments payable by our Group to and benefits in kind (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) receivable by our Directors or proposed Directors for the year ending 31 December 2020 are expected to be approximately HK\$1.63 million.
- (c) None of our Directors or any past directors of any member of our Group have been paid any sum of money during the Track Record Period (i) as an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (d) There has been no arrangement under which a Director has waived or agreed to waive any emoluments during the Track Record Period.

- (e) Under the arrangements currently proposed, conditional upon the Listing, the basic annual emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

**Executive Directors**

Mr. Yu Weijun	HK\$635,000
Mr. Tang Zhaoxing	HK\$575,000

**Independent non-executive Directors**

Mr. Richard Antony Bennett	£20,000
Mr. Chan Shing Fat Heron	HK\$120,000
Mr. Chan Siu Shan Sam	HK\$120,000

- (f) Each of our executive Directors and independent non-executive Directors are entitled to reimbursement of all necessary and reasonable out-of-pocket expenses properly incurred in relation to all business and affairs carried out by our Group from time to time or in discharge of his duties to our Group under the service agreement.

**3. Fees or commission received**

Save as disclosed in the paragraph headed “Commissions and expenses” in the section headed “Underwriting” of this prospectus, no commissions, discounts, brokerages or other special terms were granted in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

**4. Related party transactions**

Details of the related party transactions are set out in the section headed “II. Notes to the historical financial information — 39 Related party transactions” to the Accountant’s Report as set out in Appendix I to this prospectus.

**5. Disclaimers**

Save as disclosed in this prospectus:

- (a) without taking into account of any Shares which may be taken up or acquired under the Global Offering, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Global Offering (taking no account of any Shares which may be allotted and issued pursuant to the exercise of options which have been granted under the Pre-IPO Share Option Schemes), have an interest or short position in our Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, either directly or indirectly, interested in 10% or more of the value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;

- (b) none of our Directors have any interest or short position in any of our Shares, underlying Shares or debentures of our Company or any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once our Shares are listed;
- (c) none of our Directors or proposed Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix have been directly or indirectly interested 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 our Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group;
- (d) none of our Directors are 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; and
- (e) none of the experts named in the paragraph headed “Qualifications of experts” in this appendix have 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.

## F. OTHER INFORMATION

### 1. Tax and other indemnity

Mr. Yu, Tewin Capital, Mr. Tang, Tonzest Capital, Mr. Jiang and Jojo (collectively the “**Indemnifiers**”) have entered into the Deed of Indemnity in favour of our Company and our subsidiaries, pursuant to which the Indemnifiers shall jointly and severally indemnify each of the members of our Group, among other things;

- (a) against any tax liabilities of our Group which have arisen or may arise wholly or partly, (i) in respect of or in consequence of any act, omission, event, transaction or matters entered into or occurring or deemed to be entered into or have occurred on or before the Listing Date; or (ii) in respect of income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liability is chargeable against or attributable to any other person, firm or company, including any tax liability resulting from the receipt by any of our Group of any amounts paid by an Indemnifiers under the Deed of Indemnity;

- (b) against any tax liabilities of our Group under or by virtue of any law or regulation of any jurisdiction arising on the death of any person at any time by reason of any transfer of any property to our Group made or deemed to have been made on or before the Listing Date or by reason of any property of any of our Group being deemed for the purpose of estate duty to be included in the property passing on death of any person by reason of that person making or having made a transfer to such member of our Group on or before the Listing Date;
- (c) any amount recovered against our Group in respect of any duty payable under any law or regulation of any jurisdiction by reason of the death of any person and by reason of the assets of our Group being deemed for the purpose of estate duty to be included in the property passing on our Group;
- (d) any tax liabilities of our Group under or by virtue of any law or regulation of any jurisdiction arising on the death of any person at any time by reason of any property of another company being deemed for the purposes of estate duty to be included in the property passing on that person's death by reason of that person making or having made a transfer to that other company and a member of our Group having received any distributed assets of that other company on their distribution in each case at any time on or before the Listing Date, but only to the extent that the relevant member of our Group is unable to recover such duty from any other person under any such law or regulation;
- (e) any tax liabilities of our Group arising as a result of or as a consequence of the tax authorities in the PRC, Hong Kong, Jersey charging the income, profits or gains of our Group earned, accrued or received on or before the Listing Date with respect to taxation in the PRC, Hong Kong, Jersey at a rate in excess of any concessional rate enjoyed by our Group on or before the Listing Date; and
- (f) any costs (including legal costs), fees, expenses, losses, interests, penalties or other liabilities incurred by our Group in, (i) investigating, assessing or contesting any such tax liability or tax claim; (ii) taking, settling or defending any action under the Deed of Indemnity; or (iii) enforcing any settlement or judgement in favour of our Company or any member of our Group in respect of an action under the Deed of Indemnity or (iv) any non-compliance with Circular 75 by Mr. Yu, Mr. Tang and Mr. Jiang.

## 2. 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 is likely to fall on our Company or any of its subsidiaries in Jersey or the PRC, being jurisdictions in which one or more of the companies comprising our Group were incorporated.

### 3. Litigation

As at the Latest Practicable Date, save as disclosed in this prospectus, to the best of our Directors' knowledge, there have been no current litigation or any pending or threatened litigation or arbitration proceedings against any member of our Group that could have a material adverse effect on our Group's financial conditions or results of operations.

### 4. Sponsor

The Sole Sponsor has, on behalf of our Company, made an application to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Sole Sponsor's fees payable by our Company are approximately HK\$7,400,000. The Sole Sponsor satisfies the independence criteria applicable to sponsors under Rule 3A.07 of the Listing Rules.

### 5. Preliminary expenses

No preliminary expenses were paid by our Company.

### 6. Promoter

- (a) Our Company does not have any promoters.
- (b) Within the two years immediately preceding the date of this prospectus, no amount or cash, securities or other benefit has been paid, allotted or given to any promoter of our Company in connection with the Global Offering or the related transactions described in this prospectus.

### 7. Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualifications
Dongxing Securities (Hong Kong) Company Limited	A corporation licensed by the SFC to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Ogier	Legal advisers as to Jersey laws
Zhong Lun Law Firm (Guangzhou)	Legal advisers as to PRC Law

Name	Qualifications
Almond + Co	Legal advisers as to English Law
Hogan Lovells	Legal advisers as to International Sanctions
Cairn Financial Advisers LLP	Nominator adviser authorised and regulated by Financial Conduct Authority of the United Kingdom and the LSE
PricewaterhouseCoopers	Certified Public Accountants under Professional Accountant Ordinance (Cap. 50) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588)
China Insights Consultancy Limited	Industry expert

## 8. Consents of experts

Each of the experts referred to in the paragraph headed “Qualifications of experts” in this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letters and/or legal opinion (as the case may be) and the references to their 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 (WUMP) Ordinance so far as applicable.

## 10. Taxation of holders of Shares

### (a) *Hong Kong*

Dealings in Shares registered on our Company’s Hong Kong register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, the fair value of our Shares being sold or transferred. Profits from dealings in our Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

### (b) *Consultation with professional advisers*

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares or exercising any rights attaching to them. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering would accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

**11. Miscellaneous**

Save as disclosed herein:

- (a) 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, agree to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares or debentures of our Company; and
  - (iii) no founder, management or deferred shares of our Company have been issued or agreed to be issued;
- (b) no Share, warrant 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;
- (c) our Directors confirm that there have been no material adverse changes in the financial or trading position or prospects of our Group since 31 December 2019, being the date on which the latest audited financial information of our Group was reported in the Accountant's Report set out in Appendix I to this prospectus;
- (d) our Directors confirm that 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 12 months immediately preceding the date of this prospectus;
- (e) our Group has no outstanding hire purchase commitments, guarantees or other material contingent liabilities as at the Latest Practicable Date;
- (f) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (g) our Company has no outstanding convertible debt securities.

**12. Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in Section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration included (i) copies of the Application Forms, (ii) copies of the written consents as referred to in the paragraph headed “8. Consents of experts” under the section headed “F. Other information” in Appendix IV to this prospectus, (iii) copies of the material contracts as referred to in the paragraph headed “1. Summary of material contracts” under section headed “B. Further information about the business of our Group” in Appendix IV to this prospectus and (iv) copy of the statement of adjustments in relation to the Accountant’s Report as set out in Appendix I to this prospectus from PricewaterhouseCoopers.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at Kwok Yih & Chan, Suites 2103–05, 21st Floor, 9 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:

1. the Articles of Association and Memorandum of Association;
2. the Accountant’s Report issued by PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus together with the associated statement of adjustments;
3. the audited consolidated financial statements of our Group for the Track Record Period;
4. the report from PricewaterhouseCoopers on the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
5. the legal opinion prepared by Ogier summarising certain aspects of Jersey Companies Law as referred to in Appendix III to this prospectus;
6. the legal opinion issued by Zhong Lun Law Firm (Guangzhou) as to PRC laws in respect of our Group’s business operations and property interests in the PRC;
7. the legal opinion issued by Almond + Co as to English laws in connection with our Shares and our Company;
8. the legal memorandum issued by Hogan Lovells in respect of relevant International Sanctions applicable to our Group;
9. the Jersey Companies Law;
10. the rules of the Pre-IPO Share Option Schemes;
11. the full list of all the Grantees who have been granted options to subscribe for our Shares under the Pre-IPO Share Option Schemes, containing all the details as required under Rule 17.02(1)(b) of and Paragraph 27 of Appendix 1A to the Listing Rules and Paragraph 10 of Part I of the Third Schedule of the Companies (WUMP) Ordinance;



12. the material contracts as referred to in the paragraph headed “1. Summary of material contracts” under the section headed “B. Further information about the business of our Group” in Appendix IV to this prospectus;
13. the service agreements and letters of appointment as referred to in the paragraph headed “1. Particulars of service agreements and appointment letters” under the section headed “E. Further information about our Directors” in Appendix IV to this prospectus;
14. the written consents as referred to in the paragraph headed “8. Consents of experts” under the section headed “F. Other information” in Appendix IV to this prospectus;
15. the CIC Report.



**中科天元**

**ChinaNewEnergy**