



Yadong Group Holdings Limited

亞東集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1795

SHARE OFFER

Sole Sponsor



Joint Bookrunners and Joint Lead Managers



IMPORTANT

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



亞東

Yadong Group Holdings Limited 亞東集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares under the Share Offer : 150,000,000 Shares (subject to the Over-allotment Option)
Number of Public Offer Shares : 15,000,000 Shares (subject to adjustment)
Number of Placing Shares : 135,000,000 Shares (subject to adjustment and the Over-allotment Option)
Offer Price : not more than HK\$1.08 per Offer Share and expected to be not less than HK\$0.84 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value : HK\$0.01 per Share
Stock code : 1795

Sole Sponsor



富強金融資本
FORTUNE FINANCIAL CAPITAL

Joint Bookrunners and Joint Lead Managers



富強證券
FORTUNE (HK) SECURITIES



光大證券
EVERBRIGHT SECURITIES



申萬宏源香港
SHENWAN HONGYUAN



富昌證券
FULBRIGHT SECURITIES



國信證券(香港)
GUOSEN SECURITIES (HK)

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

The Offer Price is expected to be determined by an agreement to be entered into between our Company and Fortune (HK) Securities (for itself and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or around Friday, 6 November 2020, and in any case no later than Friday, 6 November 2020. The Offer Price will be not more than HK\$1.08 and is currently expected to be not less than HK\$0.84, unless otherwise announced. If our Company and Fortune (HK) Securities (for itself and on behalf of the Underwriters) are unable to reach an agreement on the Offer Price by Friday, 6 November 2020, the Share Offer (including the Public Offer) will lapse and will not proceed. In such case, a notice will be published on the Stock Exchange's website at www.hkexnews.com and our Company's website at www.yadongtextile.com.

Fortune (HK) Securities (for itself and on behalf of the Underwriters) may, with the consent of our Company, reduce the number of Offer Shares in the Share Offer and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such case, a notice will be published on the Stock Exchange's website at www.hkexnews.com and our Company's website at www.yadongtextile.com not later than the morning of the last day for lodging applications under the Public Offer. Further details are set out in "Structure and conditions of the Share Offer" and "How to apply for Public Offer Shares" in this prospectus.

Prior to making any investment decision, prospective investors should consider carefully all the information set out in this prospectus, including the risk factors set out under "Risk factors" in this prospectus.

The obligations of the Public Offer Underwriters under the Public Underwriting Agreement to subscribe for, and to procure applicants to subscribe for, the Public Offer Shares, are subject to termination by Fortune (HK) Securities (for itself and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Please refer to "Underwriting — Underwriting arrangements and expenses — Grounds for termination" in this prospectus for further details of such grounds for termination.

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

30 October 2020

EXPECTED TIMETABLE

The application for the Public Offer Shares will commence on Friday, 30 October 2020 through to Friday, 6 November 2020. Such time period is longer than the normal market practice of four days. The application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will be returned to the applicant(s) without interest on Tuesday, 17 November 2020. Investors should be aware that the dealings in Shares on the Stock Exchange are expected to commence on Wednesday, 18 November 2020.

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

(Note 1)

Public Offer commences and **WHITE** and

YELLOW Application Forms available from 09:00 a.m. on Friday, 30 October 2020

Latest time to complete electronic applications

under the **White Form eIPO** service

through the designated website

at www.eipo.com.hk ^(Note 2) 11:30 a.m. on Friday, 6 November 2020

Application lists of the Public Offer open ^(Note 3) 11:45 a.m. on Friday, 6 November 2020

Latest time to complete payment for

the **White Form eIPO** applications by

effecting internet banking transfer(s) or

PPS payment transfer(s) 12:00 noon on Friday, 6 November 2020

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

Application Forms 12:00 noon on Friday, 6 November 2020

Latest time to give **electronic application**

instructions to HKSCC ^(Note 4) 12:00 noon on Friday, 6 November 2020

Application lists of the Public Offer close ^(Note 3) 12:00 noon on Friday, 6 November 2020

Expected Price Determination Date ^(Note 5) on or around Friday, 6 November 2020

EXPECTED TIMETABLE

- (i) Announcement of:
- the final Offer Price;
 - the level of applications in the Public Offer;
 - the level of indications of interest in the Placing; and
 - the basis of allocation of the Public Offer Shares,
- to be published on or before..... Tuesday, 17 November 2020
- (ii) Announcement of results of allocation of the Public Offer (with identification document numbers or business registration numbers of successful applicants, where appropriate) to be available through a variety of channels as set out in “How to apply for Public Offer Shares — 11. Publication of results” in this prospectus from..... Tuesday, 17 November 2020
- (iii) A full announcement of the Public Offer containing (i) and (ii) above will be published on the Stock Exchange’s website at www.hkexnews.hk and our Company’s website at www.yadongtextile.com from..... Tuesday, 17 November 2020
- Results of allocations in the Public Offer will be available at www.iporesults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a “search by ID/Business Registration Number” function from..... Tuesday, 17 November 2020
- Despatch/collection of share certificates or deposit of the share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Public Offer on or before ^(Note 6)..... Tuesday, 17 November 2020
- Despatch/collection of e-Refund payment instructions/refund cheques in respect of wholly or partially successful applications pursuant to the Public Offer on or before ^(Notes 7 to 8)..... Tuesday, 17 November 2020
- Dealings in the Shares on the Main Board of the Stock Exchange expected to commence at 9:00 a.m. on..... Wednesday, 18 November 2020

EXPECTED TIMETABLE

Notes:

- (1) All times and dates refer to Hong Kong local time, except otherwise stated. Please refer to “Structure and conditions of the Share Offer” in this prospectus for further details of the structure of the Share Offer, including conditions of the Share Offer.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is/are a “black” rainstorm warning, a tropical cyclone warning signal number 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 Friday, 6 November 2020, the application lists will not open on that day. Please refer to “How to apply for Public Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this prospectus for further details.
- (4) Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to apply for Public Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus for further details.
- (5) The Price Determination Date is expected to be on or around Friday, 6 November 2020. If, for any reason, the Offer Price is not agreed by Friday, 6 November 2020 between our Company and Fortune (HK) Securities (for itself and on behalf of the Underwriters), the Share Offer will not proceed and will lapse accordingly.
- (6) Share certificates for the Offer Shares are expected to be issued on or before Tuesday, 17 November 2020, but will only become valid certificates of title at 8:00 a.m. on Wednesday, 18 November 2020, provided that: (i) the Share Offer has become unconditional in all respects; and (ii) none of the Underwriting Agreements has been terminated in accordance with its own terms.
- (7) Refund cheques or e-Refund payment instructions will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque.
- (8) Applicants who have applied on **WHITE** Application Forms or through the **White Form eIPO** service for 1,000,000 or more Public Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates in person from our Company’s Hong Kong Branch Share Registrar at Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 17 November 2020 or such other date as notified by our Company on the Stock Exchange’s website at www.hkexnews.hk and our Company’s website at www.yadongtextile.com as the date of despatch/collection of share certificates/e-Refund payment instructions/refund cheques. Individual applicants who are eligible for personal collection may not authorise any other person to collect on their behalf. Corporate applicants which are eligible for personal collection may arrange for collection by their authorised representatives bearing letters of authorisation from the corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce evidence of identity acceptable to our Hong Kong Branch Share Registrar at the time of collection.

EXPECTED TIMETABLE

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares 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 the credit to their or the designated CCASS Participants' stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

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) despatched to those bank accounts 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) despatched to the addresses as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Public Offer Shares and any uncollected Share certificates and/or refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

The above expected timetable is a summary only. Please refer to “Structure and conditions of the Share Offer” and “How to apply for Public Offer Shares” in this prospectus for further details of the structure of the Share Offer, including the conditions of the Share Offer and the procedures for application for the Public Offer Shares.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

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

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

	<i>Page</i>
Expected timetable	i
Contents	v
Summary	1
Definitions	18
Glossary of technical terms	30
Forward-looking statements	31
Risk factors	33
Information about this prospectus and the Share Offer	57
Waiver from strict compliance with the requirements under the Listing Rules	63
Directors and parties involved in the Share Offer	66
Corporate information	72

CONTENTS

	<i>Page</i>
Industry overview	74
Regulatory overview	86
History, Reorganisation and Group structure	99
Business	107
Connected transaction	203
Relationship with Controlling Shareholders	205
Substantial Shareholders	213
Directors and senior management	214
Share capital	226
Financial information	230
Future plans and use of proceeds	303
Underwriting	308
Structure and conditions of the Share Offer	320
How to apply for Public Offer Shares	333
Appendix I — Accountants' Report	I-1
Appendix II — Unaudited pro forma financial information	II-1
Appendix III — Profit forecast	III-1
Appendix IV — Summary of the constitution of our Company and Cayman Islands Company Law	IV-1
Appendix V — Statutory and general information	V-1
Appendix VI — Documents delivered to the Registrar of Companies and available for inspection	VI-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 of the information which may be important to you and is qualified in its entirety, and should be read in conjunction with, the full text of this prospectus. You should read the whole prospectus including the appendices hereto, which constitutes an integral part of this prospectus, before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks of investing in the Offer Shares are summarised in “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

Various expressions used in this summary are defined in “Definitions” and “Glossary of technical terms” in this prospectus.

OVERVIEW

We principally engage in the design, process and sale of textile fabric products. We also engage in the provision of just processing services. Our textile fabric products can be categorised into two broad types, namely (i) plain weave fabrics; and (ii) corduroy fabrics. Our textile fabric products feature a variety of different colours, patterns, textures and functionalities. We sell our textile fabric products mainly to garment manufacturers as well as trading companies. To the best of our knowledge, during the Track Record Period, most, if not all, of our textile fabric products were purchased by our customers for further processing into finished garments for apparel brand operators, some of which were operators of international or national brands, such as UNIQLO and Semir. During the Track Record Period, our textile fabric products were mainly sold or distributed in the PRC, Japan and certain other markets in Asia, such as Taiwan, Vietnam, Bangladesh and Indonesia.

We trace our roots back to 2011 when Yadong (Hong Kong) was incorporated in Hong Kong. Since 2011, our Group has been engaging in the sale of textile fabric products until 2014 when we expanded our business to design and processing of textile fabric products through Yadong (Changzhou), which was established in the PRC in 2014.

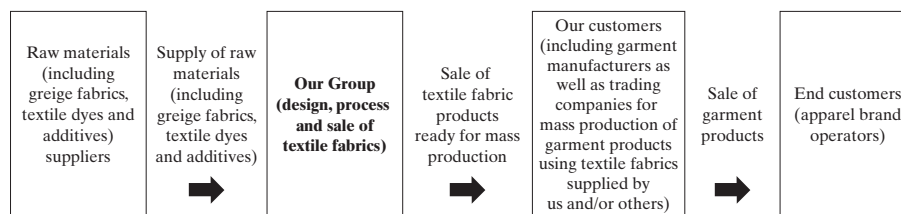
Our production facilities are located in Changzhou city, Jiangsu province, the PRC. According to the Ipsos Report, Jiangsu province is one of the five major industry clusters of the textile dyeing and finishing industry in the PRC and a significant location for the production of dyed and printed fabrics in the PRC, and in 2019, Jiangsu province accounted for approximately 13.8% of the total production volume of printed and dyed fabrics in the PRC. Please refer to “Industry overview — Overview of the textile dyeing and finishing industry” in this prospectus for further details.

OUR BUSINESS MODEL AND OPERATIONS

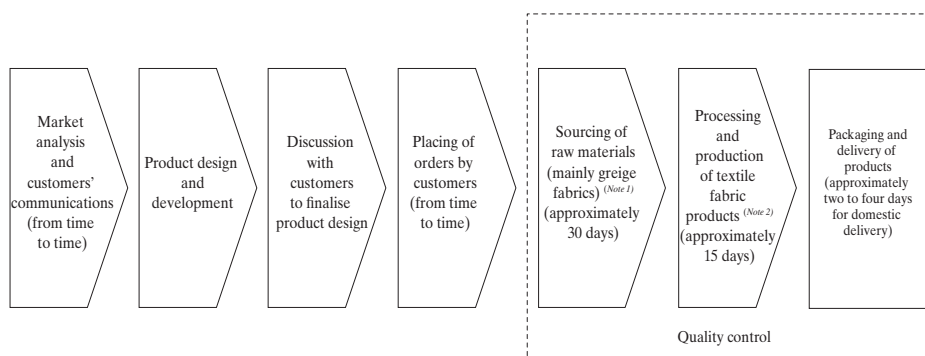
Our business model is founded on our core values in delivering high quality, timely and reliable services, meeting customer expectations and continually improving customers’ satisfaction, and maintaining an environmentally friendly manufacturing process. We operate on our “customer-oriented” principle where we respond to our customers’ specific product requirements. We also take the initiative to design, develop and offer our self-designed and self-developed textile fabrics to our customers. Certain apparel brand operators may directly approach us to procure textile fabrics with specific attributes. Similarly, we may present our self-designed and self-developed textile fabrics to apparel brand operators for their consideration to meet the ever-changing fashion trends and the demand for more varieties and functionalities of textile fabrics. During the Track Record Period, we also engaged in the provision of just processing services.

SUMMARY

The diagram below sets out our position within the textile supply chain and our role in general:



The diagram below illustrates the business model of our principal operations of design, process and sale of textile fabric products:



Notes:

1. We may, where necessary, coordinate with our greige fabrics suppliers in the manufacture of the greige fabrics to our requirements.
2. The production time is dependent on a number of factors, including fabric specification and type, complexity of design and quantity requirement.

For details, please refer to “Business — Our operations” in this prospectus.

During the Track Record Period, our production volume amounted to approximately 41.4 million metres, 41.5 million metres, 43.6 million metres and 9.95 million metres, respectively, representing a utilisation rate of approximately 98.4%, 98.6%, 103.5% and 70.7%, respectively. For further details, please refer to “Business — Production process — Production capacity and utilisation rate” in this prospectus.

OUR CUSTOMERS

During the Track Record Period, our customers purchasing our textile fabric products principally consisted of garment manufacturers as well as trading companies. As for our provision of just processing services, our customers were mainly textile manufacturers and trading companies. We have established stable relationships with our major customers. Among our top five customers during the Track Record Period, we have been providing products to them for a period ranging from two to five years. For the Track Record Period, the percentage of revenue attributable to our largest customer amounted to approximately 11.9%, 14.5%, 9.9% and 12.8%, respectively, while the percentage of total revenue attributable to our top five customers amounted to approximately 41.3%, 38.6%, 38.1% and 43.3%, respectively.

SUMMARY

We have established good business relationships with some apparel brand operators that are internationally or nationally well-known, such as UNIQLO and Semir. We have established a long-term business relationship with UNIQLO since 2014 and with Semir since 2015. We have been awarded by UNIQLO as one of their trusted business partners. Some of our customers (including major customers) are the designated garment manufacturers or the designated trading companies of apparel brand operators who procure raw materials from us at the instructions of such apparel brand operators. To the best of our Directors' knowledge, during the Track Record Period, 12, 14, 14 and 15 of our customers were the garment manufacturers or sourcing agents of UNIQLO, and the revenue contribution from these customers amounted to approximately RMB204.8 million, RMB316.3 million, RMB314.6 million and RMB64.7 million, representing approximately 31.0%, 36.7%, 36.3% and 38.9% of our total revenue during the Track Record Period, respectively.

During the Track Record Period, we purchased greige fabrics from some suppliers who were also our customers to whom we provided processing services or sold our finished fabric products. As confirmed by our Directors, the service or products we provided or sold to these overlapping customers and suppliers were entirely distinctive from the materials we procured from them. Our Directors confirmed that the respective transactions were conducted in the ordinary course of our business on normal commercial terms. According to the Ipsos Report, the overlapping relationship of customers and suppliers is considered one of the industry practices within the textile dyeing and finishing industry.

INTRA-GROUP TRANSACTIONS

During the Track Record Period, some of the textile fabric products produced by Yadong (Changzhou) were exported to third party overseas customers through Yadong (Hong Kong). Yadong (Hong Kong) was mainly responsible for solicitation and conclusion of sale transactions with overseas customers. Based on the analysis conducted with reference to similar market transactions and applying transaction net margin method, the Tax Adviser did not foresee any material income tax provision in respect of transfer pricing and that the aforesaid intra-group transactions did not appear to have material avoidance or evasion of income tax from transfer pricing perspective. Based on the confirmation by the Tax Adviser and the transfer pricing analysis of the Tax Adviser, our Directors take the view that the transfer pricing arrangement between Yadong (Changzhou) and Yadong (Hong Kong) complies with the applicable transfer pricing rules and regulations in the PRC and Hong Kong. In addition, the relevant PRC tax authority confirmed that it had no concerns with the related party transaction tax filings filed by Yadong (Changzhou) in 2017, 2018 and 2019, and the risk that Yadong (Changzhou) would be liable to penalties for the related party transactions in 2017, 2018 and 2019 was remote.

SUPPLIERS AND SUBCONTRACTORS

The principal raw materials for our production process comprise two broad categories, namely (i) greige fabrics; and (ii) textile dyes and additives such as colourants and dyeing auxiliaries. We purchase our raw materials from local suppliers in the PRC. Among our top five suppliers during the Track Record Period, we had procured materials from them for a period ranging from approximately one to five years. For the Track Record Period, purchases from our largest supplier represented approximately 32.1%, 23.6%, 19.7% and 26.8% of our total purchases, respectively, and purchases from our top five suppliers accounted for approximately 64.2%, 66.0%, 62.1% and 79.9% of our total purchases, respectively. Our principal raw materials are available from a large number of local suppliers and we have more than one supplier for each type of raw material to reduce reliance on any single supplier. We had not encountered any significant delays or shortages in the supply of our raw materials during the Track Record Period.

SUMMARY

We occasionally outsource certain production processes to third party subcontractors, in particular, where (i) our Group does not possess the requisite equipment and/or techniques for such process, such as coating; and/or (ii) the quantity of the purchase order received exceeds our Group's production capacity and/or the purchase order received has to be fulfilled within a tight timeframe. During the Track Record Period, we had engaged a total of 31, 33, 29 and 15 third party subcontractors, respectively for the provision of textile processing services and textile dyeing services. During the Track Record Period, our subcontracting costs amounted to approximately RMB18.8 million, RMB35.3 million, RMB29.3 million and RMB2.7 million, respectively, representing approximately 3.2%, 4.7%, 4.0% and 1.9% of our total cost of sales, respectively.

OUR COMPETITIVE STRENGTHS

We believe that the following principal strengths are crucial to our success and essential for our future growth: (i) high quality products, and timely and reliable services; (ii) established relationships with key customers and our market reputation; (iii) strong capabilities in product design and development and to process a wide range of textile fabrics; (iv) strategically located close to the centre of the PRC's textile industry; and (v) experienced senior management team with the requisite industry and management expertise.

OUR BUSINESS STRATEGIES

We intend to implement the following business strategies to strengthen our market position and maintain our market competitiveness: (i) expand our production capabilities and increase our production capacity; (ii) expand our product coverage to knitted fabrics; (iii) expand into the markets in Europe and the U.S. and broaden our customer base in the PRC; (iv) continue to devote resources for our product development capabilities; and (v) recruit more experienced personnel.

MATERIAL RISK FACTORS

There are risks associated with your investment in the Offer Shares, among which, the relatively material risks are: (i) our business operations may be affected by the COVID-19 pandemic; (ii) we generally do not enter into long-term sales agreements with our customers; (iii) we rely on our major customers and in turn the related apparel brand operators to whom we supply our textile fabric products; (iv) we generally do not enter into long-term contracts with our suppliers, which may adversely affect the stability, sufficiency and purchase costs of our supply of raw materials used in our production process; (v) our business operations, financial condition and results of operations may be adversely affected by any significant disruption or downtime of our production plant; (vi) our failure to maintain the quality of our products and/or textile dyeing and finishing services may result in a loss of customers and adversely affect our reputation and business; and (vii) our failure to pass on the increases in the cost of materials used in our production process to our customers may adversely affect our business and results of operations.

COMPETITIVE LANDSCAPE AND MARKET SHARE

The textile dyeing and finishing industry in the PRC is considered fragmented according to the Ipsos Report. In 2019, the top five textile dyeing and finishing service providers only accounted for a market share of approximately 6.4% of the total market value in the PRC, with the remainder of the market consisting of a large number of small and medium size service providers. According to the Ipsos Report, we ranked third in terms of revenue among textile dyeing and finishing service providers in Jiangsu province in 2019. We recorded revenue of approximately RMB866.7 million in 2019, which accounted for approximately 0.2% of the total market value in China and approximately 1.6% of the total market value in Jiangsu province in 2019.

SUMMARY

SHAREHOLDER INFORMATION

Immediately upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme), our Company will be owned as to 75.0% by Oriental Ever Holdings, which is wholly-owned by Mr. Xue, the chairman of our Board, an executive Director and a Controlling Shareholder. Oriental Ever Holdings and Mr. Xue will be directly or indirectly holding 75.0% of the issued share capital of our Company and are regarded as a group of Controlling Shareholders under the Listing Rules. None of our Controlling Shareholders, our Directors or the directors of any of our subsidiaries has any interest in any business apart from our Group's business which competes or is likely to compete, either directly or indirectly, with our Group's business. For further details, please refer to "Relationship with Controlling Shareholders" in this prospectus.

SUMMARY OF OPERATIONAL AND FINANCIAL INFORMATION

Selected information in our consolidated statements of profit or loss and other comprehensive income

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	661,726	861,477	866,674	220,387	166,306
Gross profit	81,690	113,184	129,543	31,511	26,400
Profit before tax	42,838	65,104	73,909	14,686	5,330
Profit for the year/period	30,563	49,085	52,664	11,319	2,584
Total comprehensive income for the year/period	28,095	51,316	53,917	10,598	1,775

The slight increase in our revenue from 2018 to 2019 was primarily attributable to the increase in our overall average unit price mainly due to the increase in the proportion of sales from our corduroy fabric products (which had a relatively higher average unit price) in 2019. The decrease in our revenue for the four months ended 30 April 2020 was primarily attributable to the impacts of the COVID-19 pandemic which had delayed our production and delivery of certain orders from garment manufacturers and/or sourcing agents of UNIQLO contributing to the decrease in our sales to Customer A, Customer F and an overseas garment manufacturer customer located in Bangladesh.

Revenue

Revenue, sales and processed volume by business stream

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Sale of textile fabric products:										
— Plain weave fabrics	485,450	73.4	708,684	82.3	625,430	72.2	158,025	71.7	124,076	74.6
— Corduroy fabrics	119,670	18.0	95,187	11.0	197,221	22.8	49,932	22.7	31,392	18.9
	605,120	91.4	803,871	93.3	822,651	95.0	207,957	94.4	155,468	93.5
Processing services	56,606	8.6	57,606	6.7	44,023	5.0	12,430	5.6	10,838	6.5
Total	661,726	100.0	861,477	100.0	866,674	100.0	220,387	100.0	166,306	100.0

SUMMARY

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	'000 metres	%	'000 metres	%	'000 metres	%	'000 metres	%	'000 metres	%
Plain weave fabrics	29,759	58.6	38,944	67.1	33,965	62.6	8,568	61.8	6,656	65.3
Corduroy fabrics	5,324	10.5	4,518	7.8	9,349	17.2	2,330	16.8	1,398	13.7
Processing services	15,674	30.9	14,590	25.1	10,910	20.2	2,958	21.4	2,137	21.0
Total	50,757	100.0	58,052	100.0	54,224	100.0	13,856	100.0	10,191	100.0

Plain weave fabric products: The increase in our sales and sales volume from 2017 to 2018 was primarily attributable to (i) the increase in the sales orders; (ii) the commencement of business with Customer F in 2018; and (iii) the increase in the number of other large plain weave fabric product customers. The decrease in our sales and sales volume in 2019 was primarily attributable to (i) the shift of part of our production capacity for our corduroy fabric products; and (ii) the decrease in our sales to Customer F and Customer H. The decrease in our sales and sales volume for the four months ended 30 April 2020 was primarily attributable to the decrease in our sales to Customer A, Customer F and the aforesaid Bangladeshi customer mainly due to the impacts of the COVID-19 pandemic.

Corduroy fabric products: The decrease in our sales and sales volume from 2017 to 2018 was primarily attributable to the decrease in the sales to Customer C. The increase in our sales and sales volume in 2019 was primarily attributable to (i) the increase in the sales orders; (ii) the change of product mix to increase purchases of corduroy fabric products mainly from Customer A and Customer G mainly because of (a) our selling price reduction from 2018; and (b) a change of the fashion trend in 2019; and (iii) the increase in the number of our large corduroy fabric product customers. The decrease in our sales and sales volume for the four months ended 30 April 2020 was primarily attributable to the decrease in our sales to Customer A and the aforesaid Bangladeshi customer mainly due to the impacts of the COVID-19 pandemic.

Processing services: The decrease in our revenue and processed volume in 2019 was primarily attributable to the reservation of our production capacity mainly for our textile fabric products of higher margins mainly due to having reached our maximum production capacity and a reduction of our subcontracting volume in 2019. The decrease in our revenue and processed volume for the four months ended 30 April 2020 was primarily attributable to the impacts of the COVID-19 pandemic resulting in the suspension of businesses of our PRC regular customers from February to mid-March 2020.

For further details of the discussion of the fluctuation in our sales and sales/processed volume by business stream, please refer to “Financial information — Discussion of selected profit or loss items — Revenue” and “Financial information — Period to period comparison of results of operations” in this prospectus.

Average unit price by business stream

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB per metre	RMB per metre	RMB per metre	RMB per metre	RMB per metre
Plain weave fabrics	16.3	18.2	18.4	18.4	18.6
Corduroy fabrics	22.5	21.1	21.1	21.4	22.5
Processing services	3.6	3.9	4.0	4.2	5.1

SUMMARY

Plain weave fabric products: The increase in our average unit price in 2018 was primarily attributable to (i) the transfer of the increase in our unit production cost to our customers; and (ii) a greater proportion of sales from our customers in Japan who generally request products of higher fabric specifications and processing complexity.

Corduroy fabric products: The decrease in our average unit price in 2018 was primarily attributable to our selling price reduction to maintain and enhance our competitiveness in the market. The increase in our average unit price for the four months ended 30 April 2020 was primarily in line with the increase in our average unit cost mainly due to the increase in the purchases of thicker and heavier corduroy greige fabrics which are more expensive in general.

Processing services: The increase in our average unit price from 2017 to 2019 was primarily attributable to the increase in our unit price and margin mainly due to the constraint on our production capacity. The increase in our average unit price for the four months ended 30 April 2020 was primarily in line with the increase in our average unit cost mainly due to certain customer orders of higher complexity.

Revenue by geographic location

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							<i>(unaudited)</i>			
The PRC	568,406	85.9	643,858	74.7	669,189	77.2	145,642	66.1	118,720	71.4
Japan	23,986	3.6	156,000	18.1	101,106	11.7	34,749	15.8	20,801	12.5
Other countries and regions <i>(Note)</i>	69,334	10.5	61,619	7.2	96,379	11.1	39,996	18.1	26,785	16.1
Total	<u>661,726</u>	<u>100.0</u>	<u>861,477</u>	<u>100.0</u>	<u>866,674</u>	<u>100.0</u>	<u>220,387</u>	<u>100.0</u>	<u>166,306</u>	<u>100.0</u>

Note: Other countries and regions mainly included Taiwan, Bangladesh, Vietnam and Indonesia.

The increase in our sales to PRC customers from 2017 to 2019 was primarily attributable to (i) the increase in the sales of our plain weave fabric products to Customer G in 2018; and (ii) the increase in the sales of our corduroy fabric products to Customer A and Customer G in 2019. The increase in our sales to customers in Japan in 2018 was primarily attributable to the commencement of business with Customer F in 2018 while the decrease in our sales to customers in Japan in 2019 was primarily attributable to the decrease in our sales to Customer F in 2019. The increase in our sales to other overseas customers in 2019 was primarily attributable to the increase in the sales of our corduroy fabric products to three overseas customers mainly because of (i) our selling price reduction from 2018; and (ii) a change of the fashion trend in the winter season in 2019. The decrease in the sales to our PRC, Japan and other overseas customers for the four months ended 30 April 2020 was primarily attributable to the decrease in our sales to (i) Customer A; (ii) Customer F; and (iii) the aforesaid Bangladeshi customer, respectively, mainly due to the impacts of the COVID-19 pandemic.

For further details of the discussion of the fluctuation in our revenue by geographic location, please refer to “Financial information — Discussion of selected profit or loss items — Revenue — Revenue by geographical location” in this prospectus.

SUMMARY

Revenue by customer category

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Garment manufacturers	454,739	68.7	615,314	71.4	681,920	78.7	169,306	76.8	128,756	77.4
Trading companies	206,987	31.3	246,163	28.6	184,754	21.3	51,081	23.2	37,550	22.6
Total	<u>661,726</u>	<u>100.0</u>	<u>861,477</u>	<u>100.0</u>	<u>866,674</u>	<u>100.0</u>	<u>220,387</u>	<u>100.0</u>	<u>166,306</u>	<u>100.0</u>

Cost of sales

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Cost of materials	466,106	80.4	611,180	81.7	596,754	81.0	151,421	80.2	108,333	77.4
Utility costs	47,142	8.1	50,589	6.8	55,220	7.5	16,488	8.7	14,359	10.3
Direct labour costs	27,710	4.8	29,606	4.0	33,041	4.5	9,342	4.9	8,128	5.8
Subcontracting costs	18,832	3.2	35,252	4.7	29,280	4.0	4,163	2.2	2,660	1.9
Depreciation	9,100	1.6	9,731	1.3	10,022	1.3	3,649	1.9	3,577	2.5
Other costs	11,146	1.9	11,935	1.5	12,814	1.7	3,813	2.1	2,849	2.1
Total	<u>580,036</u>	<u>100.0</u>	<u>748,293</u>	<u>100.0</u>	<u>737,131</u>	<u>100.0</u>	<u>188,876</u>	<u>100.0</u>	<u>139,906</u>	<u>100.0</u>

Gross profit and gross profit margin

Gross profit and gross profit margin by business stream

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Sale of textile fabric products:										
— Plain weave fabrics	55,543	11.4	95,823	13.5	97,296	15.6	23,224	14.7	20,850	16.8
— Corduroy fabrics	21,336	17.8	12,357	13.0	27,152	13.8	6,845	13.7	4,273	13.6
	76,879	12.7	108,180	13.5	124,448	15.1	30,069	14.5	25,123	16.2
Processing services	4,811	8.5	5,004	8.7	5,095	11.6	1,442	11.6	1,277	11.8
Total/Overall	<u>81,690</u>	<u>12.3</u>	<u>113,184</u>	<u>13.1</u>	<u>129,543</u>	<u>14.9</u>	<u>31,511</u>	<u>14.3</u>	<u>26,400</u>	<u>15.9</u>

Plain weave fabric products: The increase in our gross profit margin from 2017 to 2018 was primarily attributable to the commencement of purchases of products manufactured in Vietnam from Supplier F in 2018 which were at lower unit costs. The increase in our gross profit margin in 2019 and for the four months ended 30 April 2020 was primarily attributable to (i) the slight increase in our average unit price due to market condition in 2019 and the reduction of our sales to Supplier D (who primarily procured our plain weave fabric products of lower price for its domestic brand end customers) for the four months ended 30 April 2020; and (ii) the slight decrease in our average unit cost mainly due to the reduction of unit purchase costs of our plain weave greige fabrics.

SUMMARY

Corduroy fabric products: The decrease in our gross profit margin from 2017 to 2018 was primarily attributable to the decrease in our average unit price to maintain our competitiveness in the market.

Processing services: The increase in our gross profit margin in 2019 was primarily attributable to the increase in our unit price mainly due to the constraint on our production capacity.

For further details of the discussion of the fluctuation in our gross profit margin by business stream, please refer to “Financial information — Period to period comparison of results of operations” in this prospectus.

Gross profit and gross profit margin by geographic location

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
The PRC	61,046	10.7	68,654	10.7	91,205	13.6	18,276	12.5	17,457	14.7
Japan	6,658	27.8	31,413	20.1	21,980	21.7	7,393	21.3	4,244	20.4
Other countries and regions ^(Note)	13,986	20.2	13,117	21.3	16,358	17.0	5,842	14.6	4,699	17.5
Total/Overall	81,690	12.3	113,184	13.1	129,543	14.9	31,511	14.3	26,400	15.9

Note: Other countries and regions mainly included Taiwan, Bangladesh, Vietnam and Indonesia.

The increase in the gross profit margin from our PRC customers in 2019 and for the four months ended 30 April 2020 was primarily in line with (i) the increase in our overall product and service gross profit margin in 2019; and (ii) the increase in the gross profit margin of our plain weave fabric products for the four months ended 30 April 2020, respectively. The decrease in the gross profit margin from our customers in Japan in 2018 and 2019 was primarily attributable to (i) higher margins derived from two major customers in Japan in 2017 who primarily procured our products of higher degree of customisation and specifications; and (ii) a relatively lower margin charged to Customer F mainly due to bulk sales orders placed in 2018 and 2019. The decrease in the gross profit margin from our other overseas customers in 2019 and the increase in the gross profit margin from our other overseas customers for the four months ended 30 April 2020 was primarily attributable to lower margins charged for relatively large sales orders from our major overseas customers in 2019.

Selected information in our consolidated statements of financial position

	As at 31 December			As at
	2017	2018	2019	30 April
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	65,666	76,153	85,073	89,313
Current assets	329,056	335,832	310,762	281,619
Current liabilities	274,288	248,360	291,458	274,945
Net current assets	54,768	87,472	19,304	6,674
Non-current liabilities	4,049	9,098	9,452	11,287
Net assets	116,385	154,527	94,925	84,700

SUMMARY

The decrease in our net assets from 31 December 2018 to 31 December 2019 and 30 April 2020 was primarily attributable to our declaration of dividend of approximately RMB113.5 million and RMB12.0 million in 2019 and for the four months ended 30 April 2020, respectively, partially offset by our net profit of approximately RMB52.7 million and RMB2.6 million generated in 2019 and for the four months ended 30 April 2020, respectively.

Selected information in our consolidated statements of cash flows

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Operating cash flows before working capital changes	58,649	82,122	90,419	20,891	10,560
Changes in working capital	(6,689)	(7,551)	20,811	3,712	(30,628)
Income taxes paid	(5,401)	(16,841)	(14,083)	—	(21,837)
Net cash generated from/(used in) operating activities	46,559	57,730	97,147	24,603	(41,905)
Net cash used in investing activities	(25,621)	(23,998)	(73,294)	(36,558)	(16,782)
Net cash (used in)/generated from financing activities	(9,761)	(10,477)	(12,515)	(4,556)	21,345
Net increase/(decrease) in cash and cash equivalents	11,177	23,255	11,338	(16,511)	(37,342)
Cash and cash equivalents at beginning of the year/period	14,931	25,830	50,063	50,063	62,124
Effect of foreign exchange rate changes	(278)	978	723	(978)	(642)
Cash and cash equivalents at end of the year/period	<u>25,830</u>	<u>50,063</u>	<u>62,124</u>	<u>32,574</u>	<u>24,140</u>

Our operating cash outflow for the four months ended 30 April 2020 was primarily attributable to (i) the decrease in our profit before tax mainly due to the impacts of the COVID-19 pandemic; (ii) a decrease in trade and bills payables; and (iii) the income tax payments for the four months ended 30 April 2020. We expect that our cash flow position for the year ending 31 December 2020 will be improved primarily attributable to (i) the improvement of our inventory turnover days mainly because of the substantial consumption and sales of our inventories as at 30 April 2020 up to the Latest Practicable Date; and (ii) our one-off settlement of the EIT shortfall during the four months ended 30 April 2020 due to the inaccurate EIT filing in 2019. In addition, if necessary, we can further improve our cash flow position by utilising our available credit facilities or extending our borrowings upon maturity through roll-over or renewal.

The increase in our net cash used in investing activities in 2019 was primarily attributable to the decrease in repayments in 2019.

For further details of the discussion of our cash flows, please refer to “Financial information — Liquidity and capital resources — Cash flows” in this prospectus.

SUMMARY

Key financial ratios

	Year ended/As at 31 December			Four months ended/As at 30 April
	2017	2018	2019	2020
Net profit margin	4.6%	5.7%	6.1%	1.6%
Current ratio	1.2	1.4	1.1	1.0
Quick ratio	0.9	1.1	0.8	0.6
Gearing ratio (<i>Note</i>)	65.3%	52.5%	77.8%	119.4%
Debt-to-equity ratio	43.1%	20.1%	12.4%	90.9%
Return on assets	7.7%	11.9%	13.3%	N/A
Return on equity	26.3%	31.8%	55.5%	N/A
Interest coverage ratio	8.2	12.3	14.7	4.8

Note: Gearing ratio equals to our total debts (which are our borrowings and lease liabilities) divided by our total equity as at the reporting date, multiplied by 100%.

Net profit margin and interest coverage ratio: The increase from 2017 to 2019 was primarily attributable to the increase in our gross profit margin. The decrease for the four months ended 30 April 2020 was primarily attributable to (i) the increase in our listing expenses; and (ii) the decrease in our annualised revenue mainly due to the impacts of the COVID-19 pandemic.

Current ratio and quick ratio: The increase from 31 December 2017 to 31 December 2018 was primarily attributable to the decrease in our trade and bills payables. The decrease as at 31 December 2019 and 30 April 2020 was primarily attributable to the decrease in our net current assets mainly due to the declaration of dividend exceeding our net profit generated in 2019 and for the four months ended 30 April 2020.

Gearing ratio and debt-to-equity ratio: The decrease from 31 December 2017 to 31 December 2018 was primarily attributable to the increase in our total equity mainly due to our net profit generated in 2018. The increase in our gearing ratio as at 31 December 2019 was primarily attributable to the decrease in our total equity mainly due to the declaration of dividend exceeding our net profit generated in 2019, while the decrease in our debt-to-equity ratio as at 31 December 2019 was primarily attributable to the increase in our bank balances and cash. The increase as at 30 April 2020 was primarily attributable to (i) the increase in our bank borrowings; and (ii) the decrease in our total equity mainly due to the declaration of dividend exceeding our net profit generated for the four months ended 30 April 2020.

Return on assets and return on equity: The increase from 2017 to 2019 was primarily attributable to (i) the increase in our net profit from 2017 to 2019 mainly due to the increase in our gross profit; (ii) the decrease in amounts due from a Controlling Shareholder and related companies mainly as a result of the settlement by way of the dividend declaration in 2019; and (iii) the decrease in our total equity from 31 December 2018 to 31 December 2019 as discussed above.

For further details of the analysis of our key financial ratios, please refer to “Financial information — Key financial ratios” in this prospectus.

SUMMARY

LISTING EXPENSES

Our total estimated listing expenses, primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are estimated to be approximately RMB43.2 million, representing approximately 33.3% of the gross proceeds from the Share Offer (based on the mid-point of the indicative Offer Price range of HK\$0.96 per Offer Share and assuming the Over-allotment Option is not exercised). Among the estimated aggregate amount of our estimated listing expenses, approximately RMB16.1 million of which is expected to be accounted for as a deduction from equity upon the Listing. The remaining amount of approximately RMB27.1 million is expected to be charged to our profit or loss, of which approximately RMB0.8 million, RMB0.8 million, RMB4.4 million and RMB6.5 million was recognised in our profit or loss for the Track Record Period, respectively. Our Directors would like to emphasise that the amount of our listing expenses is a current estimate for reference only and the final amount to be recognised in our financial statements is subject to adjustment based on audit and the then changes in variables and assumptions.

SHARE OFFER STATISTICS

The Share Offer comprises the following: (i) the Public Offer of initially 15,000,000 Shares in Hong Kong; and (ii) the Placing of initially 135,000,000 Shares, subject, in each case, to reallocation on the basis as described in “Structure and conditions of the Share Offer” in this prospectus. The following table sets out certain offering related data, assuming that the Share Offer has been completed:

	Based on the Offer Price of HK\$0.84 per Offer Share	Based on the Offer Price of HK\$1.08 per Offer Share
Market capitalisation ^(Note 1)	HK\$504 million	HK\$648 million
Unaudited pro forma adjusted	RMB0.28	RMB0.33
consolidated net tangible assets	(equivalent to HK\$0.31)	(equivalent to HK\$0.36)
per Share ^(Note 2)		

Notes:

1. The calculation of our market capitalisation is based on 600,000,000 Shares which will be in issue immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon any exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme).
2. Our unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company as at 30 April 2020 per Share is calculated based on 600,000,000 Shares assuming in issue immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued upon any exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme).

SUMMARY

USE OF PROCEEDS

We estimate we will receive approximately HK\$96.0 million net proceeds from the Share Offer after deducting underwriting commission and other estimated expenses paid and payable by us in connection with the Share Offer, based on the mid-point of the indicative Offer Price range of HK\$0.96 per Offer Share and assuming the Over-allotment Option is not exercised. We intend to use the net proceeds we receive from the Share Offer for the following purposes:

Amount of net proceeds and approximate percentage		Intended usage
HK\$ million	%	
60.6	63.1	Expansion of production capacity and product coverage by upgrading and improving our existing production lines and technical capabilities
25.8	26.9	Acquisition of a company with existing production plant in Jiangsu province, the PRC
9.6	10.0	General corporate purposes and working capital

Please refer to “Future plans and use of proceeds” in this prospectus for further details.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2020

Forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020⁽¹⁾ not less than RMB32 million (approximately HK\$35 million)⁽³⁾

Unaudited pro forma forecast earnings per Share⁽²⁾ not less than RMB5.33 cents (approximately HK5.86 cents)⁽³⁾

Notes:

1. The forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020 is extracted from “Financial information — Profit forecast for the year ending 31 December 2020” in this prospectus. The bases and assumptions on which the above profit forecast for the year ending 31 December 2020 has been prepared are summarised in part A of Appendix III to this prospectus. Our Directors have prepared the forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020 based on the audited consolidated results of our Group for the four months ended 30 April 2020, the unaudited consolidated results of our Group for the four months ended 31 August 2020 and a forecast of the consolidated results of our Group for the remaining four months ending 31 December 2020. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in note 4 of the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.
2. The calculation of the unaudited pro forma forecast earnings per Share for the year ending 31 December 2020 is based on the forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020, assuming 600,000,000 shares are in issue throughout the year ending 31 December 2020 (including shares in issue as at the date of this prospectus and those shares expected to be issued pursuant to the Share Offer and the Capitalisation Issue but not taking into account any shares which may be issued upon the exercise of the Over-allotment Option or any options granted under the Share Option Scheme).
3. The forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020 and unaudited pro forma forecast earnings per Share in RMB are converted to HK\$ at an exchange rate of HK\$1.00 to RMB0.91. No representation is made that the RMB amounts have been, could have been or may be converted to HK\$ at that rate or at any other rate.

SUMMARY

DIVIDENDS AND DISTRIBUTABLE RESERVE

We declared and settled dividends of nil, approximately RMB13.2 million, RMB113.5 million and RMB12.0 million during the Track Record Period, respectively. After the Track Record Period and up to the Latest Practicable Date, we did not propose and declare any dividend to our Shareholders. Our Company currently does not have any predetermined dividend payout ratio. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. Our historical dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid in the future. We cannot assure that dividends will be paid in the future or as to the timing of any dividends that may be paid in the future. The payment and the amount of any dividends, if paid, would depend on our results of operations, cash flows, financial position, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. Our Shareholders will be entitled to receive such dividends pro rata according to the amount paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to our Directors' discretion. Dividends may be paid only out of our distributable reserve as permitted under the relevant laws.

As at 30 April 2020, our Company had distributable reserve of approximately RMB76,000 available for distribution to our Shareholders.

HISTORICAL NON-COMPLIANCE INCIDENTS

During the Track Record Period, we did not comply with certain applicable laws and regulations, including (i) failure to make adequate social insurance fund and housing provident fund contributions in the PRC; (ii) failure to complete the relevant planning and construction work approval procedures and the relevant completion and acceptance filing formalities for the on-site sewage treatment system we acquired from Changzhou Dongxia in 2014, and failure to complete the relevant environmental acceptance inspection for the technical upgrading works we carried out to such sewage treatment system; (iii) failure to file profits tax returns and settle profits tax payments on time in breach of the IRO; and (iv) failure to file accurate EIT returns. For further details, please refer to "Business — Legal and compliance matters — Regulatory non-compliance incidents" in this prospectus.

RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the Latest Practicable Date, there was no material change to our business model, revenue and cost structure.

An outbreak of respiratory illness caused by a novel coronavirus (COVID-19) first emerged in January 2020 and continues to expand globally. The new strain of coronavirus is considered highly contagious and a serious public health threat. The WHO declared the outbreak of COVID-19 a pandemic on 11 March 2020. As at the Latest Practicable Date, COVID-19 had spread to over 200 countries and territories around the world with confirmed cases of more than 40 million and over one million deaths recorded all over the world. The COVID-19 pandemic, which has resulted in unprecedented shutdowns in many countries, is having a severe impact on the global economy. While we believe that the outlook of the textile industry remains positive in the long-run particularly when the COVID-19 pandemic is contained, it is likely that the COVID-19 pandemic could have a short-term adverse impact on our business operations and financial condition.

SUMMARY

Our production facilities are located in Changzhou city, Jiangsu province, the PRC, which is one of the areas in the PRC hit by the COVID-19 pandemic. Our production experienced a temporary suspension for approximately one week after the Lunar New Year break as a result of the mandatory suspension of operations imposed by the local PRC government in early February 2020. We have gradually resumed our operations immediately upon our receipt of the consent to work resumption from the local government dated 9 February 2020, and we resumed our operations to almost full-scale since early March 2020 and to full-scale by the end of March 2020. Based on our unaudited consolidated management accounts for the eight months ended 31 August 2019 and 2020 and the information currently available to us, there was a decrease in our revenue and gross profit for the eight months ended 31 August 2020 by approximately 17.7% and 6.1%, respectively, as compared to our revenue and gross profit for the eight months ended 31 August 2019, which was primarily attributable to the impacts of the COVID-19 pandemic. We also recorded a decrease in our overall sales volume by approximately 17.5% from approximately 31.4 million metres for the eight months ended 31 August 2019 to approximately 25.9 million metres for the eight months ended 31 August 2020. Our Directors believe that the decrease was primarily attributable to the suspension of most non-essential businesses (including garment manufacturing businesses) in the PRC from February to mid-March 2020 in response to the COVID-19 outbreak, resulting in a delay of approximately one and a half month in the resumption of business of our regular customers and therefore a corresponding delay in the placement of orders by our regular customers.

For the period from 1 January 2020 to the Latest Practicable Date, we had received purchase orders from our customers for our textile fabric products in the aggregate amount of approximately 35.0 million metres (or approximately RMB601.3 million), which was relatively stable compared with the same period of 2019. We recorded backlog orders of approximately 7.1 million metres (or approximately RMB118.8 million) as at the Latest Practicable Date. Our Directors confirm that as at the Latest Practicable Date, none of our customers had cancelled their purchase orders placed, and most of our major customers have indicated that they have no intention to cancel or substantially reduce their purchase orders for the year of 2020.

The amount and the volume of our Group's confirmed orders, delivered orders and backlog orders in respect of orders received by our Group for our textile fabric products and processing services as at the Latest Practicable Date are set forth below:

Volume of confirmed orders	Amount of confirmed orders	Volume of delivered orders for the period from 1 January 2020 to the Latest Practicable Date	Amount of delivered orders for the period from 1 January 2020 to the Latest Practicable Date	Volume of backlog orders	Amount of backlog orders
(million metres)	(RMB million)	(million metres)	(RMB million)	(million metres)	(RMB million)
35.0	601.3	27.9	482.5	7.1	118.8

We anticipate a decrease in our forecasted profit for the year ending 31 December 2020 primarily attributable to an expected decrease in our revenue and gross profit, which is mainly in line with the expected decrease in our sales volume in 2020 by approximately 13.5% as compared to that in 2019 (whilst the average unit prices of our products are estimated to remain relatively stable) due to the impact brought about by the COVID-19 pandemic and after taken into account our estimated non-recurring listing expenses of approximately RMB21.0 million for the year ending 31 December 2020. Based on the amount of confirmed orders placed by the garment manufacturers or sourcing agents of UNIQLO (i.e. our customers) with our Group up to 9 October 2020, which was approximately RMB47.3 million (or approximately 2.8 million metres) more than that for the same period of 2019, we anticipate that the amount of orders placed by the garment manufacturers

SUMMARY

or sourcing agents of UNIQLO (i.e. our customers) with our Group for the year ending 31 December 2020 will be at least approximately RMB50.0 million more than that for the year ended 31 December 2019, and that the contribution by UNIQLO through its designated garment manufacturers or sourcing agents (i.e. our customers) to our Group's revenue for the year ending 31 December 2020 will be at least approximately 15.9% higher (in terms of sales amount) than that for the year ended 31 December 2019.

Since the outbreak of COVID-19 in early 2020 and up to the Latest Practicable Date, we had not encountered any material disruption to the supply of raw materials from our suppliers or the provision of services by our subcontractors.

According to Ipsos, while the market value of the dyeing and finishing industry in China is expected to decrease from 2019 to 2020 due to the impact of the COVID-19 pandemic, such adverse impact is not expected to persist and the dyeing and finishing industry in China is projected to recover with positive outlook. Please refer to "Industry overview" in this prospectus for further details. Furthermore, our Directors are of the view, which Ipsos concurs, that the market for essential and affordable clothing consumables, which our major end-customers are engaging in, remains positive despite the temporal negative impact by the COVID-19 pandemic. In light of the industry and market outlook and given that we have gradually resumed our operations since 9 February 2020 and have been operating in full-scale since late March 2020, we would liaise and negotiate with our customers on alternative arrangements to mitigate the damage as soon as possible should there be a chance of delay in the delivery of our textile fabric products and that the PRC has been gradually resuming economic activities to full scale, we do not expect such downward trend will be material or that the impact of the COVID-19 pandemic on our operations or sales volume will be long-lasting. In view of the above, our Directors are of the view that our Expansion Plans as discussed in "Business — Our business strategies" in this prospectus remain feasible, and it is unlikely that we would change the use of our net proceeds from the Share Offer as a result of the COVID-19 pandemic. Please refer to "Business — Effects of the COVID-19 outbreak — Effects of the COVID-19 outbreak on our business operations" in this prospectus for further details of the actual and potential impact on our Group.

Our Directors will continue to assess the impact of the COVID-19 pandemic on our Group's business operations and financial performance and closely monitor our Group's exposure to the risks and uncertainties in this connection. In response to the COVID-19 pandemic, we have implemented a contingency plan and adopted enhanced hygiene and precautionary measures within our premises. Up to the Latest Practicable Date, there had been no confirmed cases of COVID-19 infection of our staff members. Please refer to "Business — Effects of the COVID-19 outbreak — Our contingency plan and response towards the COVID-19 outbreak" in this prospectus for details. We will take appropriate measures as necessary and inform our Shareholders as and when necessary.

We have secured orders placed by an internationally renowned Japan-based brand operator through Customer F since March 2020. As at the Latest Practicable Date, such brand operator had placed orders for approximately 0.7 million metres of our textile fabric products, amounting to approximately RMB15.1 million in value.

Save for the impact of the COVID-19 pandemic as discussed above and our non-recurring listing expenses recognised and to be recognised as expenses in our consolidated statements of profit or loss and other comprehensive income which are expected to adversely affect our financial performance for the year ending 31 December 2020, our Directors do not expect to have any material adverse change in our financial or trading position or prospect since 30 April 2020, being

SUMMARY

the date of which our latest audited financial information was prepared up to the date of this prospectus and there had been no event since 30 April 2020 which would materially affect the information shown in Appendix I to this prospectus.

OUR EXISTING FINANCIAL RESOURCES CAN SUPPORT OUR OPERATIONS

In the unlikely event that we are to reduce or suspend part of our business operations for a prolonged period of time, whether due to government policy or any other reasons beyond our control, as a result of the COVID-19 pandemic, we estimate that our existing financial resources (including bank balances and cash) as at 31 August 2020 could support our operations for approximately 29 months in the worst case scenario, based on the following key assumptions and taking into account that: (i) we will not generate any income due to the suspension of business; (ii) according to our unaudited consolidated management accounts for the eight months ended 31 August 2020, we had bank balances and cash of approximately RMB31.9 million as at 31 August 2020; (iii) our trade and bills receivables as at 31 August 2020 will be settled at the average subsequent settlement rate during the period from February to April 2020, when the impact brought about by the COVID-19 pandemic was serious; (iv) we will be required to settle our trade and bills payables as at 31 August 2020 at the average subsequent settlement rate during the period from February to April 2020, when the impact brought about by the COVID-19 pandemic was serious; (v) all of our Directors and staff are encouraged to take unpaid leave under mutual consent, or be paid by 80% of local minimum wage from the second month of suspension which in aggregate amounts to approximately RMB0.8 million per month; (vi) we will not dismiss any of our staff; (vii) rental payments and other miscellaneous charges in the aggregate amount of approximately RMB0.3 million per month will be paid in connection with our leased premises during the period of our business suspension; (viii) our minimal operating and administrative expenses in the aggregate amount of approximately RMB0.6 million per month will be incurred to maintain our operations at a minimum level (including basic maintenance cost and utilities expenses); (ix) we will incur the payment of interests and guarantee fee in an aggregate amount of approximately RMB0.6 million per month; (x) there will be no further internal or external financing from our Shareholders or financial institutions except for the renewal of the current borrowings upon maturity; (xi) no further dividend will be declared and paid under such situation; and (xii) the availability of approximately HK\$9.6 million (representing approximately 10.0% of the net proceeds from the Share Offer based on the mid-point of the indicative Offer Price range of HK\$0.96 per Offer Share and assuming the Over-allotment Option is not exercised) as our general working capital.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Technical terms in relation to our Group's industry and business operations are explained in "Glossary of technical terms" in this prospectus.

"Accountants' Report"	the accountants' report of SHINEWING (HK) CPA Limited addressed to our Company and the Sole Sponsor as set out in Appendix I to this prospectus
"Application Form(s)"	the WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them, relating to the Public Offer
"Aristo Securities"	Aristo Securities Limited, a licensed corporation under the SFO permitted to carry on type 1 (dealing in securities) regulated activity (as defined in the SFO), acting as one of the Joint Lead Managers
"Articles of Association" or "Articles"	the amended and restated articles of association of our Company, conditionally adopted on 21 October 2020, which will become effective on the Listing Date, a summary of which is set out in Appendix IV to this prospectus, and as amended, supplemented or otherwise modified from time to time
"Asset Transfer Agreement"	an asset transfer agreement dated 1 November 2014 and entered into between Changzhou Dongxia as transferor and Yadong (Changzhou) as transferee pursuant to which Changzhou Dongxia agreed to transfer its assets (comprising mainly factory machineries and equipment and sewage treatment system) to Yadong (Changzhou)
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board" or "Board of Directors"	the board of Directors of our Company
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands

DEFINITIONS

“Capitalisation Issue”	the issue of Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company as set out in “A. Further information about our Group — 4. Written resolutions of our sole Shareholder” in Appendix V to this prospectus
“Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant(s)”	person(s) admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant(s)”	person(s) admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant(s)”	person(s) admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant(s)”	CCASS Clearing Participant(s), CCASS Custodian Participant(s) or CCASS Investor Participant(s)
“CG Code”	the Corporate Governance Code set out in Appendix 14 to the Listing Rules
“Changzhou Dongxia”	Changzhou Dongxia Real Estate Agency Ltd.* (常州市東霞房地產代理有限公司) (formerly known as Changzhou Dongxia Printing & Dyeing Co., Ltd.* (常州市東霞紡織印染有限公司)), a company established in the PRC with limited liability on 4 June 2002 and wholly-owned by Mr. Xue as at the Latest Practicable Date
“close associate(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“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”	Yadong Group Holdings Limited (亞東集團控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 22 September 2016
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules, and unless the context requires otherwise, refers to Oriental Ever Holdings and Mr. Xue
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“COVID-19”	a viral respiratory disease caused by the severe acute respiratory syndrome coronavirus
“CSRC”	China Securities Regulatory Commission* (中國證券監督管理委員會), a regulatory body in the PRC responsible for the supervision and regulation of the Chinese national securities markets
“Deed of Indemnity”	the deed of indemnity dated 21 October 2020 and entered into by our Controlling Shareholders and our Company, the details of which are set out in “E. Other information — 1. Tax and other indemnity” in Appendix V to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 21 October 2020 and entered into by our Controlling Shareholders and our Company, the details of which are set out in “Relationship with Controlling Shareholders — Non-competition undertakings” in this prospectus
“Director(s)”	the director(s) of our Company
“EBSI”	China Everbright Securities (HK) Limited, a licensed corporation under the SFO permitted to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities (as defined in the SFO), acting as one of the Joint Bookrunners and Joint Lead Managers

DEFINITIONS

“EIT”	enterprise income tax in the PRC
“EIT Law”	Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法)
“EIT Rules”	The Regulation on the Implementation of the Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法實施條例)
“Expansion Plans”	our plans to expand our production capabilities and capacity through the acquisition of new machineries and a company with existing production plant by using part of our net proceeds from the Share Offer, details as set out in “Business — Business strategies — Expand our production capabilities and increase our production capacity” and “Future plans and use of proceeds — Use of proceeds” in this prospectus
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
“Fortune Financial” and “Sole Sponsor”	Fortune Financial Capital Limited, a licensed corporation under the SFO permitted to carry on type 6 (advising on corporate finance) regulated activity (as defined under the SFO), acting as the Sole Sponsor of the Listing
“Fortune (HK) Securities”	Fortune (HK) Securities Limited, a licensed corporation under the SFO permitted to carry on type 1 (dealing in securities) regulated activity (as defined in the SFO), acting as one of the Joint Bookrunners and Joint Lead Managers
“Fulbright Securities”	Fulbright Securities Limited, a licensed corporation under the SFO permitted to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities (as defined in the SFO), acting as one of the Joint Bookrunners and Joint Lead Managers
“ GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries at the relevant time or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, or the businesses operated by its present subsidiaries or its predecessor (as the case may be)

DEFINITIONS

“Guosen Securities (HK)”	Guosen Securities (HK) Capital Company Limited, a licensed corporation under the SFO permitted to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO), acting as one of the Joint Bookrunners and Joint Lead Managers
“HK\$”, “HKD” or “HK dollar(s)”	Hong Kong dollar, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standard(s)
“HKFRS”	Hong Kong Financial Reporting Standards, which includes all Hong Kong Financial Reporting Standards, HKAS and interpretations issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“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
“Ipsos”	Ipsos Asia Limited, an Independent Third Party and a professional market research and consulting firm
“Ipsos Report”	a commissioned independent market research report prepared by Ipsos
“IMF”	International Monetary Fund
“Independent Third Party(ies)”	individual(s) or company(ies) who or which is/are independent of and not connected with any Director, chief executive or substantial shareholder of our Company or any of its subsidiaries or any of their respective associates within the meaning of the Listing Rules
“IRD”	the Inland Revenue Department of Hong Kong
“IRO”	the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Joint Bookrunners”	Fortune (HK) Securities, EBSI, Shenwan Hongyuan Securities, Fulbright Securities and Guosen Securities (HK)
“Joint Lead Managers”	Fortune (HK) Securities, EBSI, Shenwan Hongyuan Securities, Fulbright Securities, Guosen Securities (HK), Aristo Securities and Wilson Securities
“JPY”	Japanese Yen, the lawful currency of Japan
“Latest Practicable Date”	21 October 2020, being the latest practicable date for the purpose of ascertaining certain information in this prospectus prior to its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date expected to be on or about Wednesday, 18 November 2020, on which our Shares are first listed and from which dealings in our Shares are permitted to take place on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the options market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company adopted on 21 October 2020, a summary of which is set out in Appendix IV to this prospectus, as amended, supplemented or otherwise modified from time to time
“MIIT”	the Ministry of Industry and Information Technology of the PRC* (中華人民共和國工業和信息化部)
“MOFCOM”	the Ministry of Commerce of the PRC* (中華人民共和國商務部)
“Mr. Xue”	Mr. Xue Shidong (薛士東), the chairman of our Board, an executive Director and a Controlling Shareholder

DEFINITIONS

“N/A”	not applicable
“NTD” or “New Taiwan Dollar”	New Taiwan Dollar, the lawful currency of Taiwan
“NDRC”	the National Development and Reform Commission of the PRC* (中華人民共和國國家發展和改革委員會)
“Offer Price”	the final price per Offer Share (exclusive of brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%), which will be not more than HK\$1.08 per Offer Share and is expected to be not less than HK\$0.84 per Offer Share, such price to be fixed on or before the Price Determination Date
“Offer Share(s)”	the Public Offer Shares and the Placing Shares together, where relevant, with any additional Shares allotted and issued pursuant to the exercise of the Over-allotment Option
“Oriental Ever Holdings”	Oriental Ever Holdings Limited (東永控股有限公司), a company incorporated in the BVI with limited liability on 11 April 2016, a Controlling Shareholder which is wholly-owned by Mr. Xue
“Over-allotment Option”	the option proposed to be granted by our Company to and exercisable by the Stabilising Manager (on behalf of the Placing Underwriters) pursuant to the Placing Underwriting Agreement, under which the Stabilising Manager (on behalf of the Placing Underwriters) may require our Company to allot and issue up to an aggregate of 22,500,000 additional Shares (representing 15% of the number of Offer Shares initially being offered under the Share Offer) at the Offer Price, for the sole purpose of covering any over-allocations in the Placing, if any, as further described in “Structure and conditions of the Share Offer” in this prospectus
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters for and on behalf of our Company to professional, institutional and other investors at the Offer Price on and subject to the terms and conditions under the Placing Underwriting Agreement, as further described in “Structure and conditions of the Share Offer” in this prospectus

DEFINITIONS

“Placing Shares”	the 135,000,000 Shares initially being offered by our Company for subscription pursuant to the Placing, together with, where relevant, any additional Shares that may be issued by our Company pursuant to any exercise of the Over-allotment Option
“Placing Underwriters”	the group of underwriters for the Placing who are expected to enter into the Placing Underwriting Agreement
“Placing Underwriting Agreement”	the Placing Underwriting Agreement relating to the Placing to be entered into on or about 6 November 2020 by, among others, our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters
“PRC” or “China”	the People’s Republic of China which, in this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC government”	the central government of the PRC, including all governmental sub-divisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
“PRC Legal Advisers”	Jiangsu BST Law Office and JC Master Law Offices, our legal advisers as to PRC laws
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014
“Price Determination Agreement”	the agreement to be entered into between our Company and Fortune (HK) Securities (for itself and on behalf of the Underwriters) on the Price Determination Date to determine and record the Offer Price
“Price Determination Date”	the date, expected to be on or around Friday, 6 November 2020 (Hong Kong time) but no later than Friday, 6 November 2020, on which the Offer Price is determined for the purpose of the Share Offer

DEFINITIONS

“Public Offer”	the offer of the Public Offer Shares by our Company for subscription to members of the public in Hong Kong at the Offer Price, on and subject to the terms and conditions set out in this prospectus and the Application Forms, as further described in “Structure and conditions of the Share Offer — Public Offer” in this prospectus
“Public Offer Shares”	the 15,000,000 new Shares being initially offered by our Company at the Offer Price pursuant to the Public Offer, subject to adjustment as described in “Structure and conditions of the Share Offer” in this prospectus
“Public Offer Underwriters”	the underwriters of the Public Offer as set out in “Underwriting — Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the underwriting agreement dated 29 October 2020 relating to the Public Offer and entered into by, among others, our Company, our executive Directors, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters
“Qun Bong”	Qun Bong Global Limited (群邦環球有限公司), a company incorporated in the BVI with limited liability on 11 November 2013, and a direct wholly-owned subsidiary of our Company
“Regulation S”	Regulation S under the U.S. Securities Act
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing, details of which are set out in “History, Reorganisation and Group structure” in this prospectus
“RP”	Indonesian Rupiah, the lawful currency of Indonesia
“SAFE”	the State Administration of Foreign Exchange of the PRC* (中華人民共和國國家外匯管理局)
“SAT”	the State Administration of Taxation of the PRC* (中華人民共和國國家稅務總局)
“SCNPC”	the Standing Committee of the National People’s Congress of the PRC* (中華人民共和國全國人民代表大會常務委員會)
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITIONS

“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 Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme approved and conditionally adopted by our Company on 21 October 2020, the principal terms of which are set out in “D. Share Option Scheme” in Appendix V to this prospectus
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shenwan Hongyuan Securities”	Shenwan Hongyuan Securities (H.K.) Limited, a licensed corporation under the SFO permitted to carry on type 1 (dealing in securities) regulated activity (as defined in the SFO), acting as one of the Joint Bookrunners and Joint Lead Managers
“Stabilising Manager”	Fortune (HK) Securities
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between Oriental Ever Holdings and the Stabilising Manager on or around the Price Determination Date, pursuant to which the Stabilising Manager may borrow up to 22,500,000 Shares to cover any over-allocation in the Placing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Hong Kong Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Tax Adviser”	SHINEWING Tax and Business Advisory Limited

DEFINITIONS

“Track Record Period”	the three years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2020, respectively; and the phrase during the Track Record Period, followed by a series of figures or percentages, refers to information relating to the three years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2020, respectively
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“US\$” or “USD”	United States dollar, the lawful currency of the United States
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“ WHITE Application Form(s)”	the application form(s) for the Public Offer Shares for use by the public who require such Public Offer Shares to be issued in the applicant’s own name
“ White Form eIPO ”	the application for Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of <u>White Form eIPO</u> at <u>www.eipo.com.hk</u>
“ White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“WHO”	World Health Organization
“Wilson Securities”	Wilson Securities Limited, a licensed corporation under the SFO permitted to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities (as defined in the SFO), acting as one of the Joint Lead Managers
“Yadong (Changzhou)”	Yadong (Changzhou) Science & Technology Co., Ltd.* (亞東(常州)科技有限公司), a wholly foreign-owned enterprise established in the PRC on 27 March 2014 and an indirect wholly-owned subsidiary of our Company
“Yadong (Hong Kong)”	Ya Dong (Hong Kong) International Trading Company Limited (亞東(香港)國際貿易有限公司), a company incorporated in Hong Kong with limited liability on 27 June 2011 and an indirect wholly-owned subsidiary of our Company

DEFINITIONS

“**YELLOW** Application Form(s)” the application form(s) for the Public Offer Shares for use by the public who require such Public Offer Shares to be deposited directly into CCASS

“%” per cent

In this prospectus, unless expressly stated or the context requires otherwise:

- all information and data is as at the Latest Practicable Date;
- certain amounts and percentage figures, including but not limited to, shareholdings and operating data, may 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;
- certain amounts denominated in RMB have been translated into HK\$ and vice versa at an exchange rate of RMB0.9 : HK\$1.0 for illustration purposes only. Such conversions shall not be constructed as representations that amounts in HK\$ and RMB were or may have been converted into those currencies and vice versa at such rate or any other exchange rates;
- all references to any shareholdings in our Company assume no exercise of the Over-allotment Option unless otherwise specified;
- English names marked with “*” are unofficial English translations of the Chinese names of, among others, entities, laws or regulations or government authorities, that do not have official English names. Such English translations are for provided for identification purposes only. If there is any inconsistency between the Chinese name and the English translation, the Chinese name shall prevail; and
- if there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail.

GLOSSARY OF TECHNICAL TERMS

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

“CAGR”	compound annual growth rate, a method of assessing the average growth of a value over time
“fabric”	flexible material made by, among others, weaving or knitting
“greige fabric”	unfinished woven or knitted fabric that has not been bleached or dyed
“ISO”	International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“ISO14001”	a framework and systematic approach set by ISO to assist companies to continually improve their ability to efficiently identify, minimise, prevent and manage environmental impacts
“ISO9001”	a framework and systematic approach set by ISO to manage business processes to produce a product/service that conforms to customer expectations
“REACH”	Regulation No 1907/2006 of the European Parliament and of the Council on the Registration, Evaluation, Authorisation and Restriction of Chemicals, a regulation adopted to improve the protection of human health and environment from the risks that can be posed by chemicals, which came into force in 2007
“sq.m.”	square metre(s)
“STANDARD 100 by OEKO-TEX®”	a globally uniform testing and certification system for textile raw materials, intermediate and end products at all stages of production

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this prospectus. These forward-looking statements include, but are not limited to, statements relating to:

- our operations and business prospects;
- future developments, trends and competition in industries and markets in which we operate;
- products under development or planning;
- our strategy, business plans, objectives and goals;
- our capital expenditure plans;
- our dividend distribution plans;
- the prospective financial information regarding our business;
- our future financial condition and results of operations;
- the amount and nature of, and potential for, future development of our business;
- general economic conditions; and
- changes to regulatory and operating conditions in the markets in which we operate.

In some cases we use words such as “believe”, “seek”, “intend”, “anticipate”, “estimate”, “project”, “plan”, “potential”, “will”, “may”, “should”, “expect” and other similar expressions to identify forward looking statements. All statements other than statements of historical facts included in this prospectus, including statements regarding our future financial position, strategy, projected costs and plans and objectives of management for future operations, are forward looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements.

Furthermore, these forward looking statements merely reflect our current view with respect to future events and are not a guarantee of future performance. Our financial condition may differ materially from the information contained in the forward looking statements as a result of a number of factors, including, without limitation, factors disclosed in “Risk factors” in this prospectus and elsewhere in this prospectus.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation and do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Due to such risks, uncertainties or assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

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

There are certain risks and uncertainties in relation to an investment of our Shares. We have categorised these risks and uncertainties into: (i) risks relating to our business and operations; (ii) risks relating to our industry; (iii) risks relating to conducting our business in the PRC; (iv) risks relating to the Share Offer and our Shares; and (v) risks relating to statements made in this prospectus.

RISKS RELATING TO OUR BUSINESS AND OPERATIONS

Our business operations may be affected by the COVID-19 pandemic

An outbreak of respiratory illness caused by a novel coronavirus (COVID-19) first emerged in January 2020 and continues to expand globally. The new strain of coronavirus is considered highly contagious and a serious public health threat. Since the outbreak, draconian measures have been imposed within the PRC and globally in an effort to contain COVID-19, including the closing of national borders in various countries, the lockdowns of a vast number of cities across the world, travel restrictions and extensive suspension of business operations. The WHO is closely monitoring and evaluating the situation. The WHO declared the outbreak of COVID-19 a Public Health Emergency of International Concern (PHEIC) on 30 January 2020 and subsequently a pandemic on 11 March 2020. As at the Latest Practicable Date, COVID-19 had spread to over 200 countries and territories around the world with confirmed cases of more than 40 million and over one million deaths recorded all over the world. The death toll from the COVID-19 pandemic and the number of infected cases continue to rise.

The COVID-19 pandemic, which has resulted in unprecedented shutdowns in many countries, is having a severe impact on the global economy. Advanced and developing countries are expected to suffer recession. In June 2020, the IMF forecasted that the global economy will contract by approximately 4.9% in 2020. European countries, the U.S. and other countries were still at the acute phases of the COVID-19 pandemic as at the Latest Practicable Date. According to the IMF, the latest indices from purchasing manager surveys (PMIs) are pointing to sharp slowdowns in manufacturing output in many countries, reflecting drops in external demand and growing expectations of declining domestic demand. While the impact of the COVID-19 pandemic continues to unfold, it is projected by IMF in June 2020 that the economy of the countries of advanced economies will contract by approximately 8% or more whereas the PRC economy will grow by approximately 1% in 2020. The extreme containment measures imposed by the governments around

RISK FACTORS

the world to curb the spread of COVID-19 is causing severe disruption to international trade and supply chain. Among others, the global retail industry is hard hit by the pandemic although unevenly depending on the nature of goods and items sold. According to Ipsos, the market value of the dyeing and finishing industry in China is expected to decrease from 2019 to 2020, mainly attributable to the drop in the demand for apparel in both domestic and export markets given the COVID-19 pandemic. Global recession, economic downturn and/or negative business sentiment would inevitably have an adverse indirect impact on almost all industries, and our business operations and financial condition may as a result be adversely affected.

As a result of the COVID-19 pandemic, the operations of our production facilities were subject to mandatory suspension for approximately one week after the Lunar New Year break in early February 2020. We gradually resumed our operations immediately upon our receipt of the consent to work resumption from the local PRC government dated 9 February 2020 and we were able to resume our operations to almost full-scale since early March 2020 and to full-scale by the end of March 2020. Based on our unaudited consolidated management accounts for the eight months ended 31 August 2019 and 2020 and the information currently available to us, there was a decrease in our revenue and gross profit for the eight months ended 31 August 2020 by approximately 17.7% and 6.1%, respectively, as compared to our revenue and gross profit for the eight months ended 31 August 2019, which was primarily attributable the impacts of the COVID-19 pandemic. We also recorded a decrease in our overall sales volume by approximately 17.5% from approximately 31.4 million metres for the eight months ended 31 August 2019 to approximately 25.9 million metres for the eight months ended 31 August 2020. Our Directors believe that the decrease was primarily attributable to the suspension of most non-essential businesses (including garment manufacturing businesses) in the PRC from February to mid-March 2020 in response to the COVID-19 outbreak, resulting in a delay of approximately one and a half month in the resumption of business of our regular customers and therefore a corresponding delay in the placement of orders by our regular customers. For the period from 1 January 2020 to the Latest Practicable Date, we had received purchase orders from our customers for our textile fabric products in the aggregate amount of approximately 35.0 million metres (or approximately RMB601.3 million), which was relatively stable compared with the same period of 2019. We anticipate a decrease in our forecasted profit for the year ending 31 December 2020 primarily attributable to an expected decrease in our revenue and gross profit, which is mainly in line with the expected decrease in our sales volume in 2020 by approximately 13.5% as compared to that in 2019 (whilst the average unit prices of our products are estimated to remain relatively stable) due to the impact brought about by the COVID-19 pandemic and after taken into account our estimated non-recurring listing expenses of approximately RMB21.0 million for the year ending 31 December 2020.

We are uncertain as to when the COVID-19 pandemic will be contained globally, and we also cannot predict if the impact will be short-lived or long-lasting. If the COVID-19 pandemic is not effectively controlled, our business operations and financial condition may be materially and adversely affected as a result of the global recession, changes in the outlook of the textile industry, any slowdown in economic growth, negative business sentiment or other factors that we cannot foresee.

RISK FACTORS

We generally do not enter into long-term sales agreements with our customers

During the Track Record Period, we did not enter into any long-term sales agreement with any of our existing customers, including our largest customer. Since our customers are not obligated to continue purchasing products from us, or otherwise maintain their business relationships with us, we cannot assure that the volume of our sales will remain constant or increase or that we will be able to maintain or expand our customer base. In the event that any of our customers decide to terminate or discontinue their business relationships with us or we shall fail to expand our customer base, our business, financial conditions, results of operations and future growth may be materially and adversely affected. In 2018 and 2019 and for the four months ended 30 April 2020, our Group had 243, 194 and 114 repeated customers, which accounted for approximately 68.8%, 73.9% and 62.1% of our total revenue, respectively.

We rely on our major customers and in turn the related apparel brand operators to whom we supply our textile fabric products

During the Track Record Period, sales to our top five customers accounted for approximately 41.3%, 38.6%, 38.1% and 43.3% of our total revenue, respectively. Please refer to “Business — Sales and marketing — Sales and customers” in this prospectus for further details of our top five customers. Some of our customers (including major customers) are the designated garment manufacturers or the designated trading companies of apparel brand operators who procure raw materials from us at the instructions of such apparel brand operators. To the best of our Directors’ knowledge, during the Track Record Period, 12, 14, 14 and 15 of our customers were the garment manufacturers or sourcing agents of UNIQLO, and the revenue contribution from these customers amounted to approximately RMB204.8 million, RMB316.3 million, RMB314.6 million and RMB64.7 million, representing approximately 31.0%, 36.7%, 36.3% and 38.9% of our total revenue during the Track Record Period, respectively.

We cannot assure you that we will be able to successfully maintain our existing business relationships with our major customers and the related apparel brand operators. If we fail to maintain such relationships for any reason, or there is a decline in the business of any major customer or any related apparel brand operator and thereby reducing its purchases from us, and if we are unable to secure additional and/or new customers of similar scale, our business, results of operations and financial performance may be adversely and materially affected.

We generally do not enter into long-term contracts with our suppliers, which may adversely affect the stability, sufficiency and purchase costs of our supply of raw materials used in our production process

Most of the raw materials used in our production process are sourced from suppliers in the PRC. During the Track Record Period, approximately 64.2%, 66.0%, 62.1% and 79.9% of our total purchases, respectively, were sourced from our top five suppliers. During the Track Record Period, we did not enter into any long-term purchase contracts exceeding a term of one year with our suppliers. Please refer to “Business — Suppliers and outsourcing” in this prospectus for further details.

RISK FACTORS

We cannot assure you that we will be able to secure stable and sufficient supply of raw materials from our suppliers in the future. If there are shortages or disruptions in the supply of raw materials or if our suppliers are unable to provide us with raw materials of satisfactory quality in a timely manner, our business, results of operations and financial condition may be materially and adversely affected.

Meanwhile, we may also be susceptible to fluctuations with respect to pricing of raw materials from time to time due to the absence of long-term agreement with our suppliers. We cannot assure you that we would be able to transfer any increase in raw material costs to our customers and any significant increase in the prices of the raw materials for our production might materially and adversely affect our profit margin and results of operations.

Our business operations, financial condition and results of operations may be adversely affected by any significant disruption or downtime of our production plant

As at the Latest Practicable Date, we had one production plant located in Changzhou city, Jiangsu province, the PRC. We rely significantly on our sole production plant and machineries and equipment for our textile dyeing and/or processing. As at 30 April 2020, the estimated average useful life of our major production machineries and equipment owned by our Group ranged from approximately four years to 10 years, and the approximate weighted average remaining useful life ranged from approximately 0.4 year to 9.1 years. For further details of our major machineries and equipment, please refer to “Business — Production process — Machineries and equipment” in this prospectus. Although our existing machineries and equipment are relatively new, we cannot assure that there will be no major equipment malfunctions or unexpected technical or maintenance problems. Certain equipment parts may also need to be replaced from time to time, but we cannot assure that such replacement parts will be readily available. We may also require maintenance services from external vendors who may or may not provide timely services.

Apart from normal wear and tear of our existing machineries and equipment, our production facilities are also susceptible to operational risks and hazards which are beyond our control, including (i) fires; (ii) unfavourable weather conditions and natural disasters, such as earthquakes, typhoons, floods and landslides; (iii) severe disruptions to electricity and/or water supply; and (iv) labour strikes. If we are unable to rectify such situations in a timely manner, this will cause a material disruption of our operations, which may materially and adversely affect our business operations.

Save for the disruption to our business operations by the outbreak of COVID-19 as disclosed in “Business — Effects of the COVID-19 outbreak” in this prospectus, we did not experience any material interruptions of our production at our sole production plant during the Track Record Period.

RISK FACTORS

Any disruptions, delays or downtime of our production may cause us to incur additional expenses in order to produce sufficient final products of acceptable quality to meet our customers' deadlines, and could consequently impair our ability to fulfil our customers' demands and lead to cancellation of orders, all of which may materially and adversely affect our Group's reputation, business, results of operations and financial condition.

Our failure to maintain the quality of our products and/or textile dyeing and finishing services may result in a loss of customers and adversely affect our reputation and business

We believe that the quality of our products and/or textile dyeing and finishing services is crucial for the success of our business, which will in turn depend on the effectiveness of our quality assurance and control systems. We have therefore adopted a quality assurance and quality control system to monitor every stage of our textile dyeing and/or finishing processes so as to ensure that our customers' requirements and quality expectations are satisfied. Please refer to "Business — Quality control" in this prospectus for further information on our quality assurance and control systems and the quality standard certifications obtained by our Group.

Failure to maintain an effective quality assurance and control system and/or to obtain or renew our quality standard certifications may materially and adversely impact on our customers' demands for our products and/or textile dyeing and finishing services and severely impair our reputation, all of which will in turn materially and adversely affect our results of operations, financial condition and growth prospects.

Our failure to pass on the increases in the cost of materials used in our production process to our customers may adversely affect our business and results of operations

Our business and profitability may be affected by fluctuations in the cost of materials that we use in our production process, which include (i) plain weave and corduroy greige fabrics; and (ii) textile dyes and additives such as colourants and dyeing auxiliaries. During the Track Record Period, our total cost of materials amounted to approximately RMB466.1 million, RMB611.2 million, RMB596.8 million and RMB108.3 million, respectively, representing approximately 80.4%, 81.7%, 81.0% and 77.4% of our total cost of sales, respectively. As confirmed by Ipsos, the prices of greige fabrics are generally affected by the commodity prices of cotton. Other factors that may also impact the prices of raw materials include level of market demand, global economic and financial conditions and PRC governmental policies in relation to such raw materials. Please refer to "Industry overview — Final product and raw material price analysis — Price trend of major raw materials" in this prospectus for further details of historical fluctuations in price of our raw materials and the estimated price trends.

We cannot guarantee that we will be able to pass on all or any of the increased cost of materials to our customers in a timely manner or at all. Any substantial increase in our costs of raw materials that we are unable to pass to our customers will have an adverse and material impact on our cost of sales and consequently our profit margin. If so, our business, results of operations, financial condition and growth prospects may be materially and adversely affected.

RISK FACTORS

We rely on third party subcontractors to provide certain dyeing and/or processing services

During the Track Record Period, we engaged third party subcontractors for the provision of certain textile dyeing and/or processing services on an ad-hoc basis and will continue to engage such subcontractors as and when the need arises. During the Track Record Period, we had engaged a total of 31, 33, 29 and 15 third party subcontractors, respectively, and our subcontracting costs amounted to approximately RMB18.8 million, RMB35.3 million, RMB29.3 million and RMB2.7 million, respectively, representing approximately 3.2%, 4.7%, 4.0% and 1.9% of our total cost of sales, respectively. Being able to engage and retain suitable subcontractors to perform the required textile dyeing and/or processing services is crucial to our business operations. Sub-standard performance of any of our subcontractors leading to their failure to meet, among others, our Group's quality, safety and environmental protection standards may result in us being liable to third parties, which could materially and adversely affect our business, results of operations and financial condition. In addition, the failure to retain suitable subcontractors at a reasonable cost or seek replacements on reasonable terms, or at all, in a timely manner and any failure of our subcontractors to perform their obligations or comply with the relevant PRC laws and regulations may have a material and adverse impact on our business, results of operations and financial condition. Please refer to "Business — Suppliers and outsourcing — Outsourcing" in this prospectus for further details of our third party subcontractors.

We experienced net operating cash outflow for the four months ended 30 April 2020

We recorded net cash outflow from operating activities of approximately RMB41.9 million for the four months ended 30 April 2020, which was primarily attributable to: (i) decrease in our profit before tax due to the decrease in our revenue mainly as a result of the impacts of the COVID-19 pandemic; and (ii) the income tax payments for the four months ended 30 April 2020. For details of the cash flow movements of our Group during the Track Record Period, please refer to "Financial information — Liquidity and capital resources — Cash flows" in this prospectus.

We cannot assure you that we will not experience negative operating cash flows in the future, and if such situation is not managed properly, it could negatively affect our business operations and financial condition. If we are unable to obtain sufficient funds to meet our capital requirements, our liquidity and financial condition may be materially and adversely affected. There is no assurance that we will have sufficient working capital from other sources to fund our operations. If we resort to other financing activities to generate additional working capital, we will incur additional financing costs, and we cannot guarantee that we will be able to obtain the required financing on terms acceptable to us, or at all the material time. If we are unable to maintain positive cash flows from operation, we may not be able to meet our payment obligations to support our business operations. Our business, financial position, results of operations and prospects may as a result be adversely affected.

RISK FACTORS

We are exposed to credit risks with respect to the settlement by our customers

We are subject to the credit risks of our customers and our profitability and cash flow are dependent on timely settlement of payments by our customers for the products or services we provide to them. Our average trade and bills receivables turnover days during the Track Record Period were approximately 70.1 days, 69.6 days, 70.6 days and 111.2 days, respectively. Meanwhile, we recorded allowance for expected credit loss on our trade and bills receivables of approximately RMB0.2 million, RMB0.8 million, RMB0.5 million and RMB0.4 million as at 31 December 2017, 2018 and 2019 and 30 April 2020, respectively, on our consolidated statements of financial position. We cannot assure you that we will be able to collect all or any of our trade receivables within the credit period that we granted to our customers. If any of our customers face unexpected situations including but not limited to, financial difficulties caused by general economic downturn or fiscal constraints, we may not be able to receive payment of uncollected debts in full, or at all, from such customers and we may need to make provisions for trade receivables. Should we experience any delays or difficulties in collecting payments from our customers and/or trade receivables from our debtors, we may be required to seek additional and/or alternative sources of financing in order to meet our own payment obligations, and our cash flows, financial condition and results of operations may be materially and adversely affected.

Our design and development efforts in relation to new textile fabric products and/or dyeing and processing technologies may not yield the expected benefits for us

Our Group's success depends on our ability to adjust to changes in market demands and trends and to constantly differentiate ourselves in order to enhance our competitiveness, and in order to do so, it is crucial that we continuously design and develop new textile fabric products and/or improve our dyeing and processing techniques. During the Track Record Period, our design and development expenses amounted to approximately RMB5.2 million, RMB6.1 million, RMB6.7 million and RMB1.5 million, respectively. Please refer to "Business — Design and development" in this prospectus for further details of our design and development activities. We plan to continue to devote resources to strengthen our design and development capabilities for the development of new dyeing and processing techniques and technologies. We cannot assure you that our design and development plans will be completed within our desired time frame and budget, neither can we assure that the design and development activities undertaken by us will yield the anticipated benefits. Even if our design and development activities are successful, we may not be able to launch the new products and/or apply the new techniques in a timely manner to take advantage of the available market opportunities. Market demand initially anticipated for such new products and/or techniques may fall short of our expectations after the completion of the relevant design and development activities, and the benefits that may be reaped from such new products and/or techniques may be materially undermined by other competitors' replication of similar products and/or techniques. If any of the design and development risks described above materialises and we are unable to generate sufficient revenue to offset the relevant design and development costs incurred, our results of operations, financial condition and growth prospects may be materially and adversely affected.

RISK FACTORS

Our business strategies and expansion plan may not be implemented successfully or yield the expected benefits for us

We are striving to expand our business. As part of our business strategies, we plan to, among other things, increase our production capacity and product coverage by implementing our Expansion Plans, namely (i) upgrade and improve our existing production lines facilities and technological capabilities; and (ii) acquire a company with existing production plant. Please refer to “Business — Business strategies” and “Future plans and use of proceeds — Use of proceeds” in this prospectus for further details. However, our ability to implement such strategies will depend on a variety of factors, some of which are beyond our control. Additional depreciation would also be incurred in our Expansion Plans following the acquisition of new machineries and equipment as well as new production facilities, which may adversely affect our financial performance for the corresponding financial years. Our Expansion Plans may also be adversely impacted as a result of the COVID-19 pandemic which first emerged in January 2020 and which continues to expand globally. While we believe our Expansion Plans will help us to achieve our strategic goals, our strategies and Expansion Plans may not be successful as we planned or such expansion may not yield the desired results due to the increased costs, increased competition from competitors or the general market conditions of the textile dyeing and finishing industry.

Our failure to adequately protect our intellectual property rights or our infringement of the intellectual property rights of others may adversely affect our reputation and business

We value our intellectual property rights and strive to protect our intellectual property rights, such as copyrights, patents, domain name and trademarks developed and/or owned by us. In order to protect our intellectual property rights, we have registered one trademark and one domain name in Hong Kong, and 11 trademarks, one copyright, 15 utility model patents, six design patents, one invention patent and one domain name in the PRC, and have applied for the registration of three invention patents in the PRC as at the Latest Practicable Date. We have also entered into confidentiality and non-compete agreements with members of our senior management, employees of the design and development team and technical support team and/or other employees who have access to trade secrets or confidential information of our Group. However, we cannot assure you that our efforts to protect our intellectual property rights are sufficient or that our intellectual property rights will not be misappropriated or otherwise infringed by third parties in the future, whether in the PRC or in other jurisdictions in which we operate our business. In addition, the intellectual property laws in the PRC, where our main business operations are located, are still developing and protection and enforcement of our intellectual property rights may not be as effective as the other more developed laws in other jurisdictions. On the other hand, there is also the risk that we may infringe the intellectual property rights of others, thereby incurring costs in either defending or settling any intellectual property disputes alleging us of infringement or misappropriation.

In the event that we are subject to any infringement and/or misappropriation claims, we may be required to spend significant amounts of financial resources to defend ourselves from infringement claims or commence legal proceedings against the infringing party, which may in turn have an adverse impact on our reputation, business and results of operations. If we are held to be the infringing party, we may also need to develop non-infringing alternatives or obtain licences, all of which will require us to incur additional costs. We cannot assure that we will prevail in litigation or similar proceedings instituted against or commenced by us or that we will be able to succeed in

RISK FACTORS

developing non-infringing alternatives or obtain the relevant licences on reasonable terms, or at all. If any of the foregoing materialises, our business, reputation, results of operations, financial condition and growth prospects may be materially and adversely affected.

We did not make full social insurance and housing provident fund contributions for our employees during the Track Record Period which may lead to fines or penalties being imposed on us in the future

According to the relevant PRC laws and regulations, we are required to contribute to employee social welfare schemes, such as basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance, occupational injury insurance and housing provident fund for our employees. During the Track Record Period, we did not make full social insurance and housing provident fund contributions for all of our employees. We estimate that, during the Track Record Period, the shortfalls in our social insurance contributions were approximately RMB1.3 million, RMB1.4 million, RMB0.6 million and RMB24,000, respectively, and the shortfalls in our housing provident fund contributions were approximately RMB1.0 million, RMB1.1 million, RMB0.4 million and RMB25,000, respectively.

Although we have obtained confirmations from the local social security management authority and housing provident fund management authority and legal advice from our PRC Legal Advisers, we may nevertheless still be required to make up for any previous shortfalls in our contributions and may be subject to any penalties imposed by local authorities in accordance with the relevant PRC laws and regulations. Our employees may also institute proceedings or claims against us regarding outstanding payments of the social insurance and housing provident fund contributions in the future or any related damages in the future. Any of the above may materially and adversely affect our financial condition. Please refer to “Business — Legal and compliance matters” in this prospectus for further details.

We are subject to the risk of relocation of our leased production premises which may disrupt our business operations

Our production plant is subject to a three-year lease which will expire in December 2021. Please refer to “Business — Land and property interests — Leased properties” in this prospectus for further details. If we are not able to renew our lease, we may need to relocate our production plant, which may be costly and disrupt our business operations and, in turn, have a material adverse effect on our financial position. If we are unable to find suitable alternative premises for our operations in a timely manner and at cost acceptable to us, our results of operations and financial condition may be materially and adversely affected.

We may fail to obtain requisite certificates, licences, permits or governmental approvals for our operations in a timely manner

We are required to obtain and maintain various certificates, licences, permits and governmental approvals for operating our business. Please refer to “Business — Legal and compliance matters — Major licences, permits and approvals obtained” in this prospectus for

RISK FACTORS

further details. We cannot assure you that we will be able to adapt to new laws, rules and regulations as they come into effect from time to time with respect to the textile dyeing and finishing industry or that we will not encounter other material delays or difficulties in fulfilling the necessary conditions to obtain and/or renew all necessary certificates, licences, permits or government approvals for our operations in a timely manner, or at all. If we fail to obtain, renew or encounter significant delays in obtaining or renewing, the necessary certificates, licences, permits or government approvals, our business, results of operations and financial condition may be adversely affected.

We are exposed to risks of obsolete and slow-moving inventory

Our inventory consists of raw materials, work in progress and finished goods. As at 31 December 2017, 2018 and 2019 and 30 April 2020, the balances of our inventories amounted to approximately RMB68.7 million, RMB54.6 million, RMB65.6 million and RMB109.4 million, respectively. Our average inventory turnover days were approximately 41.1 days, 30.1 days, 29.8 days and 75.7 days during the Track Record Period, respectively. For details, please refer to “Financial information — Discussion of selected items of consolidated statements of financial position — Inventories” in this prospectus. If we cannot manage our inventory level effectively or if our actual output is significantly lower than our expected sales volume, we may result in overstocking of raw materials, work in progress or finished goods, and we may need to either sell down such inventory at a lower price or write off such inventory, which may adversely impact our cash flow and liquidity.

Our failure to retain our senior management team and technical staff may adversely affect our results of operations, financial condition and growth prospects

Our continued success is largely dependent on the continued contribution of our existing Directors, senior management team and key personnel, as well as our ability to attract and retain new employees with the relevant industry expertise and skills. However, we cannot assure you that we will be able to retain the services of our existing Directors, senior management or key personnel in the future. Any loss of our existing Directors, senior management or key personnel without immediate and adequate replacements may impede our future competitiveness and growth and affect our daily business operations and implementation of our business strategies. Even if we manage to recruit replacements for the outgoing Director, senior management or key personnel, the experience and qualifications of such replacements may not be comparable with the outgoing Director, senior management or key personnel. Furthermore, we may also be required to expend additional financial resources on higher compensation and other employee benefits to attract, recruit and train new personnel, which will be time-consuming and will result in higher operating costs for our Group. In the event that we are unable to recruit new talents with comparable experience and qualifications, or if any of our existing Directors, senior management or key personnel joins our competitors or establishes their own company whose business will compete with us, the implementation of our business strategies in future, our business, results of operations and financial condition could be materially and adversely affected.

RISK FACTORS

Our insurance coverage may be insufficient to cover for all the risks related to our operations

Our operations are subject to various operational risks which may result in material disruptions and adversely affect our results of operations. These risks include interruptions caused by operational errors, failure of equipment and other production risks, raw materials shortages, electricity outages, operating limitations imposed by environmental or other regulatory requirements, industrial accidents, strikes or other labour disputes, natural disasters, and other risk factors.

Although we maintained insurance coverage for our production plant, production facilities and inventories, and also third party liability insurance in relation to, among others, employer liabilities, and vehicles as at the Latest Practicable Date, we cannot assure you that accidents or casualties will not occur or that our insurance policies will be adequate to cover all our potential losses or damages. If such losses or damages are not covered or compensated sufficiently, our results of operations and financial condition may be adversely affected.

Our Group's operations may be subject to transfer pricing adjustment

During the Track Record Period, we carried out certain intra-group transactions in Hong Kong and the PRC. Please refer to “Business — Intra-group transactions” in this prospectus for further details.

We have engaged the Tax Adviser to conduct a transfer pricing analysis on the intra-group transactions based on, among other things, the applicable regulations and guidance on transfer pricing in Hong Kong and the PRC. The relevant tax authorities in the PRC and Hong Kong may make adjustment to the tax payable by us in respect of such intra-group transactions. In such event, in addition to reputation risks, we may also need to incur additional expenses and direct management resources to deal with the relevant tax authorities.

RISKS RELATING TO OUR INDUSTRY

The textile dyeing and finishing industry in the PRC may be affected by the market demand for products manufactured in downstream industries and macroeconomic conditions

The performance of the textile dyeing and finishing industry is affected by the performance of the textile industry in general. If there is a decrease and/or substantial change in the market demand for garments and other textile products sold by our customers, this may lead to a lower demand for our textile dyeing and finishing services and we also may not possess the requisite dyeing and/or processing technologies to cater for new garments and other textile fabric products requested by our customers. Further, the textile dyeing and finishing industry and textile industry in general may be affected by macroeconomic conditions, and may experience a slowdown in growth during an economic downturn. In such event, our results of operations, financial condition and growth prospects may be materially and adversely affected.

RISK FACTORS

Changes in environmental laws and regulations in the PRC may increase our operating costs and adversely affect our business and results of operations

A certain level of waste water and other pollutants is generated at various stages of our textile dyeing and finishing processes. Textile dyeing enterprises in the PRC are subject to various environmental protection laws, regulations and industry standard in the PRC in relation to, among others, layout of enterprises, technique and equipment, resource consumption and environmental protection. In particular, we are required to obtain and renew the pollutant discharge permits* (排污許可證) and keep the water recycling rate at 40% or above. For details, please refer to “Regulatory overview — Regulatory requirements in the PRC — Laws and regulations in relation to environment protection” and “Regulatory overview — Regulatory requirements in the PRC — Laws and regulations in relation to textile industry” in this prospectus. Any failure to comply with such laws may result in fees and fines for the discharge of polluted water being imposed on us, or even an order for the suspension of our operations for the discharge of pollutants which have not been sufficiently treated. In addition, environmental laws and regulations may be amended from time to time as required by the PRC government. We cannot assure you that our existing environmental policies and equipment will be adequate to meet future environmental policies and requirements and we may be required to incur additional costs to comply with such future requirements, which may be more stringent than present laws and regulations. Any failure to comply with such laws and regulations may cause delays and disruptions to our production process and capacity, and may also adversely affect our reputation. This may in turn materially and adversely affect our business, results of operations and financial condition.

Changes in inspection procedures and tighter product safety laws as well as import and export controls may increase our operating costs and adversely affect our business and results of operations

The textile industry in general is subject to various customs inspection and related procedures in the PRC and other countries of origin and destination, as well as at the relevant ports of transit. Such inspection procedures may result in the seizure of products, delay in shipment or delivery of products and the levying of tariffs, fines or other penalties against importers or exporters. Further, our products may also be subject to the product safety requirements in the PRC and other countries which we import from or export to.

During the Track Record Period, sales to overseas customers accounted for approximately 14.1%, 25.3%, 22.8% and 28.6% of our total revenue, respectively. If the countries to which we export were to impose quota restrictions or any other forms of trade restrictions such as annual growth limits on imports, technical regulations and standards and environmental protection requirements against textile products from the PRC, our results of operations and financial condition may be adversely affected by such trade barriers. We believe that we are able to comply with the product safety laws in the PRC and other countries in which we operate. However, if the product safety laws or other controls are tightened in the future, we cannot assure you that we will

RISK FACTORS

be able to meet such new requirements. Further, we may incur substantial additional costs and experience delays in delivery in order to ensure compliance with such new requirements, which may adversely affect our business, results of operations and financial condition.

Continued increases in cost of labour in the PRC, the potential labour shortages or labour disputes could adversely affect our growth and results of operations

Our production activities are labour intensive and dependent on the availability of a large number of labour. During the Track Record Period, our direct labour costs amounted to approximately RMB27.7 million, RMB29.6 million, RMB33.0 million and RMB8.1 million, respectively. We expect that our direct labour costs will continue to rise given the decreasing size of the labour force as well as inflation in China. Although we generally pay our workers at or above the minimum wage stipulated by applicable laws and regulations in the PRC, any further increase in minimum wage requirements or market rates for workers in the dyeing and finishing service industry may result in further increase of our labour costs, undermining our profitability. In these circumstances, we may not be able to pass on all or part of the increased labour costs to our customers, thus our business, financial condition, results of operations and prospects could be adversely affected.

Further, shortage of labour or labour disputes may result in disruption of our production. Any failure to identify and recruit replacement workers immediately following an unexpected loss of skilled workers could reduce our competitiveness and have an adverse effect on our business and operations.

The ever-evolving fashion trends and changing market demands of the textile industry may render our textile fabric products and/or dyeing and finishing services less competitive or obsolete

Fashion trends change and evolve rapidly from season to season, and such changes in consumer preferences will impact on the market demand for our textile fabric products and dyeing and processing services. Our success depends on our ability to anticipate these fashion trends and the needs of our customers, and react efficiently and effectively to adapt to these trends, for example processing special and functional fabrics. If we are unable to accurately predict these changing fashion trends, or if we cannot diversify our products or customise our products in accordance with our customers' specific requirements, our textile fabric products and dyeing and finishing services may be rendered less competitive or obsolete. This may result in a loss of sales, which may materially and adversely affect our business, results of operations and financial condition.

RISK FACTORS

Our business operations are subject to seasonality which may cause our results of operations to fluctuate

Our business and results of operations are generally subject to seasonality. The first two months of each year are usually the slack production season in the year with less production taking place at the beginning of each year when we normally have completed most of the orders for autumn/winter textile fabric products and given that the Lunar New Year usually takes place in January or February each year.

For spring and summer seasons, our customers generally purchase textile fabric products that are lighter in weight and light-coloured. For autumn and winter seasons, our customers generally purchase textile fabric products that are thicker, heavier and dark-coloured, which are more costly to produce/process as compared to spring/summer textile fabric products. Unusual weather conditions or temperatures may also affect the volume of sales of our products.

As a result of the seasonal fluctuations, any comparison of our results of operations between our interim results and annual results may not be meaningful. Our results of operations are likely to continue to be affected by seasonality in the future.

Our failure to compete effectively in the textile dyeing and finishing industry may materially and adversely affect our business and results of operations

The textile dyeing and finishing industry in the PRC is highly competitive. We face competition from both domestic and foreign companies, some of which may have stronger brand names, lower costs of labour and/or production, greater access to capital, longer or more established relationships with their customers, or greater marketing and other resources compared to us. In addition, our competitors may use strategies such as aggressive pricing policies or have better research and development and marketing capabilities as compared to us, all of which may adversely affect our market share and presence in the industry. If we are unable to differentiate ourselves from our competitors and/or to respond efficiently to changes in the competitive landscape, we may be unable to compete effectively in attracting and retaining our customers and our business, results of operations, financial condition and growth prospects may be materially and adversely affected.

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

Certain foreign jurisdictions have imposed or may impose economic sanctions in various forms (such as heavy tariffs or harsh trade conditions) against certain countries, individuals and legal entities, which, from time to time, prohibit or restrict export and import activities to a certain extent. For instance, the ongoing U.S.-China trade war has led to the introductions of tariffs on a host of goods trading between the two countries. The trade tensions between the two countries have been rising since 2018 and there is a possibility that the extent and scale of trade restrictions between the two countries be escalated if the U.S. and the PRC fail to reach any agreement to settle the issue. There is no assurance as to how the U.S.-China trade war may develop or whether there

RISK FACTORS

will be any changes to the scope and extent of goods that are or will be being subject to such tariffs policies introduced by the two countries. We cannot predict the implications of the ongoing U.S.-China trade war and the knock-on effect on our industry and the global economy.

As at the Latest Practicable Date, the U.S.-China trade war did not have material adverse impact on our business given that we had not conducted any substantial sales of our textile fabric products to the U.S.

Further, if we export our textile fabric products to other countries which are subject to any economic sanctions in the future and/or if the scope of the sanctions is expanded to include textile fabric products, our business, financial condition and results of operations may be materially and adversely affected. Economic sanctions laws or regulations could change in a way that could affect our business, exports to or sales in other countries or regions and/or could result in restrictions, penalties, fines or higher tariffs.

During the Track Record Period, most, if not all, of our textile fabric products were purchased by our customers for further processing into finished garments for apparel brand operators in different countries. We have no control over the countries or regions to which our customers will sell and/or export their end products. Our customers are at the same time subject to risks associated with international trade regulations that may be imposed on their products, such as anti-dumping duties, trade tariffs or quota fees imposed by the U.S. If the export sales of our customers' end products shall be restricted, prohibited or made subject to any trade conditions under any international policies, international economic sanctions, anti-dumping measures or new tariffs imposed by any jurisdictions, our customers' purchase costs will increase significantly if they are not able to pass such additional costs to their customers. Our end-customers' demand in our textile fabric products may as a result drop significantly and our business, financial condition and results of operations may be materially and adversely affected.

Given the uncertainties in the development of the trade war and its effects on the global economy, and in consideration of any future changes in international trade regulations and policies, we cannot assure you that restrictions or new tariffs would not be expanded to textile fabric products. There is no assurance on whether our Group would engage in any export of our textile fabric products to the U.S., or whether the U.S. would further increase the tariffs and/or anti-dumping measures imposed on textile fabric products exported from the PRC or any other countries or jurisdictions where our customers are located.

RISKS RELATING TO CONDUCTING OUR BUSINESS IN THE PRC

The economic, legal, political and social conditions in the PRC may materially and adversely affect our business operations and prospects

Most of our assets, business operations, customers and suppliers are located in the PRC. As such, our results of operations, financial condition and growth prospects are subject to the economic, legal, political and social developments in the PRC, including (i) the amount and degree

RISK FACTORS

of the PRC government's involvement; (ii) the uniformity in implementation and enforcement of laws; (iii) preferential treatment to particular industries or economies; (iv) allocation of resources; and (v) control of foreign exchange.

Although the PRC economy is gradually moving towards a more market-oriented economy, the PRC government continues to play a significant role in regulating industries and the economy through various policy measures. Such measures adopted by the PRC government, however, may not be effective in sustaining or improving the current growth rate of the PRC economy, or if there is any growth, we cannot predict whether such growth will be in a geographic region or economic sector beneficial to us. If the PRC's economic growth slows down or if the PRC economy falls into a recession, our business, results of operations and financial condition may be adversely affected.

The legal protection available to us in the PRC may be limited due to uncertainties in the implementation, interpretation and enforcement of the PRC laws

We conduct all of our business operations in the PRC and are subject to the PRC laws and regulations. The PRC is a civil law jurisdiction which is fundamentally based on written laws, regulations and codes, which may vary between different provinces. Although prior court decisions may be cited for reference, they have limited precedential value. These laws are often principle-based and may require detailed interpretation by enforcement bodies before such laws are applied and enforced. Furthermore, the PRC government is still in the process of developing and promulgating laws and regulations in relation to economic matters, including but not limited to corporate reorganisation and governance, foreign investment and trade and taxation matters, and are subject to policy changes. As such, the implementation, interpretation and enforcement of these laws may involve greater uncertainty as compared to those in common law jurisdictions due to a relatively short legislative history and the limited number and non-binding nature of court cases. Such uncertainties in the PRC legal system may limit the availability, consistency and predictability of legal protection to potential investors.

Our ability to utilise our cash effectively may be limited due to restrictions on currency conversion

Our business operations are mainly based in the PRC and we receive most of our payments from customers in RMB, which is not a freely convertible currency. Under existing foreign exchange regulations in the PRC, payments of current account items, including but not limited to payment of dividends, interest payments and trade-related expenses, can generally be made in foreign currencies without prior approval from SAFE or its local counterpart, provided that certain procedural requirements are satisfied. However, for transactions such as payment of capital expenses as an offshore investment denominated in a foreign currency, prior approval from SAFE or its local counterpart or banks designated by SAFE or its local counterpart is required. The PRC government also imposes certain controls on the convertibility of RMB into foreign currencies, and the remittance of such currencies out of the PRC. This may limit our ability to utilise our revenue and profits generated in RMB to fund our business operations outside of the PRC.

RISK FACTORS

The value and exchange rate of the RMB against other foreign currencies fluctuates and is affected by, among other factors, the policies of the PRC government and changes in international, economic, financial and political conditions. In the event of an increase or decrease in the value of RMB against other currencies, our business and operating results may be materially and adversely affected. Furthermore, the net proceeds to be raised from the Share Offer will be denominated in HK\$, which will need to be converted into RMB for our business operations. An appreciation of RMB against HK\$ or other foreign currencies will have an adverse effect on the amount we will receive from such conversion of proceeds. On the other hand, a devaluation of RMB against HK\$ and other foreign currencies may adversely affect the amount of cash dividends on our Shares in terms of HK\$.

It may be difficult for our investors to effect service of process or enforce foreign judgments obtained from non-PRC courts on us or our Directors

Our operations are conducted in the PRC through our PRC subsidiaries and a substantial part of our assets are located in the PRC. The PRC does not have any treaties providing for the reciprocal recognition and enforcement of judgments of the courts of the Cayman Islands and many other countries and regions. As such, it may be difficult for investors to effect service of process on or to enforce any foreign judgments made by courts in non-PRC jurisdictions against us or our Directors.

On 14 July 2006, Hong Kong government and the Supreme People's Court of the PRC entered into the Arrangement on Reciprocal Recognition and Enforcements of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the “2006 Arrangement”), which became effective on 1 August 2008. Pursuant to the 2006 Arrangement, a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having the sole jurisdiction for the dispute. As such, if the parties to the dispute do not enter into a written agreement in relation to the choice of courts, it may be difficult to enforce a judgment rendered by a Hong Kong court in the PRC.

RISK FACTORS

On January 18, 2019, the Supreme People's Court of the PRC and the government of the Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the “**2019 Arrangement**”). Under the 2019 Arrangement, any party concerned may apply to the relevant PRC court or Hong Kong court for recognition and enforcement of the effective judgments in civil and commercial cases subject to the conditions set forth in the 2019 Arrangement.

The 2019 Arrangement will, upon its effectiveness, supersede the 2006 Arrangement. Since it remains unclear when it will come into effect and the outcome and effectiveness of any action brought under the 2019 Arrangement may still be uncertain, we cannot assure you that an effective judgment that complies with the 2019 Arrangement can be recognised and enforced in a PRC court.

Any limitation on the ability of our subsidiaries in the PRC to pay dividends or make distributions to us may adversely effect our liquidity

We are a holding company, and we rely on dividends and other distributions on equity payments by our PRC subsidiaries for our liquidity requirements, including funds necessary to pay any dividends and other cash distributions to our Shareholders, to service any debt we may incur and to pay certain operating expenses. We cannot assure you that our PRC subsidiaries will generate sufficient earnings and cash flow to pay dividends or otherwise distribute funds to enable us to meet our financial obligations. Under the applicable PRC laws and regulations, dividends may be paid only out of distributable profits. In particular, our subsidiaries in the PRC are required under the applicable laws and regulations to set aside a portion of its after tax profits of each year to fund statutory reserves. These statutory reserves are not distributable as cash dividends and must be made before distribution of dividend to equity owners. As such, any transfer of its net assets to its shareholders as dividends is restricted under the PRC laws. Such limitation on the ability of our subsidiaries in the PRC to pay dividends or make distributions to us may have a material adverse effect on our liquidity and limit our ability to pay dividends to our Shareholders.

We may be deemed to be a PRC tax resident under the EIT Law and the EIT Rules and be subject to PRC taxation on our worldwide income

Under the EIT Law and the EIT Rules, enterprises established under the laws of a foreign country or region whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and will generally be subject to a uniform 25% EIT on their worldwide income. Under the EIT Law and the EIT Rules, “de facto management body” is defined as the managing body that has the material and overall management control over the production, business, personnel, accounts and assets of an enterprise.

On 22 April 2009, the SAT issued the Notice on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management* (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知) stipulating certain specific criteria for determining whether the “de facto management body” of a PRC-controlled offshore enterprise is located in the PRC. These criteria include, among

RISK FACTORS

others (i) location where the enterprise's day-to-day operational management is primarily exercised; (ii) whether decisions relating to the enterprise's financial and human resource matters are made or subject to approval by organisations or personnel in the PRC; (iii) location of the enterprise's primary assets, accounting books and records, company seals, and board and shareholders' meeting minutes; and (iv) whether 50% or more of voting board members or senior executives of the enterprise habitually reside in the PRC.

However, we cannot assure you that we will not be considered a PRC resident enterprise for PRC enterprise income tax purposes and be subject to the uniform 25% enterprise income tax on our global income. If our global income is subject to taxation under the EIT law, it will materially and adversely impact our cash flow and financial condition.

Gains on the sales of our Shares and dividends on our Shares may be subject to PRC income tax

Under the EIT Law, the EIT Rules and the Individual Income Tax Law of the PRC, dividends payable by "PRC tax resident enterprises" to non-PRC residents are subject to PRC withholding tax at the rate of 10% (for "non-PRC resident enterprises") and 20% (for "non-PRC resident individuals"), to the extent such dividends have their source within the PRC. "Non-PRC resident enterprises" refers to enterprise investors that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business. "Non-PRC resident individuals" refers to individual investors who do not have any domicile and do not reside in the PRC, or do not have any domicile but have resided in the PRC for the aggregate for less than 183 days of a tax year.

Similarly, any gain realised on the transfer of shares of "PRC tax resident enterprises" by such investors is also subject to PRC income tax, usually at a rate of 10% (for non-PRC resident enterprises) and 20% (for non-PRC resident individuals) unless otherwise reduced or exempted by relevant tax treaties or similar arrangements, if such gain is regarded as income derived from sources within the PRC.

We are a holding company incorporated in the Cayman Islands, and substantially all of our operations are in the PRC. There is uncertainty as to whether we will be considered a "PRC tax resident enterprise" for the purpose of the EIT Law. As a result, it is unclear whether dividends paid on our Shares, or any gain realised from the transfer of our Shares, would be treated as income derived from sources within the PRC and would as a result be subject to PRC income tax. If we are considered a "PRC tax resident enterprise", then any dividends paid to our Shareholders that are "non-PRC resident enterprises" or "non-PRC resident individuals" and any gains realised by them from the transfer of our Shares may be regarded as income derived from PRC sources and, as a result, would be subject to PRC income tax, unless otherwise exempted. It is unclear whether, if we are considered a "PRC tax resident enterprise", our Shareholders would be able to claim the benefit of income tax treaties or agreements entered into between the PRC and other countries or regions.

RISK FACTORS

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may restrict our ability to inject capital or distribute profits

SAFE issued the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents' Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles* (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (“**SAFE Circular 37**”), which came into effect on 4 July 2014. The SAFE Circular 37 requires a PRC individual resident (“**PRC Resident**”) to register with the local SAFE branch by filing a “Registration Form of Overseas Investments Contributed by Domestic Individual Residents” before he or she contributes assets or acquires equity interests in any special purpose vehicle incorporated outside the PRC (“**SPV**”) that is directly established or controlled by the PRC Resident for the purpose of conducting investment or financing. Under the SAFE Circular 37, after the initial registration with SAFE or its local counterpart, the PRC Resident is also required to register with the local SAFE branch for any major change in respect of the SPV, including, any major change of the SPV's PRC Resident shareholder, name of the SPV, term of operation, or any increase or reduction of the SPV's registered capital, share transfer or swap, and merger or division. Pursuant to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment* (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (“**SAFE Circular 13**”) issued by SAFE, the abovementioned registration shall be directly reviewed and handled by qualified banks.

As at the Latest Practicable Date, our PRC resident Shareholder Mr. Xue, who has offshore investments through our Group, had registered with qualified banks as to his offshore investment in accordance with the SAFE Circular 37. However, we may not at all times be fully aware or informed of the identities of all our Shareholders who are PRC domestic residents, and cannot assure that such PRC Shareholders will act in accordance with our request to make, amend or obtain any applicable registrations or comply with requirements under the SAFE Circular 37, the SAFE Circular 13 and/or other related regulations. If our PRC Shareholders fail to carry out the abovementioned registration and relevant updates, this may result in penalties and our subsidiaries established in the PRC may be prohibited from making payments to us from capital reductions, share transfers or liquidations of our PRC subsidiaries, which may in turn affect our ownership structure, acquisition strategies, business operations and ability to pay dividends to our PRC Shareholders.

We may face PRC regulatory risks relating to the Share Option Scheme

On 15 February 2012, SAFE issued the Notice of SAFE on Issues relating to Foreign Exchange Administration for Domestic Individuals Participation on Equity Incentive Plans of Overseas-Listed Companies* (國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) (“**Equity Incentive Plan Notice**”). The Equity Incentive Plan Notice applies to domestic individuals as defined in article 52 of the Foreign Exchange Administration Regulations of the PRC* (中華人民共和國外匯管理條例), including directors, supervisors, senior management or other employees of a domestic company, either Chinese citizens (including citizens of Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan) or foreign individuals.

RISK FACTORS

Such individuals are required to file foreign exchange registrations with the relevant SAFE branches for participation in a company's share option scheme if the domestic company is listed abroad or for participation in the share option scheme of an overseas-listed company, which either invests in or is invested in by a domestic company or controls or is controlled by a domestic company. If we fail to arrange relevant registration procedures for individuals participating in the Share Option Scheme, we may be subject to the relevant regulatory measures or administrative sanctions. We may therefore face regulatory risks relating to the Share Option Scheme if we grant options to domestic individuals provided in the Equity Incentive Plan Notice in the future.

RISKS RELATING TO THE SHARE OFFER AND OUR SHARES

There was no public market for our Shares prior to the Share Offer and an active trading market for our Shares may not develop or sustain

There was no public market for our Shares prior to the Share Offer. Following the completion of the Share Offer, the Stock Exchange will be the only market whereby our Shares are publicly traded. We cannot assure that: (i) there will be an active trading market for our Shares; or (ii) if an active trading market does develop, it will be sustainable following the completion of the Share Offer. It should also be noted that the Offer Price expected to be fixed by agreement between Fortune (HK) Securities (for itself and on behalf of the Underwriters) and us may not be indicative of the market price of our Shares following the completion of the Share Offer. If an active trading market for our Shares does not develop or is not sustainable after the Share Offer, the market price and liquidity of our Shares could be materially and adversely affected.

The trading price and trading volume of our Shares may be volatile

The trading price and trading volume of our Shares may be volatile and may fluctuate significantly due to various factors such as (i) investors' and analysts' perceptions of our Group and our future plans; (ii) variations in our Group's results of operations, revenue and cash flow; (iii) major changes in our key personnel or senior management; (iv) announcements of new investments, strategic alliances and/or acquisitions; (v) our ability to compete effectively in the market; and (vi) general, economic, financial and stock market conditions. In addition, stock markets and the shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC may experience price and volume fluctuations from time to time that are not related to the operating performance of any particular company. Such variations may in turn adversely affect the market price of our Shares.

There will be a time gap between pricing and trading of our Offer Shares, the price of our Offer Shares could fall below the Offer Price when the trading commences

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, trading of our Shares on the Stock Exchange will not commence until our Shares are delivered, which is expected to be a short period after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the trading price of our Shares could fall below the

RISK FACTORS

Offer Price when the trading commences as a result of adverse market conditions or other adverse developments, that could occur between the Price Determination Date and the date on which trading of our Shares begins.

Investors' interests in our share capital may be diluted if our Company issues additional Shares or other securities in the future

We may need to raise additional funds in the future to finance, among others, business expansion or strategic acquisitions. The equity interests of our Shareholders will be diluted if such additional funds are raised through the issuance of new Shares or other equity-related securities of our Company other than on a pro-rata basis to the existing Shareholders. Such new securities may also confer rights and privileges that take priority over those conferred by the Offer Shares. Any exercise of the options to be granted and any issuance of Shares under the Share Option Scheme in the future may also result in the reduction in the percentage of ownership of our then Shareholders.

The sale or availability for sale of a substantial number of our Shares in future may materially and adversely affect the market price of our Shares

Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up periods. We cannot assure that our Controlling Shareholders, whose interests may differ from that of other Shareholders, will not dispose the Shares held by them following the expiration of the lock-up periods, or any Shares that they may come to own in the future. The sale of substantial amounts of our Shares in the public market after completion of the Share Offer, or the perception that such sale may occur, could adversely affect the market price of our Shares and may affect our future ability to raise capital through offerings of our Shares.

Cayman Islands laws or PRC laws as the extent to which such laws protect the interests of minority shareholder may be different from that provided for in Hong Kong

Our Company is incorporated in the Cayman Islands and therefore our corporate affairs are governed by, among others, the Memorandum of Association, the Articles of Association, the Cayman Companies Law and common law of the Cayman Islands. Cayman Islands laws relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedents existing in Hong Kong. As a result, remedies available to our Company's minority shareholders may be different from those they would have under Hong Kong laws or the laws of other jurisdictions. Please refer to Appendix IV to this prospectus for further details of Cayman Islands laws.

RISK FACTORS

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

Investors should not unduly rely on certain facts, forecasts and other statistics in this prospectus relating to the economy and our industry as they may not be accurate

This prospectus contains certain facts, forecasts and other statistics that have been extracted from the PRC official government sources and publications or other external sources. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such information and statistics obtained from the PRC official government sources and publications may be inconsistent with information obtained from other sources, inaccurate and not comparable to information and statistics produced with respect to other countries. While our Directors have taken reasonable care in the selection and reproduction of such information in this prospectus, such information has not been independently verified by our Group, our Directors, the Sole Sponsor or any other parties involved in the Share Offer. None of our Group, our Directors, the Sole Sponsor or any other parties involved in the Share Offer has also made any representation as to the accuracy and/or completeness of such facts, forecasts and statistics and we cannot assure that such information and statistics are prepared and/or compiled on the same basis, standard or level of accuracy as compared to similar information available in other publications or jurisdictions. Therefore, prospective investors therefore should not place undue reliance on such facts, forecasts and statistics.

Our future results may differ materially from the forward-looking statements contained in this prospectus

This prospectus contains certain forward-looking statements in relation to the plans, objectives, expectations and intentions of our Directors. Such forward looking statements are based on numerous assumptions as to our present and future business strategies, financial performance and the development of the environment in which we operate. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual performance, financial results or achievements to be materially different from our anticipated performance, financial results or achievements expressed or implied by these forward-looking statements. Accordingly, forward-looking statements in this prospectus are not a guarantee of our future performance and should not be regarded as representations by us. Potential investors should not place undue reliance on such forward-looking statements.

RISK FACTORS

Investors should not unduly rely on any information contained in press articles or other media in relation to us and the Share Offer which may be inconsistent with the information contained in this prospectus

Prior to the publication of this prospectus, there may have been press articles and media coverage in relation to us and the Share Offer which may include certain financial information, financial projections and other information about us which do not appear in this prospectus. Such information and its disclosure may not be sourced from or authorised by us. We therefore do not accept any responsibility for, and we cannot guarantee or make any representation as to the appropriateness, accuracy, completeness or reliability of such information. Potential investors are therefore cautioned to make their investment decisions based solely on the information contained in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) (as amended) and the Listing Rules for the purpose of giving information to the public with regard to our Company. Our Directors, collectively and individually, accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement in this prospectus misleading, and all opinions expressed in this prospectus have been arrived at after due and careful consideration and are formed on bases and assumptions that are fair and reasonable.

THE SHARE OFFER

This prospectus is published solely in connection with the Public Offer. For applicants under the Public Offer, this prospectus and the related Application Forms set out the terms and conditions of the Public Offer. The Share Offer comprises the Public Offer of initially 15,000,000 Public Offer Shares and the Placing of initially 135,000,000 Placing Shares (subject, in each case, to reallocation on the basis described in “Structure and conditions of the Share Offer” in this prospectus).

The Share Offer is sponsored by the Sole Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement, subject to agreement on the Offer Price between Fortune (HK) Securities (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date. The Share Offer is managed by the Joint Bookrunners. Please refer to “Underwriting” in this prospectus for further details of the Underwriters and the underwriting arrangements.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price, which is expected to be fixed by agreement between Fortune (HK) Securities (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date. If, for whatever reason, Fortune (HK) Securities (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by Friday, 6 November 2020, the Share Offer will not become unconditional and will lapse immediately.

The indicative Offer Price range is from HK\$0.84 to HK\$1.08.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

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

No action has been taken to permit any public offering of the Offer Shares or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. Prospective applicants for the Offer Shares should consult their financial advisers and seek legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws, rules and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should also inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

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

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Capitalisation Issue and upon the exercise of any options which may be granted under the Share Option Scheme. No part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to deal is being or proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange 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. All necessary arrangements have been made for the Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the tax implications of subscription for, purchasing, holding or disposing of and dealing in our Shares under the laws of the place at your operations, domicile, residence, citizenship or incorporation. We emphasise that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Share Offer accepts responsibility for your tax effects or liabilities resulting from your subscription for, purchase, holding or disposal of or dealing in our Shares.

STABILISATION AND OVER-ALLOTMENT OPTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for or purchase the newly issued securities in the secondary market during a specified period of time, to retard, and if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Share Offer, the Stabilising Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the commencement of trading in the Shares of our Company on the Stock Exchange. Such transactions will be effected in compliance

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

with all applicable laws, rules and regulations in place in Hong Kong. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time during the stabilising period, which will begin on the day on which trading of our Shares commences on the Stock Exchange and end on the 30th day from the last day for lodging applications under the Public Offer.

As a result, demand for our Shares, and their market price, may fall after the end of the stabilising period. Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes (i) over-allocation of shares for the purpose of preventing or minimising any reduction in the market price of shares; (ii) selling or agreeing to sell shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of shares; (iii) subscribing, or agreeing to subscribe, for shares pursuant to an option or other right in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, shares pursuant to an option or other right in order to close out any positions established under (i) or (ii) above; (v) selling shares to liquidate a long position established; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v) above. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 22,500,000 Shares, which is 15% of the new Shares of our Company initially available under the Share Offer.

As a result of effecting transactions to stabilise or maintain the market price of our Shares, the Stabilising Manager, or any person acting for it, may maintain a long position in our Shares. The size of the long position and the period for which the Stabilising Manager, or any person acting for it, will maintain the long position are at the discretion of the Stabilising Manager and are uncertain. Investors should be warned that, in the event that the Stabilising Manager liquidates this long position by making sales in the open market, this may lead to decline in the market price of our Shares.

Any stabilising action taken by the Stabilising Manager, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilising period. Stabilising bids for or market purchases of the Shares by the Stabilising Manager, or any person acting for it, may be made at or below the Offer Price and can therefore be made at or below the price paid for the Offer Shares by applicants for, or investors in, the Offer Shares.

In connection with the Share Offer, the Stabilising Manager may require our Company to allot and issue up to and not more than an aggregate of 22,500,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or combination of these means. In particular, for the purpose of covering such over-allocations, the Stabilising Manager may borrow up to 22,500,000 Shares from Oriental Ever Holdings (equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option), under the Stock Borrowing Agreement.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

The terms of the Stock Borrowing Agreement will be in compliance with the requirements set out in Rule 10.07(3) of the Listing Rules and will therefore not be subject to restrictions under Rule 10.07(1)(a) of the Listing Rules. The principal terms of the Stock Borrowing Agreement are set out below:

- the stock borrowing arrangement will only be effected by the Stabilising Manager (or its affiliates) for settlement of over-allocations in connection with the Placing;
- the maximum number of Shares to be borrowed by the Stabilising Manager (or its affiliates) from Oriental Ever Holdings will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed will be returned to Oriental Ever Holdings not later than the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised; (ii) the day on which the Over-allotment Option is exercised in full; or (iii) such earlier time as may be agreed in writing between the parties;
- the stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements; and
- no payments will be made to Oriental Ever Holdings in relation to the stock borrowing arrangement.

HONG KONG BRANCH SHARE REGISTER AND STAMP DUTY IN HONG KONG

All Shares issued pursuant to applications made in the Share Offer will be registered in our Company's branch register of members to be maintained in Hong Kong at Computershare Hong Kong Investor Services Limited. Dealings in the Shares will be subject to Hong Kong stamp duty.

Unless otherwise determined by our Company, dividends payable in HK dollars in respect of the Shares will be paid to the shareholders listed on the Hong Kong branch share register of our Company, by ordinary post, at the shareholders' risk, to the registered address of each Shareholder.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

The application procedure for the Public Offer Shares is set out in "How to apply for Public Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE SHARE OFFER

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

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

EXCHANGE RATE CONVERSION

Certain amounts denominated in RMB have been translated into HK\$ and vice versa at an exchange rate of HK\$1.0 to RMB0.9, for illustration purposes only. Such conversions shall not be constructed as representations that amounts in HK\$ or RMB were or may have been converted into those currencies and vice versa at such rate or any other exchange rates.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

WAIVER FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

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

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

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

Since the principal business operations and assets of our Group are substantially conducted and located in the PRC, members of our senior management are and will therefore be expected to continue to be based in the PRC. Further, our executive Directors have a vital role in our Group's operations and it is crucial for them to remain in close proximity to our Group's central management located in the PRC. Accordingly, our Company does not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong.

Application for waiver

In view of that, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the compliance with Rule 8.12 of the Listing Rules based on the reasons below:

- (a) our Group's business and operations are principally carried out in the PRC and substantially all of our Group's assets, including the production facilities, are located in the PRC;
- (b) our Board currently consists of eight members, including five executive Directors and three independent non-executive Directors. All of our executive Directors, namely Mr. Xue, Mr. Wang Bin, Mr. Qiu Jianyu, Ms. Zhang Yeping and Mr. Jin Rongwei are ordinarily resident in the PRC. Each of them has a vital role in the business and day-to-day operations of our Group and it is of paramount importance for them to remain to be based in the PRC, being the principal place of business operations and management of our Group;
- (c) members of our Group's senior management are currently based in the PRC, being the principal place of business operations and management of our Group;

**WAIVER FROM STRICT COMPLIANCE WITH
THE REQUIREMENTS UNDER THE LISTING RULES**

- (d) in light of the fact that the management and operations of our Group are based in the PRC, the appointment of two additional executive Directors who are ordinarily resident in Hong Kong would increase the administrative expenses of our Group and reduce the effectiveness and responsiveness of the Board in making decisions for our Group, particularly when business decisions are required to be made on a timely basis. Furthermore, such additional executive Directors, not being able to be physically present at the location where our Group's daily operations and management take place, may not be able to fully understand the daily business operations of our Group or appreciate the circumstances affecting the business operations and development of our Group from time to time. This may adversely affect such Directors' ability to exercise their discretion on a fully informed basis, or to make appropriate business decisions or judgments that are beneficial to the operation and development of our Group. As such, it will be unduly cumbersome, costly and not in our Company's interest to appoint two additional executive Directors who are ordinarily resident in Hong Kong merely for the sole purpose of satisfying the requirements of Rule 8.12 of the Listing Rules; and
- (e) further, our executive Directors can normally be contacted at our principal place of business in the PRC during normal business hours and could travel frequently from Changzhou to Hong Kong, if necessary.

In order to ensure that regular communication is effectively maintained between the Stock Exchange and our Company, our Group will put in place the following measures:

- (a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange. The two authorised representatives are Mr. Qiu Jianyu, an executive Director, and Ms. Chou Kwai Wah, the company secretary of our Company. Mr. Qiu holds valid travel documents to visit Hong Kong, and Ms. Chou Kwai Wah is ordinarily resident in Hong Kong. Each of the authorised representatives will therefore be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email (if applicable). Our Company will inform the Stock Exchange promptly if there is any change in our authorised representatives or the contact details of any of them;
- (b) in addition, all of our Directors will provide their mobile phone numbers, office phone numbers, facsimile numbers and email addresses (if applicable) to the Stock Exchange and the authorised representatives. The authorised representatives will have means for contacting all Directors promptly at all times as and when the Stock Exchange wishes to contact them on any matters;

**WAIVER FROM STRICT COMPLIANCE WITH
THE REQUIREMENTS UNDER THE LISTING RULES**

- (c) furthermore, each of our Directors who is not ordinarily resident in Hong Kong has confirmed that he/she possesses or can apply for valid travel documents to visit Hong Kong for business purposes and can meet with the Stock Exchange within a reasonable period upon request of and prior notice from the Stock Exchange; and
- (d) we have appointed Fortune Financial as our compliance adviser upon Listing pursuant to Rule 3A.19 of the Listing Rules, which will act as an additional channel of communication with the Stock Exchange. Our compliance adviser will have access at all times to our authorised representatives, our Directors and other senior management of us. Our Company will procure that such persons will provide promptly such information and assistance as our compliance adviser may need or may reasonably request in connection with the performance of its duties as set forth in Chapter 3A of the Listing Rules. Our Company will also ensure that there are adequate and efficient means of communication between our Company, our authorised representatives, our Directors and other senior management of us and our compliance adviser, and will keep our compliance adviser informed of all communications and dealings between us and the Stock Exchange.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. Xue Shidong (薛士東)	Unit 2101C, Block 40 Yu Cui Yuan Tianning Jie Dao Tianning District, Changzhou Jiangsu Province China	Chinese
Mr. Wang Bin (王斌)	Unit 701A, Block 8 Long Zhou Yi Dou Gardens Tianning District, Changzhou Jiangsu Province China	Chinese
Mr. Qiu Jianyu (邱建宇)	No. 43 Qiu Jia Dai Dong Qing Village Zheng Lu Town Tianning District, Changzhou Jiangsu Province China	Chinese
Ms. Zhang Yeping (張葉萍)	Unit 395 Zhou Jia Xiao Qu, Fuqiang Cun Wei Chashan Jie Dao Tianning District, Changzhou Jiangsu Province China	Chinese
Mr. Jin Rongwei (金榮偉)	Unit 1002, Block 4 Shi Ji Hua Cheng Lanling Jie Dao Tianning District, Changzhou Jiangsu Province China	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Name	Residential address	Nationality
<i>Independent non-executive Directors</i>		
Mr. Zhu Qi (朱旗)	Room 201A, Block 158-6 Qing Liang Xin Cun Changzhou Jiangsu Province China	Chinese
Mr. Ho Kin Cheong Kelvin (何建昌)	Room 2709 Ka Yeung House Ka Shing Court Fanling, New Territories Hong Kong	Chinese
Mr. Wang Hongliang (王洪亮)	Room 901, Unit 4, Block 6 Xue Qing Yuan Xiao Qu Xue Qing Road Haidian District Beijing China	Chinese

For detailed information of our Directors, please refer to “Directors and senior management” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor

Fortune Financial Capital Limited

43/F, Cosco Tower

183 Queen's Road Central

Central

Hong Kong

(a licensed corporation permitted to carry on type 6 (advising on corporate finance) regulated activity under the SFO)

Joint Bookrunners and Joint Lead Managers

Fortune (HK) Securities Limited

43/F, Cosco Tower

183 Queen's Road Central

Central

Hong Kong

(a licensed corporation permitted to carry on type 1 (dealing in securities) regulated activity under the SFO)

China Everbright Securities (HK) Limited

12/F, Everbright Centre

108 Gloucester Road

Wanchai

Hong Kong

(a licensed corporation permitted to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO)

Shenwan Hongyuan Securities (H.K.) Limited

Level 19, 28 Hennessy Road

Hong Kong

(a licensed corporation permitted to carry on type 1 (dealing in securities) regulated activity under the SFO)

Fulbright Securities Limited

Room 2608–11, 26/F, Wing On Centre

No. 111 Connaught Road Central, Hong Kong

(a licensed corporation permitted to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO)

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Guosen Securities (HK) Capital Company Limited

Suites 3207–3212

Level 32, One Pacific Place

88 Queensway

Hong Kong

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

Joint Lead Manager

Aristo Securities Limited

Room 101, 1st Floor

On Hong Commercial Building

145 Hennessy Road, Wanchai

Hong Kong

(a licensed corporation permitted to carry on type 1 (dealing in securities) regulated activity under the SFO)

Wilson Securities Limited

Unit 19, 11/F, Peninsula Centre

67 Mody Road, Tsim Sha Shui East

Kowloon, Hong Kong

Legal advisers to our Company

as to Hong Kong laws

David Fong & Co.

Solicitors, Hong Kong

Unit A, 12/F

China Overseas Building

139 Hennessy Road

Wanchai

Hong Kong

Mr. Chan Chung

Barrister-at-law

10th Floor, Grand Building

15–18 Connaught Road Central

Hong Kong

as to Cayman Islands laws

Conyers Dill & Pearman

Cayman Islands attorneys-at-law

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

as to PRC laws

Jiangsu BST Law Office

Registered law firm in the PRC

17/F, Block 4A

No. 68 Aoti Street

Nanjing

China

JC Master Law Offices

Registered law firm in the PRC

9/F, National Water Resources Building

70 Qingjiang South Road

Nanjing

China

**Legal advisers to the
Sole Sponsor, the Joint
Bookrunners and the Joint
Lead Managers and the
Underwriters**

as to Hong Kong laws

MinterEllison LLP

Solicitors, Hong Kong

Level 32, Wu Chung House

213 Queen's Road East

Hong Kong

as to PRC laws

Shu Jin Law Firm

11 & 12/F, TaiPing Finance Tower

Yitian Road 6001

Futian District, Shenzhen

China

**Auditors and reporting
accountants**

SHINEWING (HK) CPA Limited

Certified Public Accountants

43/F., Lee Garden One

33 Hysan Avenue

Causeway Bay

Hong Kong

Tax Adviser

SHINEWING Tax and Business Advisory Limited

43/F., Lee Garden One

33 Hysan Avenue

Causeway Bay

Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Independent industry consultant	Ipsos Asia Limited Room 602, 6/F., China Life Centre 18 Hung Luen Road Hung Hom, Kowloon Hong Kong
Compliance adviser	Fortune Financial Capital Limited 43/F, Cosco Tower 183 Queen's Road Central Central Hong Kong <i>(a licensed corporation permitted to carry on type 6 (advising on corporate finance) regulated activity under the SFO)</i>
Receiving bank	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

CORPORATE INFORMATION

Registered office in the Cayman Island	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and principal place of business in Hong Kong	Unit B, 11/F Eton Building 288 Des Voeux Road Central Hong Kong
Principal place of business in the PRC	No. 381 Laodong East Road Tianning District, Changzhou Jiangsu Province China
Company's website	<u>www.yadongtextile.com</u> <i>(information of this website does not form part of this prospectus)</i>
Company secretary	Ms. Chou Kwai Wah <i>ACIS, ACS</i> 14/F, Golden Centre 188 Des Voeux Road Central Hong Kong
Authorised representatives (for the purpose of the Listing Rules)	Mr. Qiu Jianyu No. 43 Qiu Jia Dai Dong Qing Village Zheng Lu Town Tianning District, Changzhou Jiangsu Province China Ms. Chou Kwai Wah <i>ACIS, ACS</i> 14/F, Golden Centre 188 Des Voeux Road Central Hong Kong
Members of the audit committee	Mr. Ho Kin Cheong Kelvin (<i>chairman</i>) Mr. Zhu Qi Mr. Wang Hongliang

CORPORATE INFORMATION

Members of the remuneration committee	Mr. Zhu Qi (<i>chairman</i>) Mr. Xue Shidong Mr. Ho Kin Cheong Kelvin
Members of the nomination committee	Mr. Xue Shidong (<i>chairman</i>) Mr. Zhu Qi Mr. Wang Hongliang
Cayman Islands principal share registrar and transfer office	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong Branch Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong
Principal bank	Jiangnan Rural Commercial Bank No. 413 He Ping Zhong Lu Changzhou Jiangsu Province China

INDUSTRY OVERVIEW

The information in the section below has been partly derived from various publicly available government sources, market data providers and other independent third party sources. In addition, this section and elsewhere in the prospectus contains information extracted from the Ipsos Report, for the inclusion in this prospectus. We have no reason to believe that such information is false or misleading in any material respects or that any fact has been omitted that would render such information false or misleading in any material respects. The information has not been independently verified by our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective directors, affiliates, advisers, officers or representatives or any party involved in the Share Offer, with respect to the information contained in the Ipsos Report and no representation is given as to its fairness, correctness and accuracy. Accordingly, you should not place undue reliance on such information or statistics.

The information extracted from the Ipsos Report reflects estimates of market conditions based on samples, and is prepared primarily as a market research tool. References to Ipsos should not be considered as the opinion of Ipsos as to the value of any security or the advisability of investing in our Group. Our Directors believe that the sources of information extracted from the Ipsos Report are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information.

SOURCE AND RELIABILITY OF THE INFORMATION

We have commissioned Ipsos, an independent market research company, to analyse and report on the industry development and competitive landscape of the textile dyeing and finishing industry in China for the period from 2014 to 2024 at a fee of HK\$869,000. Ipsos is an independent market research company and is one of the largest research companies in the world, employing approximately 16,600 personnel worldwide across 88 countries. Ipsos conducts research on market profiles, analysis on market size, share and segmentation, distribution and value analysis, competitor tracking and corporate intelligence.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Ipsos Report, various official government publications and other publications.

In compiling the Ipsos Report, Ipsos obtained and gathered data and intelligence by (i) conducting desk research covering government and regulatory statistics, industry reports and analyst reports, industry associations, industry journals and other online sources and data from the research database of Ipsos; (ii) performing client consultation to obtain background information of our Group; and (iii) conducting primary research by interviewing key stakeholders and industry experts. This methodology has guaranteed a full circle/multi-level information sourcing process, where information gathered was able to be cross-referenced to ensure accuracy and reliability.

The following assumptions are used in the Ipsos Report: (i) it is assumed that the global economy remains in steady growth, while it has also taken into consideration the impacts from the COVID-19 pandemic across the period from 2020 to 2024; and (ii) the external environment is assumed to have no shocks, such as financial crises or natural disasters, that will influence the demand and supply of textile dyeing and finishing industry in China and Jiangsu province from 2020 to 2024, except for the COVID-19 pandemic. The quantitative and qualitative analysis in the Ipsos Report has already taken into account the latest development and potential impact of the COVID-19 pandemic.

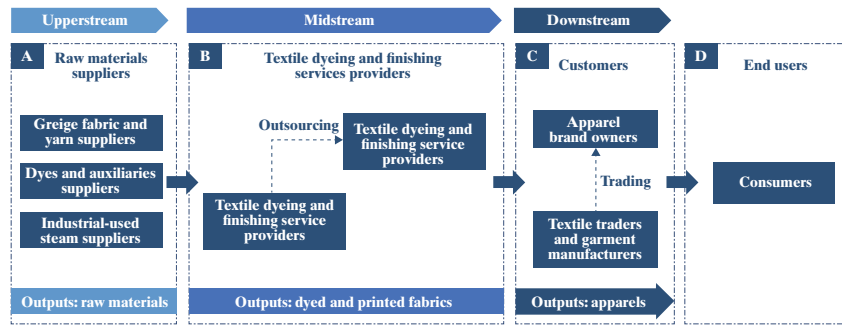
Our Directors confirmed that, as at the Latest Practicable Date, after taking reasonable care, there had been no material adverse change in the market information since the date of the Ipsos Report which may qualify, contradict or have an impact on the information in this section.

OVERVIEW OF THE TEXTILE APPAREL INDUSTRY IN CHINA

The textile apparel industry involves several processes, from the spinning of yarn and fibre to apparel manufacturing. Textile dyeing and finishing service providers constitute the mid-stream part

INDUSTRY OVERVIEW

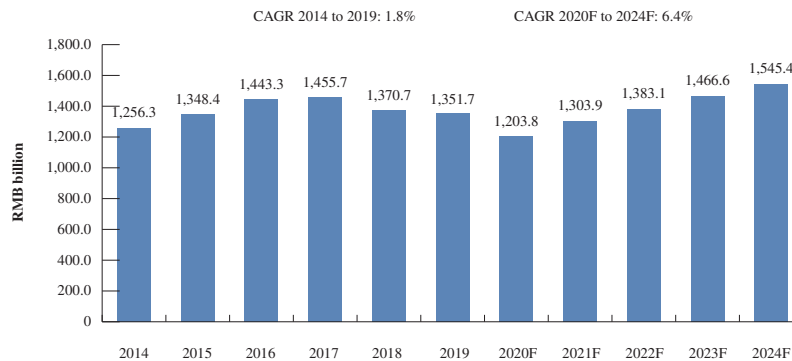
of the process flow of textile apparel manufacturing. They provide dyed and printed fabrics to apparel brand owners. The services provided by textile dyeing and finishing service providers generally include the process of adding colours, patterns, functions and textures to greige fabrics before the dyed and printed fabrics are manufactured into apparel. Depending on the types of greige fabrics to be dyed and customers' requests, the textile dyeing and finishing process generally includes pre-treatment, dyeing and/or printing and finishing. Plain weave fabrics, corduroy fabrics and knitted fabrics together are the primary composition of dyed and printed fabrics.



Source: Ipsos research and analysis

China plays an important role in the global textile and apparel market, from raw material production to apparel manufacturing. As at the end of 2019, China's global share of textiles export value was approximately 39.2%, according to the WTO. The mature and complete industry value chain in China supported its output to the global market.

The apparel retail market in China also experienced growth from 2014 to 2019, supporting the demand for textile dyeing and finishing services in China. The graph below sets forth the total retail sale value of apparel in China from 2014 to 2019 and forecast from 2020 to 2024:



Note: The apparel retail market includes apparel, shoes, hats and other textile-related products.

Sources: National Bureau of Statistics of China* (中華人民共和國國家統計局), Ipsos research and analysis

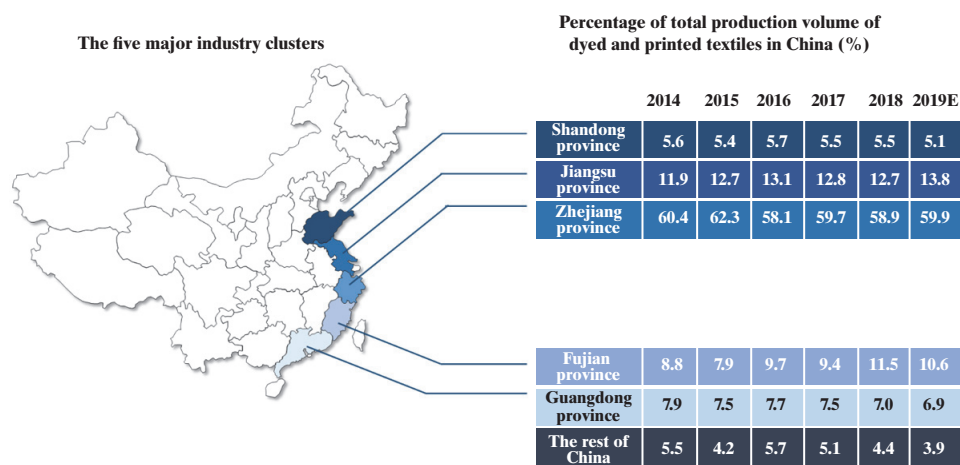
The total retail sale value of apparel in China experienced an overall increase from 2014 to 2019, increasing from approximately RMB1,256.3 billion in 2014 to approximately RMB1,351.7 billion in 2019 at a CAGR of approximately 1.8%. The increase in the total retail sale value of apparel retail market in China can be explained by (i) the increase in the disposable income; (ii) increasing popularity of online retailing; and (iii) the increasing concept of personalisation. The total retail sale value increased at a slower pace since 2015 due to the economic slowdown in China, affecting the spending on apparel. In particular, the economic slowdown and persistent decline in the Chinese stock and consumer markets resulted in a drop in the retail sale value of apparel in China in 2018 and 2019. During the forecast period, the total retail sale value is expected to increase at a faster rate, which is supported by (i) the continuous urbanisation progress; and (ii) the increasing population of middle class. According to the National Bureau of Statistics of China* (中華人民共和國國家統計局), the retail sales value of apparel for the first four months of 2020 dropped by approximately 29.0% compared to the same period in 2019 due to the COVID-19 pandemic. Despite the significant decrease during the first four months of 2020, it is expected that

INDUSTRY OVERVIEW

the adverse impact on retail sales of apparel will not persist as a quick rebound is anticipated due to “revenge spending” in the second half of 2020. The total retail sale value is expected to increase from approximately RMB1,203.8 billion in 2020 to approximately RMB1,545.4 billion in 2024 at a CAGR of approximately 6.4%.

OVERVIEW OF THE TEXTILE DYEING AND FINISHING INDUSTRY

During the 2000s, due to the opportunities arising from China’s membership of the WTO, the textile dyeing and finishing industry in China continued to show a strong upward trend. The textile dyeing and finishing industry has experienced substantial development in coastal provinces, gradually forming five major industry clusters in Zhejiang province, Jiangsu province, Guangdong province, Fujian province and Shandong province. These provinces have sufficient fresh water sources to facilitate the development of the textile dyeing and finishing industry. The table below sets forth the percentage of the total production volume of printed and dyed fabrics in China by province from 2014 to 2019:



Note: Percentage may not sum up to 100% due to rounding

Sources: China Dyeing and Printing Association* (中國印染行業協會), National Bureau of Statistics of China* (中華人民共和國國家統計局), Ipsos research and analysis

Jiangsu province has been a significant location for the production of dyed and printed fabrics in China. According to the China Dyeing and Printing Association* (中國印染行業協會), Jiangsu province was the second largest province in China in terms of the production volume of dyed and printed fabrics since 2013, replacing the place of Fujian province. In 2019, Jiangsu province ranked second place after Zhejiang province, accounting for approximately 13.8% of the total production volume of dyed and printed fabrics in China.

Business model

The business model of textile dyeing and finishing service providers in China can be segmented into two types: ordinary manufacturing and contract manufacturing.

Within the ordinary manufacturing model, textile dyeing and finishing service providers procure raw materials and sell dyed and printed fabrics after processing. The price of the dyed and printed fabrics generally includes the processing fee and the costs of raw materials. After consideration of the latest fashion trends and market preferences, fabrics are processed in accordance with service providers’ in-house designs and production technologies. Dyed and printed fabrics are then sold to customers.

Within the contract manufacturing model, textile dyeing and finishing service providers themselves are generally not responsible for the procurement and costs of raw materials, such as greige fabric. Instead, key raw materials are generally coordinated and supplied by customers. Since service providers are only responsible for processing, the price of the dyed and printed fabrics represents the processing fee of dyed and printed fabrics. The fabrics are processed in accordance with customers’ requirements, with specific product features and types of raw materials. Dyed and printed fabrics are then sold to customers.

INDUSTRY OVERVIEW

The majority of service providers are engaged in both the ordinary and contract manufacturing business models, although some service providers may focus more on one type of business model than the other. In China, there are approximately 490 textile dyeing and finishing service providers which majorly engage in ordinary manufacturing, while there are approximately 1,143 service providers which primarily focus on contract manufacturing. The table below summarises the respective key features of the service providers who majorly engage in ordinary and contract manufacturing business models:

<u>Business model</u>	<u>Target customers</u>	<u>Product development capability</u>	<u>Bargaining power</u>	<u>Approximate gross profit margin</u>	<u>Approximate number of service providers in China</u>
Ordinary manufacturing	High-end and international apparel brand owners	Strong product development capability	Relatively strong	10 to 30%	490
Contract manufacturing	Mass market and local apparel brand owners	Relatively weak product development capability	Relatively weak	2 to 15%	1,143

Notes:

1. There are exceptional cases where a textile dyeing and finishing service provider does not possess all the features of a particular business model but is still being classified into that model based on the definitions.
2. Gross profit margin represents the general range of gross profit margin that the service providers have under a respective business model. There are exceptional cases where a textile dyeing and finishing service provider has a gross profit margin that is higher or lower than the range specified in the particular model.

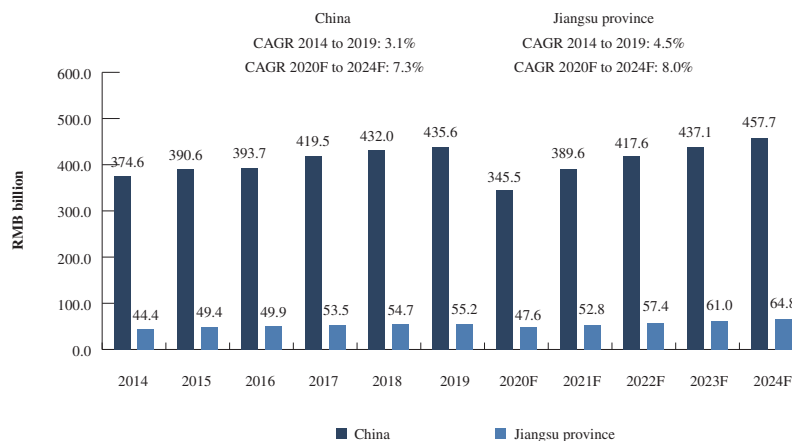
Source: Ipsos research and analysis

Service providers who primarily focus on ordinary manufacturing are generally perceived to possess a higher level of competitiveness in the market. Their product development capability is required to be strong in order to cater to the needs of high-end and international apparel brand owners. In addition, in order to develop and manufacture new products constantly, the service providers who primarily focus on ordinary manufacturing need to possess high level of dyeing technique and research and development capability for product development. Given that service providers who primarily focus on ordinary manufacturing possess strong product development capabilities and adequate production technology, their bargaining power with customers is generally higher than service providers whose primary business model is contract manufacturing. The dyed and printed fabrics processed by service providers primarily focusing on ordinary manufacturing are generally perceived to be more value-added, resulting in a higher gross profit margin. In the textile dyeing and finishing industry, it is not uncommon that products sold to Japan or other foreign markets (e.g. Taiwan, Bangladesh, Vietnam and Indonesia, etc.) maintain a higher gross profit margin because the customers from Japan and other foreign markets (mainly reputable garment manufacturers and trading companies) generally have higher requirements on production environments, production technology, reputation in the industry and product quality of the suppliers. In addition, garment manufacturers and trading companies of domestic brands are usually more sensitive to price, leading to lower gross profit margin of the products sold to domestic customers.

INDUSTRY OVERVIEW

Market value of textile dyeing and finishing industry in China and Jiangsu province

The graph below sets forth the market value of the textile dyeing and finishing industry in China and Jiangsu province from 2014 to 2019 and forecast from 2020 to 2024:



Sources: National Bureau of Statistics of China* (中華人民共和國國家統計局), China Dyeing and Printing Association* (中國印染行業協會), Ipsos research and analysis

China

The market value of the dyeing and finishing industry in China increased from approximately RMB374.6 billion in 2014 to approximately RMB435.6 billion in 2019 at a CAGR of approximately 3.1%. The increase in market value during the historical period can be explained by an increase in the average selling price of dyed and printed fabrics from textile dyeing and finishing service providers. From 2014 to 2019, the production volume of dyed and printed fabrics remained at similar level at a CAGR of approximately 0.04% while the market value experienced an increasing trend. The decrease in the production volume of dyed and printed fabrics in China from 2014 to 2019 was mainly due to the temporary suspension of operations or shut down of non-compliant production bases under the tightening of environmental regulations and elimination of outdated production capacity of the textile dyeing and finishing industry in the PRC. This illustrates that the average selling price of dyed and printed fabrics increased, offsetting the impact of the drop in production volume.

During the forecast period from 2020 to 2024, the market value is expected to increase from approximately RMB345.5 billion in 2020 to approximately RMB457.7 billion in 2024 at a CAGR of approximately 7.3%. Given the COVID-19 pandemic, the market value of the dyeing and finishing industry in China is expected to decrease from 2019 to 2020. The notable decrease is mainly attributed to the temporary drop in the demand for apparel in both domestic and export markets while the adverse impact is not perceived to persist as the COVID-19 pandemic is expected to be gradually under control, especially in some Asian countries, such as China and Japan, and a recovery in retail market has been taking place in the domestic market in China. Recovery has been taking place in the Chinese retail market since March 2020. According to the latest statistics published by the National Bureau of Statistics of China, the total retail sales of consumer goods in China had bounced back since March 2020, reaching approximately RMB10,675.8 billion in April 2020 with a monthly growth rate of approximately 35.9% between March 2020 and April 2020. The retail market of apparel in China also witnessed a recovery, with the retail sales of apparel reaching approximately RMB55.7 billion in April 2020 at a monthly growth rate of approximately 16.5%. The market value of the dyeing and finishing industry in China is projected to recover with a more positive outlook at an annual increase of approximately 12.8% and 7.2% in 2021 and 2022, respectively, supported by the substantial domestic demand and the continued maturation and accelerated shift to the online retail channels across the world.

In particular, the recovery in the domestic retail market in China, despite the lowered consumption power and negatively impacted market sentiment as a consequence of the COVID-19 pandemic, is supported by an expected change in consumer preference resulting from the decline of global economy, and lockdown and social distancing measures adopted by many countries. The new

form of working environment with a rising trend of telecommunication and flexible working hours has created a new norm in the apparel market, in which consumers are now focusing more on the level of comfort and practicality when purchasing clothing, leading to a shift of demands on and preference to essential and affordable clothing consumables. Essential and affordable clothing consumables refer to the type of apparel, which is comfortable, simple and yet universal and suitable for everyday use in terms of style, and inexpensive and affordable in terms of pricing. Essential and affordable clothing consumables can be represented by the casual wear and activewear product segments, in which both of them to a large extent share the same characteristic of allowing mainstream consumers to purchase cosy and everyday clothing items at affordable prices. The price of essential and affordable clothing consumables generally falls below RMB1,000 in China. Spring and summer clothing is normally priced from approximately RMB50 to RMB400, whereas the upper end of the price range is mainly contributed by winter clothing, such as coats and jackets, etc., given the more complicated designs of long-sleeves, cardigans and warm coats with thicker fabrics and garments used. Therefore, the price of essential and affordable clothing consumables may vary according to the aforementioned factors.

As supported by the promising market forecast of the casual wear and activewear segments for the period from 2020 to 2024, it is expected that the market for essential and affordable clothing consumables will revive quicker and achieve a higher growth rate than other apparel product segments during the forecast period. It is estimated that the global retail sales of casual wear and activewear will increase at a CAGR of approximately 9.1% from 2020 to 2024, while that of overall apparel is expected to increase at a lower CAGR of 4.7% during the same period. The retail sales of casual wear and activewear in the Asia-Pacific region, especially in China, recorded a continuous growth throughout the historical period and outran the global growth. It is anticipated that the forecasted growth in the retail sales of casual wear and activewear in the Asia-Pacific region will reach a double-digit growth in CAGR and the retail sales of wear and activewear in China will achieve a growth rate at a CAGR of approximately 15% from 2020 to 2024.

The view of a faster recovery in the domestic retail market in China is also supported by the performance of a world-leading activewear brand based in Germany, which has displayed a strong recovery in the Chinese market in May 2020 with its revenue growth turning positive following the reopening of its stores in China since mid-April 2020, when the COVID-19 pandemic was gradually under control in China.

While a slower pace of growth is forecasted due to the softening demand of dye and printed textile due to the business uncertainty brought by the prolonged U.S.-China trade war, the market value growth will be supported by the transition of industry towards the production of more advanced functional dyed and printed fabrics. Given the increasing operation costs and tightening environmental regulations, it is anticipated that industry consolidation will continue with small, less efficient and more polluting textile dyeing and finishing service providers exiting the market.

Jiangsu province

The market value of the textile dyeing and finishing industry in Jiangsu province experienced robust growth from approximately RMB44.4 billion in 2014 to approximately RMB55.2 billion in 2019 at a CAGR of approximately 4.5%. Since 2013, Jiangsu province has become the second largest province in China in terms of the production volume of dyed and printed fabrics. Following the positive industry trend in China, the market value of textile dyeing and finishing industry in Jiangsu province experienced a robust increase during the historical period.

During the forecast period from 2020 to 2024, it is expected that the market value in Jiangsu province will increase at a slower rate at a CAGR of approximately 8.0%. It is anticipated that the textile dyeing and finishing industry in Jiangsu province will be adversely affected by the COVID-19 pandemic in China and globally. The market value of the textile dyeing and finishing industry in Jiangsu province is expected to experience a notable decrease from approximately RMB55.2 billion in 2019 to approximately RMB47.6 billion in 2020. However, a quick rebound is expected with an annual increase of approximately 11.0% and 8.8% in 2021 and 2022, respectively, supported by the substantial domestic demand and the continued maturation and accelerated shift to the online retail channels across the world. The market value in Jiangsu province is expected to increase at a slower rate compared to the historical period, while still growing at a faster rate compared to that of the

INDUSTRY OVERVIEW

whole textile dyeing and finishing industry in China during the forecast period. The anticipated increase in the market value of the textile dyeing and finishing industry in Jiangsu province from 2020 to 2024 is mainly based on (i) the geographical advantages of locating in areas with sufficient and quality fresh water sources that are favourable for the dyeing and finishing process; and (ii) the advancements of production efficiency and quality of service providers after the industry consolidation under the continuous reinforcement of the environmental controls. It is expected that the waste emission reduction controls in Jiangsu province, especially in Taihu Lake (太湖) region, would be stricter than the general national standard. Hence, it is anticipated that the industry in Jiangsu province will experience a technological transformation with the upgrade of production facilities and reduction in emissions to comply with the Environmental Protection Tax Law* (環境保護稅法) that took effect since 1 January 2018.

KEY DRIVERS AND OPPORTUNITIES

Reduction of outdated production facilities and excess production capacity

Government-led measures to reduce outdated production facilities and excess production capacity within the textile dyeing and finishing industry in China help avoid fierce price competition among service providers whilst facilitating industrial upgrading. According to the Notice on Effectively Conducting the Work of Formulating the Goal and Plan for Eliminating Outdated and Excess Capacity in Key Industries during the “13th Five-Year Plan” Period* (工業和信息化部關於做好「十三五」期間重點行業淘汰落後和過剩產能目標計劃制訂工作的通知) published by the MIIT in September 2014, the textile dyeing and finishing industry is a target industry required to reduce outdated production capacity given the high energy usage and pollution emissions. According to the MIIT, the criteria for eliminating outdated production capacity of the textile dyeing and finishing industry include but not limited to: (i) those production facilities with the design and settings that fail to meet the requirements under the “Code for design of dyeing and printing plant” (印染工廠設計規範) (GB50426) and the “Code for design of environmental protection of textile industry enterprises” (紡織工業企業環保設計規範) (GB50425), such as for instance, the requirements to upgrade the unmodified types of production lines and to replace the dyeing pre-processing equipment, printing and continuous dyeing machineries with usage over 15 years; (ii) those production lines whose product quality and overall performance fail to reach the international level set forth in GB50425 and GB50426; (iii) those production facilities that fail to apply or obtain the pollutant discharge permits; (iv) those production facilities that fail to handle waste water discharge listed in the “Discharge standards of water pollutants for the textile dyeing and finishing industry” (紡織染整工業水污染物排放標準)(GB4287); and (v) those production facilities whose recycled water reusing rate fails to reach at least 40% or above in accordance with the requirements set forth in the “Quality standard of reusing water for textile dyeing and finishing industry” (紡織染整工業回用水水質)(FZ/T01107). Although the reduction measures may negatively affect individual textile dyeing and finishing service providers, at an overall industry level the impact is likely to be positive over the medium to long term for several reasons. Firstly, lower-tier and highly polluting textile dyeing and finishing service providers will be suspended thus improving the image of the industry. Secondly, a smaller number of service providers may reduce price competition and thus increase the average selling price of dyed and printed fabrics, thus improving the profitability of innovative service providers. The industry is currently experiencing a consolidation as evidenced by the decrease in the number of textile dyeing and finishing service providers from approximately 1,842 in 2014 to approximately 1,633 in 2019.

Increasing application of automation equipment

The increasing utilisation of automation equipment in the textile dyeing and finishing industry mitigates the impact of rising operating costs due to the reduction in the number of workers and therefore lower labour costs. In addition, the increasing application of automation equipment can effectively increase production efficiency and product quality.

THREATS AND CHALLENGES

Tightening environmental regulations

Given the fact that the textile dyeing and finishing industry is chemically intensive in nature and is a significant emitter of pollutants in China, it is observed that the PRC government has

INDUSTRY OVERVIEW

continued to pass new policies and tighten existing regulations in order to reduce pollutant emissions from the industry. The new policies and tightening environmental regulations have, therefore, led to increasing operating costs and the rise in capital investment to textile dyeing and finishing service providers. To address the rising concerns for an environmentally-friendly industry, textile dyeing and finishing service providers in China are not only required to have installations for the prevention and control of pollution at a construction project designed, built and commissioned together with the principal part of the project, and pollution prevention and control facility must comply with the requirements of the approved environmental impact assessment. Such pollution prevention facilities requires a large capital investment, which may not be financially feasible for smaller scale service providers. With the Environmental Protection Tax Law* (環境保護税法) that came into effect on 1 January 2018, service providers are also required to bear an additional cost for pollutant discharge tax payment. As a result, the tightened environmental regulations and policies are expected to pose challenges due to the rising operation costs in the textile dyeing and finishing industry, potentially hindering the short-term growth of the industry.

ENTRY BARRIERS

High initial capital commitment

New entrants to the textile dyeing and finishing industry need to make a large initial capital investment in production equipment and waste treatment plants. The textile dyeing and finishing process consists of a multi-stage production process requiring various types of machines and equipment. Given the tightening environmental regulations, textile dyeing and finishing service providers are required to invest and perform proper treatment on waste generated from the production process in order to ensure that emissions meet regulatory requirements. As a result of the high required investment in production machinery and waste treatment plants, new entrants may be deterred from entering the market.

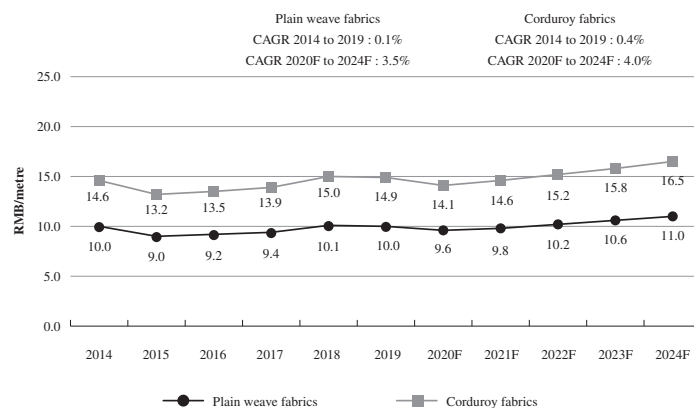
High regulatory barriers to entry

New entrants need to comply with national and provincial environmental regulations or specifications and obtain the necessary permits. There are major regulations and specifications related to the industry at the national level and provincial governments may set out further detailed regulations. For example, Jiangsu provincial government published the Application Method of Waste Discharge Permit in Jiangsu Province (Trial)* (江蘇省排污證發放管理辦法(試行)) in 2015, detailing the application of discharge permits in Jiangsu province. To meet the aforementioned requirements, new entrants to the textile dyeing and finishing industry may need to commit a large initial investment to comply with relevant regulations.

FINAL PRODUCT AND RAW MATERIAL PRICE ANALYSIS

Average price of dyed and printed fabrics manufactured in China

The graph below sets forth the average price of dyed plain weave fabrics and corduroy fabrics in China from 2014 to 2019 and forecast from 2020 to 2024:



INDUSTRY OVERVIEW

Note: The above figures reflect a general price trend of dyed plain weave fabrics and corduroy fabrics in the industry. The average prices and price trend of dyed plain weave fabrics and corduroy fabrics of a textile dyeing and finishing service provider may be deviated from the industry average and trend due to the difference/changes in service provider's product portfolio. The prices of dyed fabrics are varied depending on the product specifications and the targeted market. For instance, the price of dyed plain weave fabrics and dyed corduroy fabrics generally ranges from RMB5 to RMB60 per metre.

Sources: China Dyeing and Printing Association* (中國印染行業協會), China National Textile And Apparel Council* (中國紡織工業聯合會), Ipsos research and analysis

Dyed plain weave fabrics and corduroy fabrics are two of the major types of final products in the textile dyeing and finishing industry in China. The price of dyed plain weave fabrics and corduroy fabrics in China experienced an overall increase from 2014 to 2019, at CAGRs of approximately 0.1% and 0.4%, respectively. A slight decrease in the prices of both dyed plain weave fabrics and corduroy fabrics was observed in 2019, as a result of the downward trend in both downstream demand and raw material prices in the second half of 2019. However, the textile dyeing and finishing industry in China still maintained a stable profitability with an increase of approximately 6.5% in the aggregate profits of the 1,633 industry players from 2018 to 2019 according to the National Bureau of Statistics of China* (中華人民共和國國家統計局). Besides, the fluctuations in raw material prices had a relatively modest impact on the prices of dyed and finished functional fabrics and fabrics of higher quality given that the key suppliers of leading and well-known brands would be able to maintain their bargaining powers to secure stable streams of profits even when the overall prices of the industry experienced a downward trend. The overall increase in prices of dyed plain weave fabrics and corduroy fabrics was mainly attributed to (i) the overall improvement in quality of dyed and printed fabrics credited to the enhanced level of textile dyeing and finishing technology and employment of advanced equipment; and (ii) the rising costs of raw materials, especially for the rising cost of textile dye in the textile dyeing and finishing industry in China.

During the forecast period, the prices of dyed plain weave fabrics and corduroy fabrics are expected to increase during 2020 and 2024, at CAGRs of approximately 3.5% and 4.0%, respectively. The price of final products in the textile dyeing and finishing industry in China is expected to be driven under the consideration of the continuous increase in the raw material costs and operating costs led by the expected rise in research and development investment on sewage treatment facilities by service providers to comply with the continuous tightening environmental regulations in China during the forecast period.

Price trend of major raw materials

The table below sets forth the price of major raw materials used in the textile dyeing and finishing industry in China from 2014 to 2019 and forecast from 2020 to 2024:

	2014	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F	CAGR 2014 to 2019	CAGR 2020F to 2024F
Greige fabric (RMB/metre)	6.2	5.7	5.5	5.8	5.7	5.3	4.7	4.8	4.9	5.1	5.2	(3.1)%	2.6%
Industrial steam (RMB/tonne)	182.3	175.9	170.6	196.6	208.9	214.3	211.7	215.9	220.2	224.6	229.1	3.3%	2.0%
Textile dye (RMB/tonne)	37,683.5	33,459.1	37,841.9	37,146.6	45,887.5	45,791.8	38,923.0	40,869.1	42,912.6	45,058.2	47,311.1	4.0%	5.0%

Notes:

1. Greige fabric refers to 32S cotton twill* (32支純棉斜紋布).
2. The price trend of industrial steam refers to the price trend of industrial steam in Jiangsu province.
3. Textile dye refers to the common types of dye used in textile dyeing and finishing, such as reactive dyes, disperse dyes and acid dyes.

Sources: National Bureau of Statistics of China* (中華人民共和國國家統計局), China National Textile And Apparel Council* (中國紡織工業聯合會), Ipsos research and analysis

INDUSTRY OVERVIEW

The price of greige fabric in China from 2014 to 2019 experienced an overall decrease at a CAGR of approximately (3.1)% due to the decrease in the global price of cotton. During the forecast period, the price of greige fabric is expected to increase, at a CAGR of approximately 2.6% from 2020 to 2024. The price of greige fabric is expected to be continuously affected by the change of supply and demand for cotton in the future, resulting in the change of the cotton price. Given the consideration that the inventory burden of cotton has been reduced due to large-scale destocking carried out in the past few years, the price of cotton, as well as the price of greige fabric, are expected to gently increase given the stable demand from the downstream industry (i.e. textile dyeing and finishing industry) during the forecast period.

The price of industrial steam from 2014 to 2019 increased at a CAGR of approximately 3.3% due to recovery of coal price since 2016. Due to the government measures on limiting import volume of coal and elimination of backward production capacities, the price of coal as well as the price of industrial steam increased since 2016. Given the expected stable supply of coal, the price of the industrial steam is expected to increase steadily from 2020 to 2024 at a CAGR of approximately 2.0%.

The price of textile dye from 2014 to 2019 increased at a CAGR of approximately 4.0% due to the decreased supply of textile dye. During the forecast period, the price of textile dye is expected to increase at a CAGR of approximately 5.0% from 2020 to 2024. It is expected that the price of textile dye will continue to be driven by the increasing research and development investment in the production of textile dye due to the tightening environmental regulations in China, while the soften demand from the downstream industry might occur due to the uncertainty brought by the U.S.-China trade war, offsetting the increase in the price of textile dye. However, the price of textile dye in 2020 is expected to record a decrease of approximately 15.0% from 2019 to 2020. The serious explosion occurred in Xiangshui Ecology Chemical Industrial Park* (響水生態化工園區) in Jiangsu province in March 2019 lowered the supply of textile dye in Jiangsu province, leading to an increase in the price of textile dye. However, due to the continuous U.S.-China trade war and the suspension of the supply chains under the COVID-19 pandemic, the downstream demand for textile dye remains at a lower level, which causes a notable drop in the price of textile dye in 2020. Therefore, the notable drop due to the softened demand from the downstream industry offsets the increase in the price of textile dye from 2019 to 2020.

COMPETITIVE LANDSCAPE

The textile dyeing and finishing industry in China is considered fragmented. The top five textile dyeing and finishing service providers accounted for a market share of approximately 6.4% in 2019, with the remainder of the market consisting of a large number of small and medium size service providers. The industry is currently experiencing consolidation as evidenced by the decrease in number of textile dyeing and finishing service providers from approximately 1,842 in 2014 to approximately 1,633 in 2019. The decline in the number of service providers is partially due to the stricter environmental regulations implemented in China, which increased operation costs and prohibited certain service providers, whilst discouraging potential new entrants to the industry. There are approximately 200 textile dyeing and printing service providers in Jiangsu in 2019.

The market value of the textile dyeing and finishing industry in China increased at a CAGR of approximately 3.1% from 2014 to 2019. With the expectation that the market value will grow at a CAGR of approximately 7.3% in the forecast period, it can be concluded that the textile dyeing and finishing industry in China is a mature market. In the future, it is anticipated that the industry will transit towards the production of more high-end dyed and printed fabrics.

Top five textile dyeing and finishing service providers in China in 2019

The top five textile dyeing and finishing service providers in China recorded a total revenue of approximately RMB27,907.5 million in 2019, accounting for approximately a total 6.4% share of the market value in China. The estimated revenue of the top five textile dyeing and finishing service providers ranges from approximately RMB7,687.6 million to approximately RMB4,333.9 million, accounting for approximately 1.8% to 1.0% share of the market value in China. In terms of revenue, Company A was the largest textile dyeing and finishing service provider in both China and

INDUSTRY OVERVIEW

Jiangsu province. Company A recorded revenue of approximately RMB7,687.6 million in 2019, accounting for approximately 1.8% share of the market value in China and approximately 13.9% share of the market value in Jiangsu province.

In 2019, our Group ranked third in terms of revenue among the textile dyeing and finishing service providers in Jiangsu province. By recording approximately RMB866.7 million of revenue in 2019, our Group accounted for approximately 0.2% share of the market value in China and approximately 1.6% share of the market value in Jiangsu province in 2019.

Top five textile dyeing and finishing service providers in Jiangsu province in 2019

The table below sets forth the top five textile dyeing and finishing service providers in Jiangsu province in 2019:

Rank	Company	Listed/ private company	Revenue (RMB million)	Market share	Key service scope
1	Company A	Listed	7,687.6	13.9%	Provision of integrated services of man-made fibre manufacturing, dyeing and finishing
2	Company B	Private	1,551.7	2.8%	Provision of integrated services of weaving, dyeing, finishing and apparel manufacturing and retailing
3	Our Group	N/A	866.7	1.6%	Provision of specialised services of dyeing and finishing
4	Company C	Private	823.5	1.5%	Provision of integrated services of spinning, weaving, dyeing and finishing
5	Company D	Listed	797.9	1.4%	Provision of integrated services of weaving, dyeing and finishing
	Others		43,522.3	78.8%	
	Total		55,249.7	100.0%	

Notes:

1. Percentages may not sum up to 100% due to rounding.
2. Some totals may not correspond with the sum of the separate figures due to rounding.
3. Revenue is derived from the companies' financial reports and estimations based on publicly available data and interviews with industry participants. The estimated revenue represents the respective companies' revenue in calendar year of 2019.

Source: Ipsos research and analysis

Factors of competition

Compliance with environmental regulations and policies

Given the increasingly strict environmental regulations, textile dyeing and finishing service providers are required to pay higher sewage and pollution emission charges, and thus being environmentally friendly can lower service provider's operation costs in the long term. In addition, international apparel brand owners are increasingly concerned about product safety and environmental issues in their supply chains. Hence, service providers who comply with environmental regulations are more competitive since they are able to be suppliers of international apparel brand owners.

Product development capability

It is important for service providers to closely follow rapidly changing fashion trends in order to develop dyed and printed fabrics which correspond to customer demand. Service providers who possess strong capabilities in product development are generally more competitive as they are able to quickly respond to the demands of a changing market. For example, the demand for functional textiles has increased and the dyeing and printing of functional fabrics requires higher product development capabilities. This is because functional textiles generally formed by blended greige fabrics which necessitate a more complex dyeing and printing process than standard greige fabrics.

INDUSTRY OVERVIEW

Competitive advantages of our Group

According to Ipsos, our Group ranked third among textile dyeing and finishing service providers in Jiangsu province in 2019 in terms of revenue. Our Group recorded revenue of approximately RMB866.7 million in 2019 and thus accounted for approximately 0.2% share of the market value in China and approximately 1.6% share of the market value in Jiangsu province.

Please refer to “Business — Competitive strengths” in this prospectus for a detailed discussion of our Group’s competitive strengths.

REGULATORY OVERVIEW

The following is a summary of laws and regulations which affect our business and operations. The principal objective of this summary is to provide potential investors with an overview of the key laws and regulations applicable to us. This summary does not purport to be a comprehensive description of all the laws and regulations applicable to our business and operations and/or which may be important to potential investors. Investors should note that the following summary is based on laws and regulations in force as at the date of this prospectus, which may be subject to change.

REGULATORY REQUIREMENTS IN HONG KONG

A. Product liability

Sale of Goods Ordinance

The contracts of the sale of goods in Hong Kong are mainly governed by the Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) which governs the scope of certain implied terms or conditions and warranties generally relating to the safety and suitability of the goods supplied, for instance, goods for sale must be of merchantable quality and must correspond with the description and the sample.

Common law

In tort, a manufacturer of a product owes a duty of care to the ultimate consumer of that product. A manufacturer shall bear the tortious liabilities for any personal injuries or damages caused by any defects of its products.

Trade Descriptions Ordinance

The Trade Descriptions Ordinance (Chapter 362 of the Laws of Hong Kong) prohibits false trade description, false, misleading or incomplete information, false marks and misstatements in respect of goods offered in the course of trade. Therefore, the good supplied by our Group need to comply with the relevant provisions therein.

Section 2 of the Trade Descriptions Ordinance provides that “trade description”, in relation to goods, means an indication, direct or indirect, and by whatever means given (including among other things, quantity, method of manufacture, composition, fitness for purpose, place or date of manufacture, production, processing or reconditioning, person by whom manufactured, produced, processed, or reconditioned, etc.), with respect to any goods or parts of the goods.

Section 7 of the Trade Descriptions Ordinance provides that any person who in the course of trade or business applies a false trade description to any goods, or sells or offers for sale any goods with false trade descriptions applied thereto; or has in his possession for sale

or for any purpose of trade or manufacture any goods to which a false trade description is applied, commits an offence. A person who exposes goods for supply or has goods in his possession for supply is deemed to offer to supply them.

Further, under section 9(2) of the Trade Descriptions Ordinance, a person commits an offence if he sells or exposes or has in his possession for sale or for any purpose of trade or manufacture, any good to which any forged trade mark is applied, or to which any trade mark or mark so nearly resembling a trade mark as to be calculated to deceive is falsely applied.

Save for those who do not know, have no reason to suspect, and cannot ascertain even with reasonable diligence, section 12 of the Trade Descriptions Ordinance provides that a person who imports or exports any goods which bear false trade description or forged trade mark commits an offence.

A person who commits an offence under sections 7, 9 and 12 of the Trade Descriptions Ordinance shall be subject, on conviction on indictment, to a fine of HK\$500,000 and to imprisonment for five years, and on summary conviction, to a fine of HK\$100,000 and to imprisonment for two years.

A general defence is also provided under section 26(1) of the Trade Descriptions Ordinance. The person charged is entitled to acquittal if he can prove that:

- (1) the commission of the offence was due to a mistake or to reliance on information supplied to him by another person or to the act or default of another person, an accident or some other cause beyond his control; and
- (2) he took all reasonable precautions and exercised all due diligence to avoid the commission of such an offence by himself or any person under his control.

Pursuant to section 20 of the Trade Descriptions Ordinance, where a body corporate is convicted of an offence under the Trade Descriptions Ordinance, its directors and officers are also liable if it is proved that the offence is committed with their consent or connivance or is attributable to their neglect.

B. Intellectual property

Copyright Ordinance

The Copyright Ordinance (Chapter 528 of the Laws of Hong Kong) provides comprehensive protection for recognised categories of literary, dramatic, musical and artistic works, as well as for films, broadcasts and cable programmes, and typographical arrangement of published editions. Under the Copyright Ordinance, a person may incur civil liability for “secondary infringement” if that person possesses, sells, distributes or deals with a copy of a work which is, and which he knows or has reason to believe to be, an infringing copy of the work for the purposes of or in the course of any trade or business without the consent of the copyright owner.

However, the person will only be liable if, at the time he committed the act, he knew or had reason to believe that he was dealing with infringing copies.

Under section 31 of the Copyright Ordinance, the copyright in a work is infringed by a person who, without the licence of the copyright owner, among others, possesses for the purpose of or in the course of any trade or business or sells or lets for hire, or offers or exposes for sale or hire a copy of a work which is, and which he knows or has reason to believe to be, an infringing copy of the work.

The Copyright Ordinance also imposes criminal liability under section 118 which provides that a person commits an offence if he, without the consent of the copyright owner of a copyright work, makes for sale or hire an infringing copy of the work or possesses an infringing copy of the work with a view to its being, among others, sold or let for hire by any person for the purpose of or in the course of that trade or business.

The Copyright Ordinance provides any person who contravenes section 118 or section 119A of the Copyright Ordinance shall be guilty of an offence and shall be liable to a fine of HK\$50,000 and to imprisonment for four years.

C. Import and export

Import and Export Ordinance

The Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong) and the subsidiary legislations under it, govern and control the import of goods into, and the export of goods from Hong Kong. Import and export are subject to the general control of the Customs and Excise Department. Pursuant to section 17 of the Import and Export Ordinance, all cargo imported or exported must be recorded in a manifest which shall contain such particulars as the Commissioner of Customs and Excise may prescribe. Failure to do so is an offence under section 18 of the Import and Export Ordinance which can attract a maximum fine of HK\$2,000,000 upon indictment and imprisonment for seven years.

Our Group imports textile fabric products for sale and distribution in Hong Kong. Under the Import and Export Ordinance, only those prohibited articles and certain restricted commodities mentioned in Part III of the Import and Export Ordinance require a licence issued by the Director-General of Trade and Industry. The products imported by us are currently not a “prohibited article”, thus no licence is required for import and export of our products.

D. Transfer pricing

Inland Revenue Ordinance

Pursuant to section 20 of the IRO, where a Hong Kong resident person (including but not limited to a corporation and partnership) derives less than the ordinary profits which might be expected to be assessable to tax in Hong Kong from a business conducted with a closely connected non-Hong Kong resident, the business done by the non-resident in pursuance of his

REGULATORY OVERVIEW

connection with the resident shall be deemed to be carried on in Hong Kong, and the non-resident shall be assessable to tax in respect of profits from such business in the name of the resident as if the resident was his agent.

A person will be regarded as closely connected with another person under section 20(1)(a) of the IRO when the Commissioner of the IRD considers that such persons are substantially identical, or that the ultimate controlling interest of each is owned, or deemed to be owned, by the same person or persons. The controlling interest of a company is deemed under section 20(1)(b) of the IRO to be determined by the beneficial owners of its shares, whether the shares are held directly or through nominees. Shares in a company held by a holding company are deemed, by section 20(1)(b) of the IRO, to be held by the shareholders of the holding company.

Assessors of the IRD are empowered under section 61 of the IRO to disregard certain transactions or dispositions and assess the taxpayer accordingly. With regard to a transaction which has, or would have had the effect of conferring a tax benefit on a person, under section 61A of the IRO, an assistant commissioner of the IRD, having regard to the background and effect of the transaction, has the power to assess the liability to tax of the relevant person as if the transaction or any part thereof had not been entered into or carried out or in such other manner as the assistant commissioner considers appropriate to counteract the tax benefit which would otherwise be obtained.

On 13 July 2018, the Inland Revenue (Amendment) (No. 6) Ordinance 2018 (the “**Bill**”) was gazetted and has become effective. Section 20 of the IRO was repealed as a result of the Bill becoming effective. The Bill includes significant changes to codify transfer pricing regulations in Hong Kong. It implements various minimum standards arising from the latest requirements of Organisation for Economic Co-operation and Development on base erosion and profit shifting and introduces mandatory transfer pricing documentation requirements. According to the Bill, the arm’s length principle is the fundamental transfer pricing rule in Hong Kong.

Where a transaction between two related persons does not comply with the arm’s length principle and has created tax advantage, the IRD is empowered to adjust the profits or losses of that person. The fundamental transfer pricing rule applies retrospectively to year of assessment on or after 1 April 2018.

REGULATORY REQUIREMENTS IN THE PRC

Laws and regulations in relation to the foreign investment

Guidance Catalogue for Foreign Investment

Investment in the PRC conducted by foreign investors and foreign-invested enterprises shall comply with the catalogues or list, which were jointly promulgated by the MOFCOM and the NDRC and amended from time to time by these two government authorities. Guidance on foreign

investment can be found in the Foreign Investment Industrial Guidance Catalogue* (外商投資產業指導目錄) jointly issued by NDRC and MOFCOM on 28 June 2017 and became effective on 28 July 2017 (the “**2017 Catalogue**”) and the Special Management Measures (Negative list) for the Access of Foreign Investment (2018 Version)* (外商投資准入特別管理措施(負面清單) (2018年版)) issued by NDRC and MOFCOM on 28 June 2018 and became effective on 28 July 2018 (the “**2018 Negative List**”). On 30 June 2019, NDRC and MOFCOM jointly issued the Special Management Measures (Negative List) for the Access of Foreign Investment (2019 Version)* (外商投資准入特別管理措施(負面清單) (2019年版)) (the “**2019 Negative List**”) and the Catalogue of Industries for Encouraged Foreign Investment (2019 Version)* (鼓勵外商投資產業目錄(2019年版)) (the “**2019 Catalogue**”), both of which came into force on 30 July 2019 and the 2018 Negative List and the 2017 Catalogue was repealed simultaneously. On 23 June 2020, NDRC and MOFCOM jointly issued the Special Management Measures (Negative List) for the Access of Foreign Investment (2020 Version) (《外商投資准入特別管理措施(負面清單)(2020年版)》) (the “**2020 Negative List**”), which became effective on 23 July 2020 and the 2019 Negative List was repealed simultaneously. According to the 2019 Catalogue and the 2020 Negative List, the industry in which our PRC subsidiary is primarily engaged in does not fall into the category of restricted or prohibited industries.

Filing regime

The Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-invested Enterprises* (外商投資企業設立及變更備案管理暫行辦法) (the “**Measures**”), which was promulgated by the MOFCOM on 8 October 2016 and latest amended on 29 June 2018 and became effective on 30 June 2018, further simplifies the formation and modification procedure for foreign-invested enterprises. The Measures shall apply to the formation and modification of foreign-invested enterprises which does not involve the implementation of special administrative measures for access as prescribed by the state. According to the Measures, where a foreign-invested enterprise which is subject to recordation as prescribed in the Measures undergoes any of the specified modifications, the foreign-invested enterprise shall, within 30 days after the occurrence of the modification, submit for the recordation in respect of the modification. The MOFCOM and the State Administration of Market Regulation issued the Measures for the Reporting of Foreign Investment Information (外商投資信息報告辦法) on 30 December 2019, which came into effect on 1 January 2020 and replaced the Measures. Since 1 January 2020, for foreign investors carrying out investment activities directly or indirectly in China, the foreign investors or foreign-invested enterprises shall submit investment information to the commerce authorities pursuant to such measures.

Laws and regulations in relation to textile industry

The Textile Printing and Dyeing Industry Standard Conditions (2017 Revision) (印染行業規範條件 (2017年版))* (the “**Industry Standard Conditions (2017 Version)**”) issued by the MIIT on 31 August 2017 and became effective on 1 October 2017, sets specific standard conditions to the textile printing and dyeing projects on the layout of enterprises, technique and equipment, quality and management, resource consumption, environmental protection and comprehensive utilisation of

REGULATORY OVERVIEW

resources, and production safety and social responsibility. This regulation emphasises the following conditions: (i) no new printing and dyeing projects shall be established in the scenic spots, nature reserves, drinking water protection areas as defined by the State Council and relevant departments of the state and provincial, and the specified range outside the major rivers; (ii) no new printing and dyeing projects shall be established in the regions which is lack of water or with water of poor quality in principal. The development of the printing and dyeing projects in the regions with lack of environmental capacity shall be restricted. The new and expansion projects shall be combined with the elimination of the backward production capacity in the area; (iii) the overall performance of the new and expansion printing and dyeing production lines shall reach or approach the international level; (iv) the printing and dyeing projects shall submit to the relevant governmental department for approval and apply for the pollutant discharge permits* (排污許可證); and (v) the water recycling rate shall reach 40% or above.

According to the Interim Regulations of the Announcement Management of the Printing and Dyeing Industry Standard* (印染企業規範公告管理暫行辦法) promulgated by the MIIT and became effective on 1 October 2017, public announcement management shall be implemented for those printing and dyeing enterprises consistent with the Industry Standard Conditions (2017 Version). In addition to the satisfaction of standard conditions, the printing and dyeing enterprises shall be an independent legal entity.

Laws and regulations in relation to work safety

The Production Safety Law of the PRC* (中華人民共和國安全生產法) (the “**Production Safety Law**”) which was promulgated by the SCNPC on 29 June 2002 and latest amended on 31 August 2014 and became effective on 1 December 2014, is the principal law governing the supervision and administration of work safety in the PRC. The Production Safety Law requires entities that engage in production and business operation activities to meet the relevant legal requirements, such as offering education and training programs to their employees regarding work safety and providing a safe working condition in compliance with relevant laws, rules and regulations. Any production entity that fails to provide the required safe working conditions may not engage in production activities.

Enterprises are required to set up and maintain appropriate equipment, monitor the safety of production procedures, assign designated personnel, conduct workplace safety training and undertake all other measures required by the law to ensure the safety of employees and the general public. Violation of the Production Safety Law may result in fines penalties, suspension, or cease of operation, or even criminal liability in severe cases.

Pursuant to the Industry Standard Conditions (2017 Version), safety facilities shall be designed, built, commissioned and operated together with the principal part of the project in accordance with the requirements of the Management Specification of the Safety of the Textile Industry Enterprises* (紡織工業企業安全管理規範(AQ7002)) and the Code for Design of Occupational Health and Safety of Textile Industry Enterprises* (紡織工業企業職業安全衛生設計規範(GB50477)).

REGULATORY OVERVIEW

Pursuant to the Administrative Measures of the Standardization Appraisal of Safe Production in Enterprises (Trial Implementation)* (企業安全生產標準化評審工作管理辦法(試行)) which was promulgated on 3 June 2014 and became effective on the same day, safe production standardisation of enterprises shall be established by enterprises, the procedures of which include self-assessment, application, review, announcement and certification. After the completion of the self-assessment, enterprises may voluntarily apply for a review of the standardisation of safe production established. The attained grades for safe production standardisation in enterprises can be divided into first, second, and third-grade enterprises.

Laws and regulations in relation to import and export of goods

According to the Administrative Provisions on the Registration of Customs Declaration Entities of the PRC* (中華人民共和國海關報關單位註冊登記管理規定), which was promulgated by the General Administration of Customs of the PRC* (中華人民共和國海關總署) on 13 March 2014, latest amended on 29 May 2018, and became effective on 1 July 2018, import and export of goods shall be declared by the consignor or consignee itself, or by a customs declaration enterprise entrusted by the consignor or consignee and duly registered with the customs authority. Consignors and consignees of imported and exported goods shall go through customs declaration entity registration formalities with the competent customs departments in accordance with the applicable provisions. After completing the registration formalities with the departments, consignors and consignees of the imported and exported goods may handle their own customs declarations at customs ports or localities where customs supervisory affairs are concentrated within the customs territory of the PRC.

Laws and regulations in relation to intellectual property rights

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 with the last amendment effective on 1 October 2009, and the Implementing Regulations of the Patent Law of the PRC* (中華人民共和國專利法實施細則) promulgated on 15 June 2001 and latest amended on 9 January 2010, an inventor or a designer may apply for the grant of an invention patent, an utility model patent or a design patent. According to the Patent Law, the right to apply for a patent (a patent application) and of registered patent can be transferred upon completion of registration with the authority. The patent right duration is 20 years for invention and 10 years for utility and design, counted from the date of filing. A patentee is obligated to pay annual fee beginning with the year in which the patent right was granted. Failure to pay the annual fee may result in a termination of the patent right before the expiration of its duration.

Trademark

The Trademark Law of the PRC* (中華人民共和國商標法) (the “**Trademark Law**”) was promulgated on 23 August 1982 and latest amended on 23 April 2019 and became effective on 1 November 2019. The Implementing Regulations of the Trademark Law of the PRC* (中華人民共和

國商標法實施條例) was promulgated on 3 August 2002 by the State Council and latest amended on 29 April 2014 and became effective on 1 May 2014. These current effective laws and regulations provide the basic legal framework for the regulations of trademarks in the PRC, covering registered trademarks including commodity trademarks, service trademarks, collective marks and certificate marks. Trademarks are granted on a term of 10 years commencing on its filling date. 12 months prior to the expiration of the 10-year term, applicant may renew the trademark for another 10 years.

Copyright

The Copyright Law of the PRC* (中華人民共和國著作權法) which was promulgated on 7 September 1990 and amended on 26 February 2010 with effect from 1 April 2010, protects copyright and explicitly covers the copyright of computer software and art works.

The Regulation on the Protection of Computer Software* (計算機軟件保護條例), which was promulgated on 20 December 2001 and latest amended on 30 January 2013 and came into force on 1 March 2013, protects the rights and interests of the computer software copyright holders and encourages the development of software industry and information economy. In the PRC, software developed by Chinese citizens, legal persons or other organisations are automatically protected immediately after its development, whether published or not.

Laws and regulations in relation to environment protection

General regulations

The Environmental Protection Law of the PRC* (中華人民共和國環境保護法), which was promulgated on 26 December 1989 and amended on 24 April 2014 by the SCNPC, provides that enterprises causing environmental pollution and other public nuisances shall adopt effective measures to avoid and control the pollution and damage caused to the environment. Pollution prevention facilities in construction projects shall be designed, built and put into operation together with the main part of the project. Construction projects can only be put into operation after the environmental protection authority has examined and approved the pollution prevention facilities.

Environmental impact appraisal

The Law of the PRC on Appraising of Environmental Impacts* (中華人民共和國環境影響評價法) was promulgated by the SCNPC on 28 October 2002, latest amended and became effective on 29 December 2018. The Regulations on the Administration of Construction Project Environmental Protection* (建設項目環境保護管理條例) was promulgated by the State Council on 29 November 1998, amended on 16 July 2017 and became effective on 1 October 2017. The Interim Measures for the Acceptance Inspections of Environment Protection Facilities of Construction Projects* (建設項目竣工環境保護驗收暫行辦法) was promulgated by the Ministry of Environmental Protection of the PRC* (中華人民共和國環境保護部) on 20 November 2017. Such laws and regulations require enterprises that are planning construction projects to provide assessment reports, statement or registration form on the environmental impact of such projects. The assessment reports and statements must be approved by the competent environmental protection

authorities prior to commencement of any construction work, while the registration forms shall be filed to them. Unless otherwise stipulated by laws and regulations, enterprises which are required to provide assessment reports and statements shall undertake the responsibility of acceptance inspections of the environmental protection facilities by itself upon the completion of the construction project. A construction project may be formally put into production or use only if the corresponding environmental protection facilities have passed the acceptance examination. The competent authorities may carry out spot check and supervision on the implementation of the environmental protection facilities.

Laws and regulations in relation to taxation

Enterprise income tax

According to the EIT Law which was promulgated by the National People's Congress of the PRC on 16 March 2007 and latest amended by the SCNPC on 29 December 2018, and the EIT Rules which was promulgated by the State Council on 6 December 2007 and became effective on 1 January 2008 and latest amended on 23 April 2019, enterprises are classified into resident enterprises and non-resident enterprises. According to the EIT Law and the EIT Rules, resident enterprises are applied for an unified EIT rate of 25%.

Value-added tax

Pursuant to the Interim Provisional Regulations on Value-Added Tax of the PRC* (中華人民共和國增值稅暫行條例) which was promulgated by the Stated Council on 13 December 1993 and latest amended on 19 November 2017 and its implementing rules* (中華人民共和國增值稅暫行條例實施細則) which was promulgated by the Ministry of Finance* (中華人民共和國財政部) on 25 December 1993 and latest amended on 28 October 2011, tax payers engaging in sale of goods, provision of processing services, repairs and replacement services or importation of goods within the territory of the PRC shall pay value-added tax (the "VAT"). Unless stated otherwise, the rate of VAT is 17%.

Notice of the Ministry of Finance and the SAT on Adjusting Value-added Tax Rates* (財政部、稅務總局關於調整增值稅稅率的通知), which was promulgated on 4 April 2018 and became effective on 1 May 2018, provides the tax rates of 17% and 11% applicable to any taxpayer's VAT taxable sale or import of goods shall be adjusted to 16% and 10%, respectively.

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, provides the tax rates of 16% and 10% applicable to any taxpayer's VAT taxable sale or import of goods shall be adjusted to 13% and 9%, respectively.

Transitioning from business tax to VAT

The Notice of the Ministry of Finance and the SAT on Implementing the Pilot Programme of Replacing Business Tax with Value-Added Tax in an All-round Manner* (財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知) was promulgated on 23 March 2016. Upon approval of the State Council, the pilot programme of replacing business tax with VAT shall be promoted nationwide in an all-round manner on 1 May 2016, and all taxpayers of business tax engaged in the modern service industry shall be included in the scope of the pilot programme with regard to payment of VAT in lieu of business tax. Pursuant to the Decision of the State Council on Repealing the Interim Regulation of the PRC on Business Tax and Amending the Interim Regulation of the PRC on Value-Added Tax* (國務院關於廢止《中華人民共和國營業稅暫行條例》和修改《中華人民共和國增值稅暫行條例》的決定) promulgated by the Stated Council on 19 November 2017, the business tax had been abolished.

Laws and regulations in relation to dividend distribution

According to the EIT Law and the EIT Rules, dividends paid to investors of an eligible PRC resident enterprise can be exempted from the EIT and dividends paid to foreign investors are subject to a withholding tax rate of 10%, unless relevant tax agreements entered into by the PRC government provide otherwise.

Tax treaties

The PRC and the government of Hong Kong entered into the Arrangement between the Mainland of the PRC and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the “**Taxation Arrangement**”) on 21 August 2006. According to the Taxation Arrangement, 5% withholding tax rate shall apply to the dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests in the PRC company, and 10% of withholding tax rate shall apply if the Hong Kong resident holds less than 25% of the equity interests in a PRC company.

Pursuant to the Notice on the Issues Concerning the Application of the Dividend Clauses of Tax Arrangement* (關於執行稅收協定股息條款有關問題的通知), which was promulgated by the SAT and became effective on 20 February 2009, all of the following requirements shall be satisfied where a fiscal resident of the other party to a tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a PRC resident company: (i) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (ii) owner’s equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (iii) the equity interests of the PRC resident company directly owned by such a fiscal resident, at any time during the twelve months prior to obtaining the dividends, reach a percentage specified in the tax agreement.

The Administrative Measures on Tax Convention Treatment for Non-Resident Taxpayers* (非居民納稅人享受稅收協定待遇管理辦法) (the “**Tax Convention Treatment**”) was promulgated by the SAT on 27 August 2015 and became effective on 1 November 2015. On 14 October 2019, the SAT issued the Administrative Measures on Convention Treatment for Non-Resident Taxpayers* (非居民納稅人享受協定待遇管理辦法) (the “**Convention Treatment**”) which became effective on 1 January 2020 and the Tax Convention Treatment was repealed simultaneously. According to the Convention Treatment, where a non-resident enterprise receives dividends from a PRC resident enterprise, it could directly enjoy the favourable tax benefits under the tax arrangements at tax returns, and subject to the follow-up administration by tax authority. Under the Convention Treatment, when the non-resident taxpayers or their withholding agents make declarations to the relevant tax authority, they should deliver the relevant reports and materials to the tax authority and such non-resident taxpayers and withholding agents will be subject to the follow-up administration of the tax authority.

Laws and regulations in relation to labour

Pursuant to the Labour Law of the PRC* (中華人民共和國勞動法) promulgated on 5 July 1994 with effect from 1 January 1995, and latest amended on 29 December 2018, as well as the labour 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 effective from 1 July 2013, as well as the Implementation Regulations of the Labour Contract Law of the PRC* (中華人民共和國勞動合同法實施條例) which was promulgated on 18 September 2008, if an employment relationship is established between an entity and its employees, written labour contracts shall be executed between them. The relevant laws stipulate the maximum number of working hours per day and per week, respectively. Furthermore, the relevant laws also set forth the minimum wages. The entities shall establish and develop systems for occupational safety and sanitation, implement the rules and standards of the PRC government on occupational safety and sanitation, educate employees on occupational safety and sanitation, prevent accidents at work and reduce occupational hazards.

Pursuant to the Social Insurance Law of the PRC* (中華人民共和國社會保險法), which was promulgated by the SCNPC on 28 October 2010 and became effective on 1 July 2011, and latest amended on 29 December 2018, all employees are required to participate in basic pension insurance, basic medical insurance schemes and unemployment insurance, which must be contributed by both the employers and the employees. All employees are required to participate in work-related injury insurance and maternity insurance schemes, which must be contributed by the employers. Employers are required to complete registrations with local social insurance authorities. Moreover, the employers shall make all social insurance contributions as scheduled. Except for mandatory exceptions such as force majeure, social insurance premiums may not be delay, reduced or be exempted. Where an employer fails to make social insurance contributions in full and on time, the social insurance fund contribution collection agencies shall order it to make all or outstanding contributions within a prescribed period and impose a late payment fee at the rate of 0.05% per day of outstanding amount from the date on which the contribution becomes due. If such employer fails to make the overdue contributions within such time limit, the relevant administrative department may impose a fine of one to three times of the overdue amount.

REGULATORY OVERVIEW

Pursuant to the Administrative Regulations on the Housing Provident Fund* (住房公積金管理條例) effective from 3 April 1999, and latest amended on 24 March 2019, enterprises are required to register with the competent administrative centres of housing provident fund and open bank accounts for housing provident funds for their employees. In addition, for both employees and employers, the payment rate for housing provident fund shall not be less than 5% of the average monthly salary of the employees in the previous year. Employers are also required to timely pay all housing fund contributions for their employees. Where an employer fails to submit and deposit registration of housing provident fund or fails to go through the formalities of opening housing provident fund accounts for its employees, the housing provident fund management centre shall order it to go through the formalities within a prescribed time limit. Failing to do so at the expiration of the time limit will subject the employer to a fine of not less than RMB10,000 and up to RMB50,000. When an employer fails to pay housing provident fund due in full and in time, housing provident fund centre is entitled to order it to rectify, failing to do so would result in enforcement exerted by the court.

Laws and regulations in relation to foreign exchange

Foreign exchange

Pursuant the Administrative Regulation of the PRC on Foreign Exchange* (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 5 August 2008, and various regulations issued by SAFE and other PRC regulatory agencies, foreign currency could be exchanged or paid through two different accounts, namely current account and capital account. Payment of current account items, including commodity, trade and service-related foreign exchange transactions and other current payment, may be made by conversion between Renminbi and foreign currencies without approval of the SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions. Capital account items, such as direct equity investment, loans and repatriation of investment, require the prior approval from or registration with the SAFE or its local branch for conversion between RMB and the foreign currency, and remittance of the foreign currency outside the PRC.

SAFE circular 59

On 19 November 2012, SAFE promulgated the Notice on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment* (國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知) (the “**SAFE Circular 59**”), which became effective on 17 December 2012 and was amended on 4 May 2015. The SAFE Circular 59 substantially amends and simplifies the current foreign exchange procedure. According to the SAFE Circular 59, the opening of various special purpose foreign exchange accounts no longer requires SAFE’s approval. Furthermore, multiple capital accounts for the same entity may be opened in different provinces, which was not possible before the issuance of the SAFE Circular 59. Reinvestment of lawful incomes derived by foreign investors in the PRC no longer requires SAFE’s approval or verification, and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation or share transfer in a foreign-invested enterprise no longer requires SAFE’s approval.

SAFE circular 19

On 30 March 2015, SAFE promulgated the Notice on Reforming the Mode of Management of Settlement of Foreign Exchange Capital of Foreign-invested Enterprises* (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (the “**SAFE Circular 19**”), which came into effect on 1 June 2015. According to the SAFE Circular 19, the foreign exchange capital of foreign-invested enterprises shall be subject to a discretionary foreign exchange settlement (the “**Discretional Foreign Exchange Settlement**”). The Discretional Foreign Exchange Settlement refers to the foreign exchange capital in the capital account of a foreign-invested enterprise for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) and can be settled at the banks based on the actual operational needs of the foreign-invested enterprises. The proportion of Discretional Foreign Exchange Settlement of the foreign exchange capital of a foreign-invested enterprises is temporarily determined as 100%.

SAFE circular 37

Pursuant to the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through 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 37**”) promulgated by SAFE on 4 July 2014. The SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in the SAFE Circular 37 as a “special purpose vehicle”. The SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfil the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under the PRC law for evasion of foreign exchange controls.

SAFE circular 13

Pursuant to the Notice on Further Simplifying and Improving Policies for Foreign Exchange Administration of the Direct Investment* (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**SAFE Circular 13**”), which was promulgated by SAFE 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 will be directly reviewed and handled by banks in accordance with the SAFE Circular 13, and SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

HISTORY, REORGANISATION AND GROUP STRUCTURE

OVERVIEW

Mr. Xue had accumulated years of experience in the textile dyeing and finishing industry prior to the forming of our Group in 2011. He co-founded Changzhou Yadong Textile Company Limited* (常州市亞東紡織品有限公司) with his niece, Ms. Xue Ying, in 1993. In 2002, Mr. Xue established Changzhou Dongxia in the PRC to engage in the business of design and processing of textile fabrics.

In 2011, Yadong (Hong Kong) was incorporated in Hong Kong to engage in the business of sales of textile fabrics to overseas customers. During the period from 2011 to 2014, Yadong (Hong Kong) purchased all textile fabrics from Changzhou Dongxia for sales to its customers. In 2014, Yadong (Hong Kong) established Yadong (Changzhou) and subsequently Yadong (Changzhou) established its own production capabilities by acquiring the assets (comprising mainly factory machineries and equipment and sewage treatment system) from Changzhou Dongxia. Our Directors have confirmed that the abovementioned acquisition was conducted on an arm's length basis and on normal commercial terms and our PRC Legal Advisers are of the view that the abovementioned acquisition complied with the laws and regulations in the PRC. Yadong (Changzhou) commenced its own production of textile fabrics in January 2015. Since then, Yadong (Changzhou) has been supplying its textile fabrics products to its (i) local PRC customers directly; and (ii) overseas customers through Yadong (Hong Kong). As at the Latest Practicable Date, our Group had developed into a scale with three production lines with a total designed production capacity of approximately 42.08 million metres per annum.

Set forth below are the key business milestones of our Group since its establishment to the present.

Year	Event
2011	Our Group commenced its textile fabric business through Yadong (Hong Kong)
2014	Yadong (Changzhou) was established and developed its own production capability
2015	Yadong (Changzhou) was accredited with ISO 14001:2004, OHSAS 18001:2007 and ISO 9001:2008 Yadong (Changzhou) received a compliment award from the Lenzing Group, an international textile and nonwovens group headquartered in Austria
2016	Yadong (Changzhou) was firstly awarded the Laboratory Accreditation Certificate by UNIQLO CO., LTD.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Year	Event
	Yadong (Changzhou) obtained certification from Testex AG, Swiss Textile Testing Institute which indicates that its certified products fulfil the requirements of Annex XVII of REACH (a regulation of the European Union adopted to improve the protection of human health and the environment from the risks that can be posed by chemicals), as well as the U.S. requirement regarding total content of lead in children's articles under The Consumer Product Safety Improvement Act of 2008 (with the exception of accessories made from glass) Yadong (Hong Kong) was granted the 17/18 Autumn/Winter Fabrics China Appraisal Entry Enterprise Award Certificate* (17/18 秋/冬中國流行面料入圍企業) by China Textile Information Center* (中國紡織信息中心) and Fabrics China Pioneer Center* (國家紡織產品開發中心) Yadong (Changzhou) was credited as the China Quality Credit Enterprise* (中國質量誠信企業) by the China Entry-Exit Inspection and Quarantine Association* (中國出入境檢驗檢疫協會)
2017	Yadong (Changzhou) was granted the Certificate of Compliance from the Control Union Certifications B.V. which indicates that its certified products comply with the Global Organic Textile Standard (GOTS) version 4.0 Yadong (Changzhou) was authorised as the third-grade enterprise of work safety standardisation* (安全生產標準化三級企業) by Changzhou Tianning Administration of Work Safety* (常州市天寧區安全生產監督管理局) Yadong (Changzhou) was certified by UNIQLO CO., LTD. to be a trusted business partner and was authorised to produce products under the UNIQLO label
2018	Yadong (Changzhou) was awarded the Green Factory* (綠色工廠) by the Administrative Office of MIIT* (工業和信息化部辦公廳) and the 5th Electronics Research Institute of MIIT* (工業和信息化部電子第五研究所)
2019	Yadong (Changzhou) was credited as an Environmental Trust Enterprise* (環保信任企業) by the Changzhou City Ecology and Environment Bureau* (常州市生態環境局) Yadong (Changzhou) was certified by G.U. CO., LTD to be a trusted business partner and was authorised to produce products under the GU label

HISTORY, REORGANISATION AND GROUP STRUCTURE

Year

Event

Yadong (Changzhou) was granted the Certificate of Compliance from the Control Union Certifications B.V. which indicates that its certified products comply with the Global Organic Textile Standard (GOTS) version 5.0

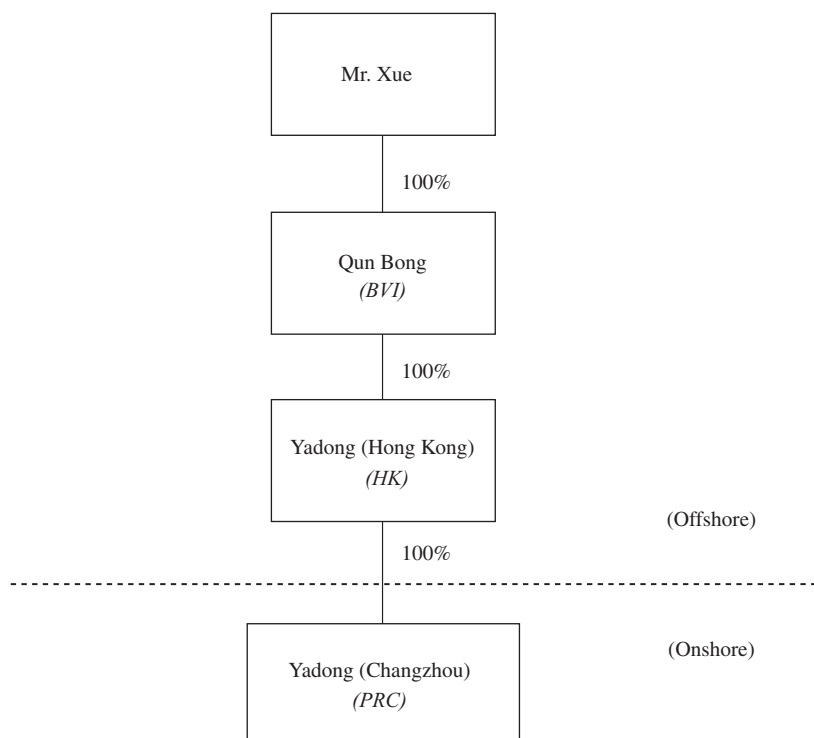
Yadong (Changzhou) was credited as Advanced Collective Entity* (先進集體) by the Changzhou City Textile Engineering Society* (常州市紡織工程學會)

GROUP STRUCTURE AND REORGANISATION

Our Company was incorporated in the Cayman Islands on 22 September 2016. Through the Reorganisation, our Company became the holding company of our subsidiaries. As at the date of this prospectus, (i) our Company is wholly-owned by Oriental Ever Holdings, which is in turn wholly-owned by Mr. Xue; and (ii) our Company, through Qun Bong, owns the entire issued share capital in each of our subsidiaries.

Group structure

The corporate structure of our Group immediately before the Reorganisation is set out below:



Reorganisation

In preparation for the Listing, we undertake the following reorganisation to rationalise the business and structure of our Group:

(a) *Incorporation of Oriental Ever Holdings*

On 11 April 2016, Oriental Ever Holdings was incorporated in the BVI with limited liability and is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On 12 August 2016, one fully paid share was issued and allotted to Mr. Xue at par. Immediately after the aforesaid allotment and issue of share, the entire issued share capital of Oriental Ever Holdings was owned by Mr. Xue.

(b) *Incorporation of our Company*

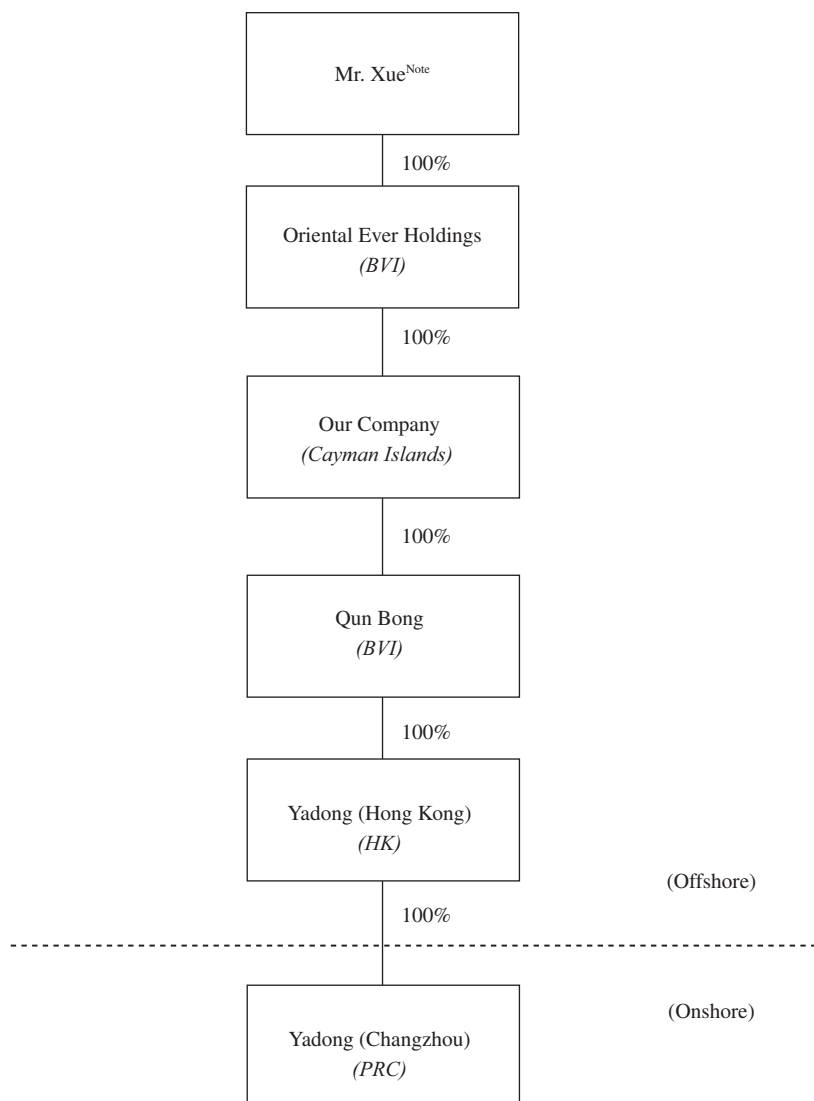
On 22 September 2016, our Company was incorporated in the Cayman Islands as a limited liability company with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On its date of incorporation, one fully paid Share was issued and allotted to the subscriber of our Company, which was subsequently transferred to Oriental Ever Holdings on the same day. Upon completion of the aforesaid transfer of Share, the entire issued share capital of our Company was owned by Oriental Ever Holdings.

(c) *Acquisition of Qun Bong by our Company*

On 26 October 2016, our Company acquired one share of Qun Bong (representing the entire issued share capital of Qun Bong) from Mr. Xue. In consideration thereof, our Company issued and allotted 100,000 Shares of HK\$0.01 each credited as fully paid to Oriental Ever Holdings as directed by Mr. Xue.

HISTORY, REORGANISATION AND GROUP STRUCTURE

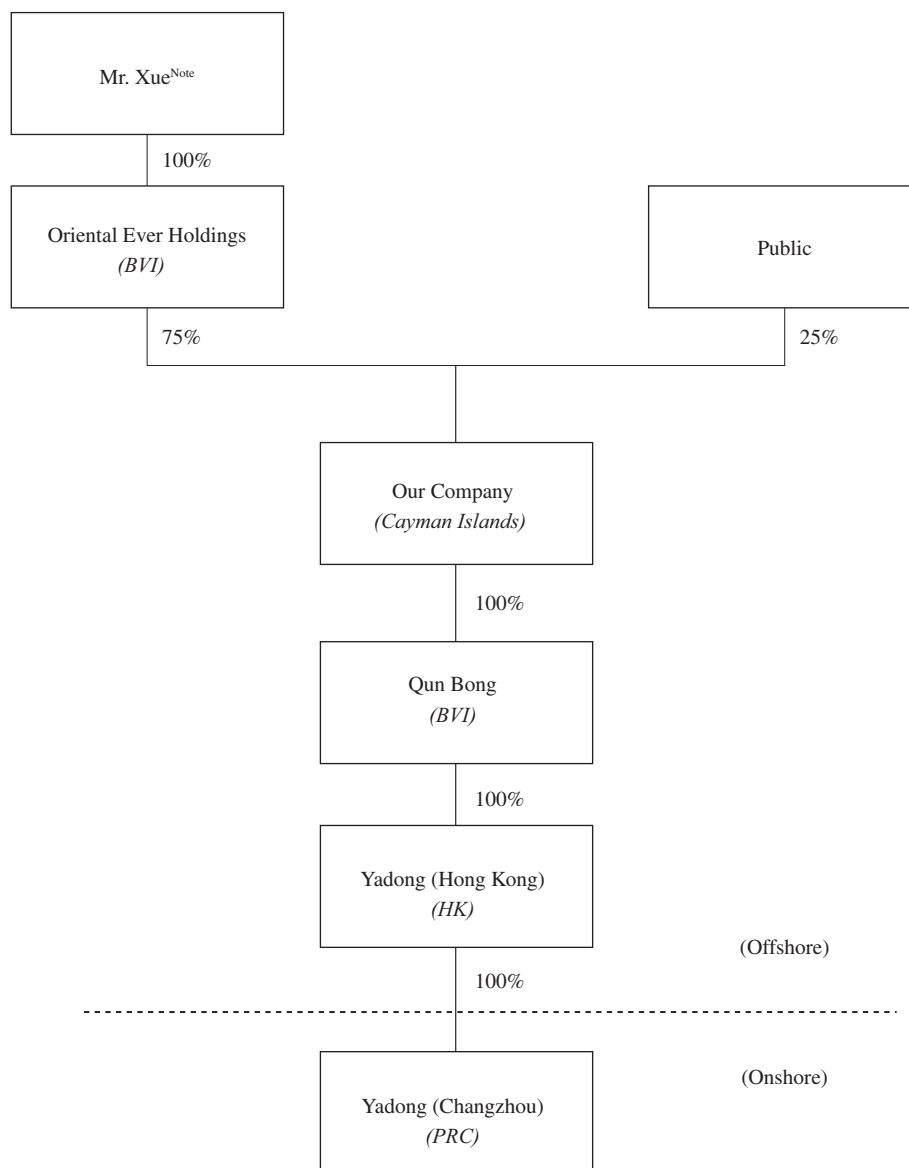
Following the Reorganisation, our Company became the holding company of our Group. The corporate structure of our Group immediately after completion of the Reorganisation but before completion of the Capitalisation Issue and the Share Offer is set out below:



Note: Mr. Xue is the chairman of our Board, an executive Director and a Controlling Shareholder.

HISTORY, REORGANISATION AND GROUP STRUCTURE

The corporate structure of our Group immediately upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme) is set out below:



Note: Mr. Xue is the chairman of our Board, an executive Director and a Controlling Shareholder.

The Share Offer comprises the following: (i) the Public Offer of initially 15,000,000 Shares in Hong Kong; and (ii) the Placing of initially 135,000,000 Shares, subject, in each case, to reallocation on the basis as described in “Structure and conditions of the Share Offer” in this prospectus. The 150,000,000 Offer Shares in the Share Offer will represent 25% of our enlarged share capital immediately upon completion of the Capitalisation Issue and the Share Offer, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is

HISTORY, REORGANISATION AND GROUP STRUCTURE

exercised in full, the 172,500,000 Offer Shares in the Share Offer will represent approximately 27.7% of our enlarged share capital immediately upon completion of the Capitalisation Issue and the Share Offer.

Subsidiaries of our Company and their principal business activities

Yadong (Hong Kong)

Yadong (Hong Kong) was incorporated in Hong Kong with limited liability on 27 June 2011 by the son of Mr. Xue. Shortly after the incorporation, Mr. Xue acquired 10 shares of Yadong (Hong Kong) from his son on 28 July 2011. Immediately after the aforesaid transfer of shares, Yadong (Hong Kong) was wholly-owned by Mr. Xue.

On 21 January 2014, Yadong (Hong Kong) allotted and issued 19,999,990 shares to Qun Bong at a consideration of HK\$19,999,990. Immediately after the aforesaid allotment and issue of shares, Yadong (Hong Kong) was held as to approximately 99.99% by Qun Bong and approximately 0.01% by Mr. Xue.

On 28 February 2014, Mr. Xue transferred his entire shareholding in Yadong (Hong Kong) to Qun Bong at a consideration of HK\$10. Immediately after the aforesaid transfer of shares, Yadong (Hong Kong) was wholly-owned by Qun Bong.

Yadong (Hong Kong) mainly conducts sales of our textile fabrics to overseas customers.

Yadong (Changzhou)

Yadong (Changzhou) was established in the PRC on 27 March 2014 as a wholly-foreign-owned company with Yadong (Hong Kong) being its sole shareholder. Upon its establishment, Yadong (Changzhou) had an initial registered capital of US\$5.0 million and total investment of US\$10.0 million. On 7 September 2017, the registered capital and total investment of Yadong (Changzhou) was increased to US\$10.0 million and US\$15.0 million, respectively.

Yadong (Changzhou) mainly carries out design, process and sale of textile fabrics.

Qun Bong

On 11 November 2013, Qun Bong was incorporated in the BVI with limited liability which is authorised to issue up to a maximum of 50,000 shares of US\$1.00 each. On 20 December 2013, one share was allotted and issued to Mr. Xue at a consideration of US\$1.00.

On 26 October 2016, our Company acquired one share of Qun Bong from Mr. Xue. Immediately after the aforesaid transfer of share, Qun Bong became a wholly-owned subsidiary of our Company.

Qun Bong is currently the intermediate holding company of our Group.

PRC LEGAL COMPLIANCE

Compliance with the Rules on for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (關於外國投資者併購境內企業的規定) (the “M&A Rules”)

According to the M&A Rules, an offshore special purpose vehicle formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing, in the event that the special purpose vehicle acquires shares of the PRC companies in exchange for the shares of the special purpose vehicle or the shares of the company held by its shareholders. Our PRC Legal Advisers are of the opinion that the prior approval of CSRC is not required because Yadong (Changzhou) was established as a foreign-owned enterprise, and there was no acquisition of shares or assets of Yadong (Changzhou) settled by transfer or issuance of shares of Yadong (Changzhou) or any offshore companies.

Compliance with the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through 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)

According to the SAFE Circular 37, (i) PRC residents shall register with the relevant authorities in connection with their direct establishment or indirect control of an offshore special purpose vehicle; and (ii) where there is any change in the basic information to the offshore special purpose vehicle such as change of Chinese resident individual shareholder, name or term of business (“**Basic Information**”), or in the event of any significant changes with respect to the offshore special purpose vehicle such as increase or reduction of capital contribution, share transfer or exchange by Chinese resident individual, merger or division (“**Significant Event**”), amendment to the registration shall be promptly completed with the relevant authorities. Our PRC Legal Advisers have confirmed that Mr. Xue, being a PRC resident has completed the registration formalities in respect of his investments in Oriental Ever Holdings in accordance with the SAFE Circular 37. Besides, our PRC Legal Advisers are of the opinion that since the Reorganisation does not involve any change in Basic Information or Significant Event of the offshore special purpose vehicle controlled by Mr. Xue (i.e. Oriental Ever Holdings), thus Mr. Xue was not required to file amendments of registration with the relevant authorities under the SAFE Circular 37.

OVERVIEW

We principally engage in the design, process and sale of textile fabric products. Our textile fabric products can be categorised into two broad types, namely (i) plain weave fabrics; and (ii) corduroy fabrics. Our textile fabric products feature a variety of different colours, patterns, textures and functionalities. We sell our textile fabric products mainly to garment manufacturers as well as trading companies. To the best of our knowledge, during the Track Record Period, most, if not all, of our textile fabric products were purchased by our customers for further processing into finished garments for apparel brand operators, some of which were operators of international or national brands, such as UNIQLO and Semir. During the Track Record Period, our textile fabric products were mainly sold or distributed in the PRC, Japan and certain other markets in Asia, such as Taiwan, Vietnam, Bangladesh and Indonesia.

In 2002, Mr. Xue established Changzhou Dongxia in the PRC to engage in the business of design and processing of textile fabrics. In 2011, Mr. Xue, via his son, incorporated Yadong (Hong Kong) in Hong Kong to engage in the business of sale of textile fabrics to overseas customers. During the period from 2011 to 2014, Yadong (Hong Kong) purchased all textile fabrics from Changzhou Dongxia for sale to its customers. In 2014, Yadong (Hong Kong) established Yadong (Changzhou). Yadong (Changzhou) established its own production capabilities by acquiring the assets (comprising mainly factory machineries and equipment and sewage treatment system) from Changzhou Dongxia and commenced its production of textile fabrics in January 2015.

Our production facilities are located in Changzhou city, Jiangsu province, the PRC. According to the Ipsos Report, Jiangsu province is one of the five major industry clusters of the textile dyeing and finishing industry in the PRC and a significant location for the production of dyed and printed fabrics in the PRC. According to the China Dyeing and Printing Association* (中國印染行業協會), since 2013, Jiangsu province has been the second largest province in terms of the production volume of dyed and printed fabrics. In 2019, our Group ranked third in terms of revenue among the textile dyeing and finishing service providers in Jiangsu province.

We take pride in our strong product design and development capabilities. We offer textile fabric products of different colours and patterns, as well as textures and functionalities, such as warmth retention, abrasion-resistance, crease-resistance, water-resistance and quick drying fabrics. Through our substantial expertise in textile fabric dyeing and finishing processes and technologies, we are capable of customising our textile fabric products in accordance with customers' specific requirements and producing consistently high quality textile fabric products. From time to time, we are approached by apparel brand operators to design and develop textile fabric products with specific attributes. We also design and develop our own textile fabric products and present them to apparel brand operators for their consideration.

During the Track Record Period, our revenue generated from the sale of our textile fabric products amounted to approximately RMB605.1 million, RMB803.9 million, RMB822.7 million and RMB155.5 million, respectively, representing approximately 91.4%, 93.3%, 95.0% and 93.5% of our total revenue, respectively.

BUSINESS

Apart from our principal business of design, process and sales of textile fabric products, we also engage in the provision of processing services. During the Track Record Period, our revenue generated from our provision of processing services amounted to approximately RMB56.6 million, RMB57.6 million, RMB44.0 million and RMB10.8 million, respectively, representing approximately 8.6%, 6.7%, 5.0% and 6.5% of our total revenue, respectively.

The following table sets forth a breakdown of our revenue by business stream for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Sale of textile fabric products:										
— Plain weave fabrics	485,450	73.4	708,684	82.3	625,430	72.2	158,025	71.7	124,076	74.6
— Corduroy fabrics	119,670	18.0	95,187	11.0	197,221	22.8	49,932	22.7	31,392	18.9
	605,120	91.4	803,871	93.3	822,651	95.0	207,957	94.4	155,468	93.5
Processing services	56,606	8.6	57,606	6.7	44,023	5.0	12,430	5.6	10,838	6.5
Total	661,726	100.0	861,477	100.0	866,674	100.0	220,387	100.0	166,306	100.0

COMPETITIVE STRENGTHS

We believe that the following principal strengths are crucial to our success and essential for our future growth:

High quality products, and timely and reliable services

We place great emphasis on high quality products as well as timely services, which we believe attribute to our growth over the years. According to the Ipsos Report, we ranked third among the textile dyeing and finishing service providers in Jiangsu province in 2019 in terms of revenue, which accounted for approximately 1.6% of the market value in Jiangsu province in that year. We believe that we are regarded by our customers as highly reliable in terms of our product quality and delivery time, which are attributable to our stringent quality control and time management covering all aspects and stages of our production process starting from the procurement of our raw materials.

We have in place stringent quality control measures at various points of our production processes, including the procurement of our raw materials, and the monitoring of and quality checking on our raw materials, work-in-progress and finished products. To ensure the functionality of our textile fabric products, we also perform a range of fabric tests including, among others, colour fastness, tensile strength and stretch percentage tests. In recognition of our quality control standards and requirements, we have been awarded the Laboratory Accreditation Certificate by UNIQLO, a renowned global casual wear retail chain originated from Japan for five consecutive years since 2016. We believe that such recognitions and awards by UNIQLO serve as a testament of the high standard of our quality control. Further, since 2009, we have obtained certifications for

compliance with (i) ISO9001:2015 standard for quality management system; (ii) ISO14001:2015 standard for environmental management system; and (iii) OHSAS18001:2011 standard for occupational health and safety management system, all of which relate to our business of textile dyeing and finishing. Please refer to “Quality control” in this section for further details.

In addition to stringent quality control, we believe that our timely and reliable services are essential in strengthening our business relationships with our customers, particularly in the fast-paced fashion industry where the fashion trends are constantly changing. We strive to adhere to our agreed schedules with our customers to ensure on-time delivery.

Our Directors have confirmed that, since the founding of our Group, we have not encountered any material quality issues nor material delays in delivery that have adversely affected our business reputation and/or business operations. We believe that our commitment to quality control, and timely and reliable services will continue to enhance our market reputation and strengthen our customer relationships, which are crucial in our long-term growth.

Established relationships with key customers and our market reputation

We have established good business relationships with our key customers, and apparel brand operators that are internationally or nationally well-known, such as UNIQLO and Semir. We have established a long-term business relationship with UNIQLO since 2014 and with Semir since 2015. We have been awarded by UNIQLO as one of their trusted business partners. The trusted business partner award certifies that Yadong (Changzhou), as a supplier and along with its factory, is authorised to produce fabrics under the UNIQLO label as a trusted business partner with its working conditions and manufacturing processes being able to meet UNIQLO’s standards. According to the Ipsos Report, as at 31 August 2020, including our Group, UNIQLO maintained a list of 43 textile fabrics suppliers in the PRC, and a list of 72 textile fabrics suppliers worldwide. To the best of our Directors’ knowledge and belief, among the 43 UNIQLO’s textile fabrics suppliers in the PRC as at 31 August 2020, five of them (excluding our Group) are textile dyeing and finishing service providers which provide the same types of textile fabric products as our Group’s, including dyeing and processing plain weave fabrics in various materials (including cotton, cotton-blended linen, linen, single-yarn drill, tencel, satin, dobby and canvas) and corduroy fabrics, whilst the remaining 37 textile fabrics providers either provide different types of textile fabric products, such as dyed yarn, polyester fabric, silk and knitted denim fabrics, etc., or are not textile dyeing and finishing service providers. We believe that our good business relationships, direct or indirect, with internationally and nationally well-known apparel brand operators, are recognitions of the high standards of our quality and services. In general, our business relationships with our top five customers during the Track Record Period range from approximately two to five years. We believe that being a long-term and stable supplier of the designated garment manufacturers and/or trading companies of internationally and nationally well-known apparel brand operators demonstrates that we are able to meet their strict product quality standards and is an indication and a recognition of our high product quality.

According to the Ipsos Report, apparel brand operators are placing great emphasis on environmental friendliness in line with the increasing environmental awareness among the consumers, and there is a rising demand for not only environmentally friendly products but also the underlying manufacturing process. We believe that most well-known apparel brand operators would take into consideration the efforts committed by their business partners in environmental issues. Our Directors recognise the global trend, the need and the social responsibility to reduce the adverse impact on the environment. Our production plant has consistently received awards for our environmental awareness. In 2018, we were awarded the Green Factory* (綠色工廠) by the Administrative Office of MIIT* (工業和信息化部辦公廳) and the 5th Electronics Research Institute of MIIT* (工業和信息化部電子第五研究所). In the same year, we also obtained a certificate from the International Certificate Network, acknowledging that we have implemented and maintained an environmental management system which fulfils the GB/T 24001-2016/ISO 14001:2015. During the period from 2017 to 2020, we received certificates of compliance for our fulfilment of the Global Organic Textile Standard (GOTS) versions 4.0 and 5.0, respectively, issued by the Control Union Certifications B.V. Such certificate of compliance is only awarded to textile products which contain a minimum of 70% organic fibres, and where the choice of dyestuffs and auxiliaries used meets certain environmental and toxicological criteria. For details of our environment-related awards and recognitions, please refer to “Awards and recognitions” in this section. We strive to uphold our values in maintaining an environmentally friendly manufacturing process, which we believe is not only our social responsibility to do so, but also enhances our market reputation, brand image and our relationships with our customers.

Strong capabilities in product design and development and to process a wide range of textile fabrics

In order to meet the ever-evolving and fast-changing market trends, and cope with the increasing demand in the varieties and functionalities of textile fabrics, we place great emphasis on our in-house product design and development capabilities. We do not only respond to our customers’ specific product requirements, we also take the initiative to offer our self-designed and self-developed textile fabrics to our customers, as well as improve the quality and variety of our existing textile fabric products. We have extensive experience in the textile industry with strong design and development capabilities. Our sales and marketing and design and development teams are responsible for design and development together with our production and quality control team. Additionally, we are equipped with a design and development laboratory in our production plant, housing an array of technical design and development equipment, such as the Datacolor 600 and the GretagMacbeth Colour Eye 7000.

Through our substantial expertise in textile dyeing and finishing processes and technologies, we are able to offer textile fabric products of different colours, patterns, textures and functionalities. In addition to designing and processing textile fabrics of a large variety of colours and patterns, we are capable of designing and processing a wide range of textile fabric products with complex components in accordance with our customers’ specific requirements, such as warmth

retention, abrasion-resistance, crease-resistance, water-resistance and quick drying fabrics. Based on our new ideas, we work closely with our raw material suppliers in sourcing the greige fabrics of our specific requirements for our further processing.

From time to time, we showcase our portfolios of textile fabric products in different colours, patterns, textures and functionalities at industry forums and exhibitions, such as the Intertextile Shanghai Apparel Fabrics (Autumn/Winter) Exhibition* (中國國際紡織面料及輔料秋冬博覽會) which we attend on an annual basis, or present them directly to apparel brand operators for their consideration to meet the ever-changing fashion trends. As at the Latest Practicable Date, we had successfully obtained six design patents for various types of textile fabrics. We believe that our strong design and development capabilities and the diversity of our product offerings allow us to respond to the ever-evolving and fast-changing market trends in the fashion industry, which differentiates us from other market players in the textile industry. For details of our design and development, please refer to “Design and development” in this section.

Strategically located close to the centre of the PRC’s textile industry

Our production facilities are located in Changzhou city, Jiangsu province, the PRC, which is in close proximity to (i) well-established transportation networks, including the airport, highways and shipping lanes; and (ii) most of our key customers and suppliers. According to the Ipsos Report, Jiangsu province is one of the five major industry clusters of the textile dyeing and finishing industry in the PRC and a significant location for the production of dyed and printed fabrics in the PRC, particularly because the coastal nature of Jiangsu province provides sufficient fresh water resources to facilitate the textile dyeing and finishing industry. According to the China Dyeing and Printing Association* (中國印染行業協會), since 2013, Jiangsu province has been the second largest province in terms of the production volume of dyed and printed fabrics. According to the Ipsos Report, in 2019, Jiangsu province ranked second after Zhejiang province, accounting for approximately 13.8% of the production volume of dyed and printed fabrics in the PRC. Our Directors believe that Shanghai is where the headquarters of a number of international and national apparel brand operators are located, and given Changzhou city is in close proximity to Shanghai, our location provides us with competitive advantages, including having an up-close and first-hand access to the latest industry news, market information, market trends and customer preferences, which facilitates our product design and development, and enables us to respond faster to the demands and/or needs of our customers. Further, we believe that such close proximity also provides us with the competitive advantages of serving our customers in a cost- and time-efficient manner.

Experienced senior management team with the requisite industry and management expertise

We have an experienced and stable management team with substantial experience and expertise in various aspects of the textile industry. Our chairman and executive Director, Mr. Xue Shidong and our executive Directors, Mr. Wang Bin and Ms. Zhang Yeping have extensive experience in the textile industry. Mr. Qiu Jianyu, our executive Director, has extensive experience in corporate management and financial management. In addition, most members of our senior management team have more than 10 years of experience in the textile industry. We believe that, as a result of their accumulated years of experience, our management team possesses in-depth

understanding of the textile industry in the PRC and profound technical knowledge in textile fabric design, development and processing, as well as a combination of strong observation, communication and management skills. We believe that our management is capable of seizing market opportunities, formulating and implementing sound business strategies and managing risks adequately, which as a whole would enable us to achieve sustainable business growth.

BUSINESS STRATEGIES

We intend to implement the following business strategies to strengthen our market position and maintain our market competitiveness.

Expand our production capabilities and increase our production capacity

As at the Latest Practicable Date, we had one production plant located in Changzhou city, Jiangsu province, the PRC and we operated three production lines at our production plant. During the Track Record Period, the utilisation rate of our production was approximately 98.4%, 98.6%, 103.5% and 70.7%, respectively. In order to support our expansion plan and future growth in the PRC without interrupting our production and business operations, we plan to expand the production capabilities of our production facilities and increase our production capacity by implementing the Expansion Plans, namely (i) upgrade and improve our existing production lines and technological capabilities with new machineries; and (ii) acquire a company with existing production plant.

We plan to upgrade and improve our existing production lines facilities and technical capabilities by the addition of new machineries and equipment of the latest and/or the updated models. Our Directors expect that such new machineries, which are equipped with improved functionalities and can be interchangeably used for the production/processing of different textile fabrics, will be able to upgrade and improve our production lines, and thereby (i) increase our production capacity; (ii) expand production capability to include knitted fabrics; and (iii) increase the production efficiency through automation of manufacturing process and reduction of number of staff needed. It is our plan that such production facilities and technological upgrade and improvement will attribute to an increase of our annual production capacity by not less than approximately 10 million metres. The expected total investment costs for the upgraded production facilities, including the costs for acquiring new machineries and equipment and the corresponding costs of training in relation to the safe and proper use and the maintenance of the machineries and equipment, are approximately RMB63.2 million. We expect to finance the acquisition of such machineries and equipment substantially with the net proceeds from the Share Offer. We expect that we will be able to complete the technology upgrade and improvement by the second quarter of 2021. Our Directors believe that we will be able to carry out such production facilities and technological upgrade without causing material interruption to our production and operations.

We also plan to acquire a company with existing production plant with an annual production capacity between 10 to 15 million metres in Jiangsu province, the PRC. We intend to utilise approximately HK\$25.8 million of the net proceeds from the Share Offer to finance the acquisition costs of such acquisition. We plan to utilise our internal resources and/or bank financings to finance the remaining acquisition costs of such acquisition, if the allocated amount of the net proceeds from

BUSINESS

the Share Offer is not sufficient to finance the acquisition costs. As at the Latest Practicable date, we had not identified any target company for acquisition. It is our plan that we will acquire a controlling interest, if not the entire interest, of our target company and that acquisition will be completed by the end of 2021.

We estimate that the overall production capacity of our Group following the implementation of the Expansion Plans will be increased by approximately 20 million metres to 25 million metres as follows:

	<u>Million metres per annum⁽¹⁾</u>
Current annual production capacity	
(Based on actual production volume in 2019)	43.56
Expansion Plans	
— Acquiring new machineries	10.00 ⁽²⁾
— Acquiring controlling interest in a company with production capacity of 10 million metres to 15 million metres per annum	<u>15.00⁽³⁾</u>
Total	<u><u>68.56</u></u>

Notes:

- (1) Based on the same assumptions used in estimating the maximum production capacity during the Track Record Period, where there are (i) 308 working days in a year; and (ii) operating at 16.5 hours per working day.
- (2) Assuming that the new machineries would increase our Group's production capacity by approximately 33 metres per minute.
- (3) Based on the maximum capacity of the preferred acquisition target and assuming that a controlling interest had been acquired.

Furthermore, in order to lower our operating costs, we may consider expanding our production facilities outside of the PRC to Southeast Asia to enhance our competitiveness, in particular, to cater for our customers in overseas markets and for those ultimate brand operators who have their designated manufacturers located in Southeast Asia. We may achieve this by way of establishment of our own production plant or acquisition of established production facilities in Southeast Asia or by way of strategic investment. We plan to utilise our internal resources and/or bank financings for the establishment or acquisition of such production facilities. As at the Latest Practicable Date, we had not formalised any plan for our expansion outside the PRC.

Please refer to “Production capacity and utilisation rate” in this section and “Future plans and use of proceeds — Use of proceeds” in this prospectus for further details.

Expand our product coverage to knitted fabrics

According to Ipsos, plain weave fabrics, corduroy fabrics and knitted fabrics together are the primary composition of dyed and printed fabrics. Knitted fabric is one of the major materials of clothing and garments, with approximately 40% of clothing and garments being made from knitted fabric. According to China Knitting Industrial Association* (中國針織工業協會), the sales revenue of knitted garments in the PRC reached approximately RMB368.5 million in 2018. In comparison with plain weave fabric and corduroy fabric, knitted fabric is more stretchy, breathable and has higher sweat absorption ability for comfortable wearing. It is therefore widely used in producing linings, activewear, t-shirts, sweaters, hoodies, pyjama and underwear, while plain weave fabric and corduroy fabric are generally used to construct outerwear, shirts and suits as these two types of fabric are more durable and structured compared to knitted fabric. According to Ipsos, the demand for knitted fabric is expected to remain stable during the forecast period from 2020 to 2024 due to its multi-functional features and its diverse applications on (i) knitted footwear and sneakers; and (ii) advanced functional garments including water-resistance, quick drying, warmth retention and crease-resistance fabrics that are widely adopted in producing underwear, activewear and workwear. As confirmed by Ipsos, the outlook of the casual wear and activewear segments is expected to be promising during the forecast period from 2020 to 2024.

To cater for the evolving and diverse product categories of apparel brand operators and based on our own market research and information and demands of knitted fabric products as indicated by our customers during the Track Record Period, we see the potential and positive outlook of the knitted fabric products market. During the Track Record Period, our product offerings had been primarily plain weave fabrics and corduroy fabrics. According to the Ipsos Report, apparel brand operators typically have demand for various types of textile fabrics. In order to strengthen our market position in the textile dyeing and finishing industry in the PRC and to capture the opportunities from the knitted fabric products market, we intend to expand our product coverage to knitted fabrics, in addition to our existing plain weave fabric products and corduroy fabric products.

As confirmed by our Directors and Ipsos, the production process of knitted fabrics is substantially the same as that for the production of plain weave fabrics and corduroy fabrics. The machineries currently used by us for our textile fabric product production lack the capability to handle all the production steps of knitted fabrics. With an aim to expand our capability to the manufacture of knitted fabric products, we consider it desirable to upgrade and expand our production capability by acquiring new machineries that can be interchangeably used for the production/processing of different textile fabrics (including knitted fabrics) with improved functions which in turn expand our production capabilities to capture also the knitted fabrics market, improve and enhance the quality of service and products solutions to meet the rising expectations of the apparel brand operators, and increase production capacity and efficiency in a more economically feasible scale. Our Directors confirm that as at the Latest Practicable Date, we had not received any formal quotations or conducted any negotiation for producing or processing knitted fabrics due to our lack of capability to handle all the production steps of knitted fabrics. Our major customers

have, however, indicated that they would consider sourcing knitted fabrics from us if and when we are equipped with the relevant production capability. Please refer to “Future plans and use of proceeds — Use of proceeds” in this prospectus for further details.

Expand into the markets in Europe and the U.S. and broaden our customer base in the PRC

During the Track Record Period, our textile fabric products were mainly sold or distributed in the PRC, Japan and certain other Asian markets such as Taiwan, Vietnam, Bangladesh and Indonesia. Given the diversity of our textile fabric products, our Directors believe that there is a rising demand in other markets for our textile fabric products. We plan to expand into the markets in Europe and the U.S. According to the Ipsos Report, European Union was the largest importer of textile from 2014 to 2019, with approximately 21.7% share of the total import value of textile in the world in 2019, and U.S. was the third largest importer during the same period, accounting for approximately 4.4% of the total import value of textile in 2019. Our Directors believe that there is a huge potential of these overseas markets. To capture such opportunities, we plan to engage local sales agents that possess the local knowledge and expertise to assist us in tapping into these target markets.

We believe that, by engaging local sales agents, we are able to leverage the sales channels of our sales agents, their knowledge of the target markets as well as their resources to efficiently assist us in expanding our market reach over a wider geographical area and raising our profile among customers overseas within a short period of time without having to incur capital expenditure in establishing our presence in the overseas markets, given our lack of operating track record in these overseas markets.

We believe that building our customer base and maintaining and enhancing recognition of our products within the textile dyeing and finishing industry on an on-going basis are crucial for strengthening our market position in the industry and to our future development and success. We intend to broaden our customer base and increase the exposure of our products in the PRC through the following means: (i) attending and participating in industry forums and exhibitions both in the PRC and overseas, such as the Intertextile Shanghai Apparel Fabrics (Autumn/Winter) Exhibition* (中國國際紡織面料及輔料秋冬博覽會), being one of the relatively large-scale and comprehensive apparel fabric and accessories exhibitions in the world which we attend on an annual basis, to connect with other industry professionals, potential customers and potential suppliers; and (ii) paying regular visits to apparel brand operators to whom we supply our textile fabric products to promote our self-designed and self-developed textile fabric products, to increase our profile and gather up-to-date industry and market insights. By doing so, not only are we able to broaden our customer base, increase our profile and expand our product development and finishing capabilities, we are also able to keep abreast of the latest industry trends and take advantage of market opportunities in a timely manner, all of which will enhance our corporate profile as well as recognition of our textile fabric products among industry players and end customers.

Continue to devote resources for our product development capabilities

We believe that strong product development capabilities, product innovations and a portfolio of diversified textile fabric products are the key to success in the textile industry. In view of the ever-changing needs of our customers and in order to respond to the ever-evolving fashion trends and strengthen our competitiveness in the textile industry, we plan to continue to devote resources for our product development capabilities and improve our existing dyeing and finishing techniques. We plan to build our design and development centre within the new premises that is currently under construction on the parcel of land owned by us in Changzhou city, Jiangsu province, the PRC. We plan to centralise our design and development efforts at our new design and development centre. We intend to relocate our sampling team, testing team and quality control team, together with the relevant facilities to our new design and development centre. We believe that strong design and development capabilities are crucial in expanding and diversifying our product portfolio and hence increasing our profit margin.

We plan to gradually introduce new machineries and equipment used for the design and testing of products in anticipation of our business development. As at the Latest Practicable Date, we were still assessing the additional design and testing machineries and equipment needed and accordingly, no estimated costs or number of machineries or equipment have been determined. The new machineries and equipment for design and testing of textile fabric products would have no impact on our Group's production capacity. We plan to fund the acquisition costs of the new machineries and equipment through internal resources in the future.

Recruit more experienced personnel

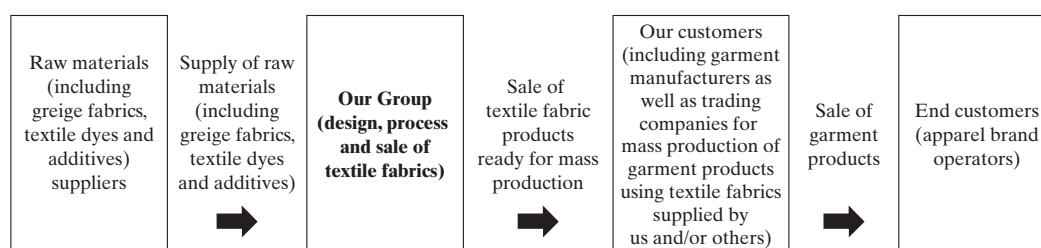
We believe that having experienced personnel with the relevant industry experience is critical to the success of our business operations and future growth. In particular, we aim and intend to expand our design and development team by recruiting more experienced personnel who possess the relevant technical knowledge and experience in various aspects of our business, such as textile dyeing technologies, textile finishing technologies, design and development, and the latest market information and trends of the textile industry in the PRC and overseas. We believe that having a team with the requisite skills, foresight and industry knowledge is necessary for the formulation of sound business strategies in order to sustain our business and capture market opportunities so as to ensure our continued success.

BUSINESS MODEL

We principally engage in the design, process and sale of textile fabric products of different colours, patterns, textures and functionalities. Our textile fabric products are used for the manufacture of different apparel products, including but not limited to trousers, outerwear and thermal wear. Our business model is founded on our core values in delivering high quality, timely and reliable services, meeting customer expectations and continually improving customers' satisfaction, and maintaining an environmentally friendly manufacturing process. We operate on our "customer-oriented" principle. We respond to our customers' specific product requirements and we also take the initiative to design, develop and offer our self-designed and self-developed textile

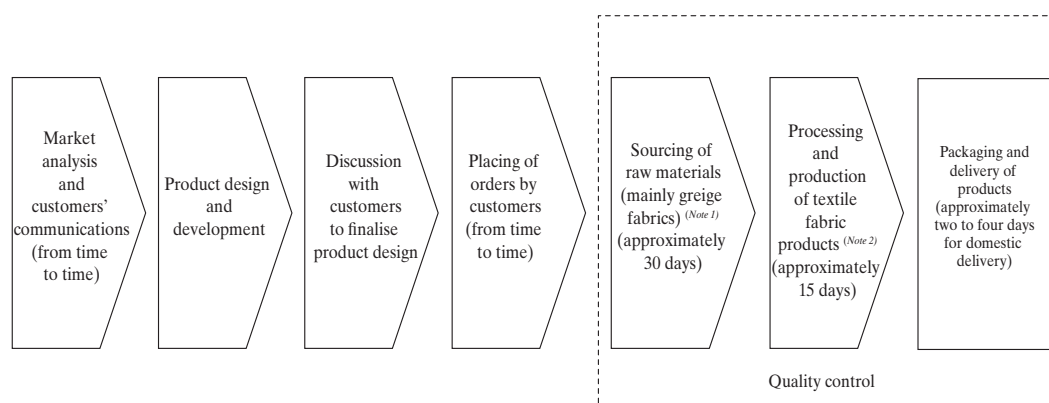
fabrics to our customers. We sell our textile fabric products mainly to garment manufacturers as well as trading companies. To the best of our knowledge, during the Track Record Period, most, if not all, of our textile fabric products were purchased by our customers for further processing into finished garments for apparel brand operators, some of which were operators of international or national brands, such as UNIQLO and Semir. To the best of our Directors' understanding based on their communications with our customers, in general, these apparel brand operators directly instruct their designated garment manufacturers or sourcing agents (i.e. our customers) to place textile fabric product orders with us. Certain apparel brand operators may directly communicate with us for manufacturing textile fabrics with specific attributes, which will then be supplied to our customers (who are the designated garment manufacturers of such apparel brand operators) for their further processing into finished garments for such apparel brand operators. Similarly, we may present our self-designed and self-developed textile fabrics to apparel brand operators for their consideration to meet the ever-changing fashion trends and the demand for more varieties and functionalities of textile fabrics. If our prototypes could meet their requirements, they will instruct their garment manufacturers and/or trading companies to place orders with us. We also engage in the provision of just processing services to our customers.

The diagram below sets out our position within the textile supply chain and our role in general:



OUR OPERATIONS

The diagram below illustrates the business model of our principal operations of design, process and sale of textile fabric products:



Notes:

1. We may, where necessary, coordinate with our greige fabrics suppliers in the manufacture of the greige fabrics to our requirements.
2. The production time is generally approximately 15 days. However the exact production time is dependent on a number of factors, including but not limited to fabric specification and type, complexity of design and quantity requirement.

Market analysis and customers' communications

We believe that, in the fashion industry where the trends are constantly evolving and the demands for unique functionalities are on the rise, the ability to offer innovative and a diversified range of products are the key to success. We keep abreast of the latest fashion trends and industry and market trends and consumer preference through market research and analysis, including by attending and participating in industry forums and exhibitions both in the PRC and overseas. To gain an up-close insight into the latest market trends and customers' preferences, we also pay visits to and communicate with our existing customers, and where possible, the apparel brand operators on a regular basis.

Product design and development

Based on the concepts or specifications requested by our customers or the apparel brand operators, we materialise their requirements and design our textile fabric products with specific features in terms of colours, patterns, textures and functionalities suitable for their needs. As part of our design and development process, we place consideration on the qualities and features of the desired greige fabrics that will suit or complement our customers' or the apparel brand operators' design, and where necessary, we coordinate with our greige fabrics suppliers in the manufacture of the greige fabrics to our requirements.

To excel from our competitors, we believe that we do not only respond to our customers' or the apparel brand operators' specific product requirements, we also actively design and develop new textile fabrics based on our market analysis and interpretation of the market and consumer trends and offer these self-designed and/or self-developed textile fabrics with new features to our customers and the apparel brand operators.

Through our substantial expertise in textile dyeing and finishing technologies, we develop our prototype textile fabric products from the greige fabrics we source for the approval of our customers or the apparel brand operators.

Finalise product design and placing of orders

Through discussions with our customers or the apparel brand operators, we may further adjust and/or improve our prototypes before the design is finalised and accepted by our customers or the apparel brand operators.

For apparel brand operators, they will generally instruct their designated garment manufacturers or trading companies to place orders with us for the specific textile fabric products. Before placing orders, our customers usually communicate with us details of their orders such as product specifications, expected volume and expected delivery date. We provide them with our fee quotation based on the suggested selling price fixed by our management, and our expected delivery date based on our production schedule and customers' requests. We will also provide our product samples or the finalised prototypes for confirmation.

Our customers may then enter into individual sale contracts with us once they have accepted our fee quotations and our product samples or prototypes. In line with the industry practice, we generally do not enter into long-term agreements with our customers. We generally enter into individual sale contracts with our customers, which typically set out the product specifications, required quantity, delivery date and unit price (as previously agreed with us).

Sourcing of raw materials

The principal raw materials for our production process comprise two broad categories, namely (i) greige fabrics; and (ii) textile dyes and additives, such as colourants and dyeing auxiliaries. Some of our customers may provide us with the specific greige fabrics for production. We generally maintain an ample level of textile dyes and additives such as colourants and dyeing auxiliaries of around 30 days, and a minimum level of greige fabrics. Given that greige fabrics come with different properties and textures, we source most of our greige fabrics as and when needed based on our requirements and the demands of our customers. As part of our design and development process mentioned above, where necessary, we coordinate with our greige fabrics suppliers in the manufacture of their greige fabrics to our requirements.

We have put in place quality control measures and procedures to ensure that the raw materials we source adhere to our standards. We carry out site visits to our suppliers and monitor their manufacture process. We also carry out random inspections on samples of incoming greige fabrics and other raw materials before confirming our acceptance of such raw materials. While a specified period of time is set out in most of our purchase contracts for greige fabrics where we are entitled to seek rectifications from our suppliers in case of any quality issues, as confirmed by our Directors, our suppliers agree to carry out rectification actions to the greige fabrics supplied to us even after the expiry of such specified period of time in case of any quality issues.

Processing and production

We dye and process our textile fabrics from the greige fabrics we sourced at our production plant in Changzhou city, Jiangsu province, the PRC. For details of our production process, please refer to "Production process" in this section. We have put in place quality control measures and procedures throughout our production process. Please refer to "Quality control" in this section for further details.

Packaging and delivery

Our finished textile fabric products are subject to a final inspection and random sample checking to ensure that they comply with all necessary quality standards and/or product specification requested by our customers. In general, we pack our finished textile fabric products at our production plant. We then arrange delivery of the finished textile fabric products to our customers according to our agreed terms.

Provision of processing services

In addition to our principal business of design, process and sale of textile fabric products, we also engage in the provision of just processing services to our customers, wherein we provide only dyeing, printing and/or finishing services to the greige fabrics provided by our customers according to their specifications. During the Track Record Period, our revenue generated from the provision of processing services amounted to approximately RMB56.6 million, RMB57.6 million, RMB44.0 million and RMB10.8 million, respectively, accounting for approximately 8.6%, 6.7%, 5.0% and 6.5% of our total revenue, respectively. We generally enter into individual service contracts with our customers, which typically set out their specifications, the delivery date and manner of delivery, and our service fee. We provide the processing services in accordance with our customers' specifications. The greige fabrics are provided to us by our customers. We adopt the same quality control measures for our processed products as we do for all the finished products we produced. Please refer to "Quality control" in this section for further details. In general, our customers opt to pick up our processed textile fabric products from our production plant.

OUR TEXTILE FABRIC PRODUCTS

We dye and process a wide range of textile fabrics. We believe that we possess substantial expertise in textile dyeing and finishing technologies. We are capable of producing textile fabrics of different colours, patterns, textures and functionalities that meet the specific requirements of our customers. We also design and develop our own textile fabrics to cope with the changing fashion trend and market demand. We sell our textile fabric products mainly to garment manufacturers as well as trading companies. To the best of our knowledge, during the Track Record Period, most, if not all, of our textile fabric products were purchased by our customers for further processing into finished garments for apparel brand operators, some of which were operators of international or national brands, such as UNIQLO and Semir.

BUSINESS

Our textile fabric products can be categorised into two broad types, namely (i) plain weave fabrics; and (ii) corduroy fabrics. The following table sets forth a breakdown of our revenue generated from the sale of our textile fabric products by product type for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Plain weave fabrics	485,450	80.2	708,684	88.2	625,430	76.0	158,025	76.0	124,076	79.8
Corduroy fabrics	119,670	19.8	95,187	11.8	197,221	24.0	49,932	24.0	31,392	20.2
Total	<u>605,120</u>	<u>100.0</u>	<u>803,871</u>	<u>100.0</u>	<u>822,651</u>	<u>100.0</u>	<u>207,957</u>	<u>100.0</u>	<u>155,468</u>	<u>100.0</u>

Plain weave fabrics

A great variety of fabrics are woven in plain weave, including cotton, cotton-blended linen, linen, single-yarn drill, tencel, satin, dobby and canvas. Plain weave fabrics have good elasticity and a relatively flat and smooth surface as compared to corduroy. By application of certain chemical treatments such as crosslinking resin finishing process, certain features can be developed in the plain weave fabrics such as wrinkle-resistant, water-proof or anti-UV. Plain weave fabrics are durable, stable and breathable. By application of special fibres to the plain weave fabrics, certain functions can be developed in the plain weave fabrics such as moisture absorption and heat insulation function.

Corduroy fabrics

Corduroy fabrics include bi-stretch corduroy, non-stretch corduroy, velveteen-like corduroy and flocking corduroy. Corduroy fabrics are generally made of cotton or a cotton/polyester blend, which are relatively structured, thick, warm and soft to the touch. Corduroy fabrics are easy to dye and come in a wide array of colours and prints.

Both plain weave fabrics and corduroy fabrics can be widely used in the production of casual outfits, shirts, trousers or interior decoration for automobiles.

Set forth below are some of our textile fabric products offering:

Plain weave fabrics



Linen



Tencel



Satin



Dobby

Corduroy fabrics



Bi-stretch



Non-stretch



Velveteen-like



Flocking

PRODUCTION PROCESS

Production process

We dye and process various kinds of greige fabrics into our textile fabric products. Our usual textile dyeing and processing process is set forth below. In general, our production process may include all or some of the steps below depending on a variety of factors, including the type of fabric to be dyed and processed, and our customers' requirements. The entire process, from the pre-treatment to finishing, generally takes approximately 15 days depending on the type of fabric to be dyed and processed and our customers' requirements.

Step 1 — Pre-treatment	—	Involve multiple steps including (i) filtering of dirt, oil and other impurities from the fabrics; (ii) pre-setting the fabrics to the required shrinkage degree; (iii) burning off surface fibres; and (iv) removing other impurities such as waxes, proteins and pectins from the fabric.
Step 2 — Dyeing	—	Imparting colour into the treated fabrics by using a combination dyes, auxiliaries and chemical products at different temperatures and pressures.
Step 3 — Finishing	—	Drying, smoothening and polishing the dyed fabrics effect. Depending on the desired outcome, other physical finishing treatments may be used, including embossing, felting, napping and shearing.

Production plant and machineries and equipment

Our production plant is located at No. 381 and No. 379, Laodong East Road, Tianning District, Changzhou city, Jiangsu province, the PRC. Our production site comprises a production plant and a number of buildings with an aggregate leased area of approximately 33,982.1 sq.m. and is mainly used by our Group for our textile dyeing and processing activities, office and laboratory. We operate three production lines at our production plant. Our production plant operates 24 hours per day and around 308 days per year. According to Ipsos, such production arrangement conforms to general industry practices. The production plan of our production plant is generally devised based on various factors such as (i) delivery deadlines and volumes of our textile fabric products that need to be ready as stipulated in the purchase orders with our customers; (ii) potential sales demand from our major customers; and (iii) our production capacity. Save for the disruption to our business operations due to the outbreak of COVID-19 as disclosed in “Effects of the COVID-19 outbreak” in this section, during the Track Record Period and up to the Latest Practicable Date, we did not experience any material interruptions to our production.

BUSINESS

Machineries and equipment

Our production plant is equipped with a variety of machineries and equipment, which can be used interchangeably for the production/processing of different textile fabric products, to cater for different stages of the production process. As at 31 December 2017, 2018, 2019 and 30 April 2020, our plant and machineries amounted to approximately RMB50.9 million, RMB48.9 million, RMB49.7 million and RMB48.3 million, respectively. The following table sets forth the major machineries and equipment in our production plant as at 30 April 2020:

Machinery	Major function	Number of unit(s)	Estimated average useful life years	Approximate weighted average remaining useful life (Note) years
Pre-treatment				
Scouring and bleaching machine (煮漂聯合機)	Removing impurities such as sizing agent, oil stain and pectins from the fabrics by chemical auxiliaries. Bleaching the fabrics to achieve a white finish	1	10	9.1
Mercerising machine (絲光機)	Mercerising fabrics by using concentrated caustic soda solution, mainly applied in cotton, polyester cotton and hemp textiles	2	5	0.4
Dyeing				
Pad dyeing machine (軋染機)	A machine used for pad dyeing of cotton, polyester, hemp and mixed textiles based on hot wind, and colour soaping	2	4	2.9
High temperature airflow atomisation dyeing machine (高溫氣流霧化染色機)	A machine that uses high velocity airflow for dyeing, suitable for high-grade fabric, such as tencel fabrics	1	7	2.6
Tentering machine (定型機)	A machine that shape fabrics with a hot air circulation system, suitable for sensitive fabrics, such as knitted fabrics, coated fabrics, microfibres, plush fabrics and silks	7	7	5.3

Note: The weighted average remaining useful life of our principal machineries and equipment as set forth in the table above is based on the weighted average of the remaining depreciable period of each type of machineries and equipment, which is determined in accordance with our applicable accounting policies, under which depreciation is calculated using the straight line method to allocate their costs to their residual values over the estimated useful lives. When the machinery in question is fully depreciated, the remaining useful life will be zero and result in a lower weighted average remaining useful life.

In accordance with HKAS 16, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The depreciation policy of our property, plant and equipment follows our Group's depreciation policy as disclosed in note 16 to the Accountants' Report in Appendix I to this prospectus.

BUSINESS

Most of our production machineries and equipment are sourced domestically in the PRC. Our major production machineries and equipment generally have an estimated average useful life of four to 10 years. Based on our experience, the useful life of our major production machineries and equipment may be longer with appropriate repair and maintenance.

We have been making enhancement and modification to optimise our production efficiency and pursue product quality. During the Track Record Period, we incurred approximately RMB10.2 million, RMB4.9 million, RMB7.4 million and RMB0.8 million, respectively, for purchases of plant and machineries.

We perform regular maintenance of our machineries and equipment at least twice a month so as to ensure that our business operations will not be significantly disrupted. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any material machinery and/or equipment breakdown that had a material adverse impact on our business operations and we had not experienced any major accidents due to or arising from any machinery and/or equipment breakdown.

Production capacity and utilisation rate

As at the Latest Practicable Date, we operated three production lines with a total designed production capacity of approximately 42.08 million metres per annum. Our designed production capacity, actual production volume and utilisation rate of our production lines during the Track Record Period are set forth below:

Year ended 31 December									Four months ended 30 April		
2017			2018			2019			2020		
Designed production capacity (Note 1)	Actual production volume	Utilisation rate (Note 2)	Designed production capacity (Note 1)	Actual production volume	Utilisation rate (Note 2)	Designed production capacity (Note 1)	Actual production volume (Note 3)	Utilisation rate (Notes 2 and 3)	Designed production capacity (Note 1)	Actual production volume	Utilisation rate (Notes 2 and 4)
million metres per annum	million metres per annum	%	million metres per annum	million metres per annum	%	million metres per annum	million metres per annum	%	million metres per four months	million metres per four months	%
42.08	41.39	98.4	42.08	41.47	98.6	42.08	43.56	103.5	14.07	9.95	70.7

Notes:

- The designed production capacity represents the maximum annual production volume at the bottleneck of the production process assuming that (i) sufficient labour is available at all times; (ii) there are approximately 308 working days in each of 2017, 2018 and 2019 and 103 working days for the four months ended 30 April 2020; (iii) the production machineries and equipment are operating approximately 16.5 hours per working day; (iv) there is no major machinery or equipment breakdown; (v) the product type and colour being produced is changed approximately 10 times a day on average, and each change requires stopping the machinery and equipment for approximately 30 to 60 minutes; and (vi) the machineries and equipment have a production speed of approximately 46 metres per minute.
- The utilisation rate is derived by dividing our actual production volume for the relevant year/period by our annual designed production capacity for the relevant year/period.

BUSINESS

3. The actual production volume in 2019 exceeded the designed production capacity, with the utilisation rate exceeding 100%, due to the overtime operations of our production facilities in order to meet our customers' demands. According to Ipsos, the utilisation rate of production facilities exceeding 100% is not uncommon in the textile dyeing and finishing industry.
4. Our Directors believe that the decrease in the utilisation rate was primarily attributable to (i) the temporary suspension of our production for approximately one week after the Lunar New Year break as a result of the mandatory suspension of operations imposed by the local PRC government in early February 2020; and (ii) the suspension of most non-essential businesses (including garment manufacturing businesses) in the PRC from February to mid-March 2020 in response to the COVID-19 outbreak, resulting in a delay of approximately one and a half month in the resumption of business of our regular customers and therefore a corresponding delay in the placement of orders by our regular customers.

Constrained by the maximum production capacity of our production line, we had to decline orders for both the production of textile fabric products as well as the provision of processing services. In 2019, we had declined orders of at least approximately 11.1 million metres primarily for production of textile fabric products, amounting to approximately RMB201.4 million in value. Such declines were due to the parties' failure to reach commercial terms, including the price and delivery date which, as confirmed by our Directors, arose as a result of our Group's lack of production capacity at the relevant time, as well as a reduction of our subcontracting volume primarily attributable to the parties' failure to reach reasonable commercial terms due to the tight production capacity and schedule of our subcontractors as a result of the industry consolidation arising from the tightening of the environmental requirements. Apart from the aforesaid declined orders, we had also declined orders due to mismatch of product types and/or production arrangement at preliminary stage, however, we did not keep records of such declined orders. In 2017, 2018 and 2019, as the quantity of the purchase orders received by us exceeded our production capacity, we had to outsource our production of an average of approximately 7.5 million metres per annum.

SALES AND MARKETING

Marketing and promotion

All of our textile fabric products are sold directly to our customers under our own brand name. As at the Latest Practicable Date, our sales and marketing team comprised 49 personnel. Our sales and marketing team is responsible for conducting marketing activities and soliciting new customers. We primarily market our products through various marketing channels and means, which include, among others, (i) attending events and/or exhibitions relating to the textile industry both in the PRC and overseas such as the Intertextile Shanghai Apparel Fabrics (Autumn/Winter) Exhibition* (中國國際紡織面料及輔料秋冬博覽會), being one of the relatively large-scale and comprehensive apparel fabric and accessories exhibitions in the industry which we attend, on an annual basis, to network with other industry professionals, potential customers and potential suppliers; and (ii) regular visits and product promotions/demonstrations to our existing customers and, where possible, apparel brand operators. During the Track Record Period, our marketing and promotion expenses amounted to approximately RMB1.8 million, RMB1.6 million, RMB1.3 million and RMB0.7 million, respectively.

BUSINESS

Sales and customers

According to the Ipsos Report, customers of the textile dyeing and finishing industry comprise mainly garment manufacturers and trading companies, and in particular, some of them are the designated garment manufacturers or trading companies of apparel brand operators. Given the scale and diversity of the operations of the well-known apparel brand operators, they normally engage textile dyeing and processing service providers indirectly through the bridging of garment manufacturers or trading companies for sourcing of various types of textile and fabrics to meet their requirements and for a more comprehensive quality control.

To enhance our operational efficiency, we have put in place sales management policy on, among others, (i) the scope of authority of the relevant personnel involved in different stages of sales; (ii) the mechanism of sales data collection and management; (iii) the procedures to review, amend and terminate sales contracts; (iv) the delivery and shipment arrangement for finished products; (v) the collection of trade receivables; (vi) management of transfer-pricing related issues; and (vii) monitoring the performance of sale contracts.

During the Track Record Period, we sold our textile fabric products to customers through direct sales. Our customers consist of garment manufacturers and trading companies. To the best of our Directors' knowledge, most of our major trading company customers are the designated trading companies of apparel brand operators, some of which were operators of international or national brands. We have maintained long and stable relationships with our major customers and some of the apparel brand operators. Our business relationships with our top five customers during the Track Record Period range from two to five years. Our products are principally sold or distributed in the PRC, Japan and certain other markets in Asia such as Taiwan, Vietnam, Bangladesh and Indonesia.

The following table sets forth a breakdown of our revenue by customer type for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Garment manufacturers	454,739	68.7	615,314	71.4	681,920	78.7	169,306	76.8	128,756	77.4
Trading companies <i>(Note 1)</i>	206,987	31.3	246,163	28.6	184,754	21.3	51,081	23.2	37,550	22.6
Total	<u>661,726</u>	<u>100.0</u>	<u>861,477</u>	<u>100.0</u>	<u>866,674</u>	<u>100.0</u>	<u>220,387</u>	<u>100.0</u>	<u>166,306</u>	<u>100.0</u>

BUSINESS

The following table sets forth a breakdown of our revenue by geographical locations of our customers for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
The PRC	568,406	85.9	643,858	74.7	669,189	77.2	145,642	66.1	118,720	71.4
Japan	23,986	3.6	156,000	18.1	101,106	11.7	34,749	15.8	20,801	12.5
Other countries and regions (Note 2)	69,334	10.5	61,619	7.2	96,379	11.1	39,996	18.1	26,785	16.1
Total	<u>661,726</u>	<u>100.0</u>	<u>861,477</u>	<u>100.0</u>	<u>866,674</u>	<u>100.0</u>	<u>220,387</u>	<u>100.0</u>	<u>166,306</u>	<u>100.0</u>

Notes:

- Our major trading company customers included (i) Customer C, a PRC subsidiary of a company whose shares are listed on the Tokyo Stock Exchange and engaging in various businesses including manufacturing, processing and sales of fibres, textiles and performance chemicals; and (ii) Customer F, a group of companies whose holding company is listed on the Tokyo Stock Exchange and Nagoya Stock Exchange and engaging in various businesses including the apparel industry.

During the Track Record Period, our aggregate revenue generated from Customer C and Customer F was approximately RMB59.2 million, RMB143.9 million, RMB97.0 million and RMB18.0 million, accounting for approximately 28.6%, 58.5%, 52.5% and 47.9% of our total revenue generated from trading companies, respectively.

- Other countries and regions mainly included Taiwan, Bangladesh, Vietnam and Indonesia.

BUSINESS

Details of our top five customers for the year ended 31 December 2017 are set forth below:

Ranking	Name of customer	Background and principal business	Location	Products sold/ services provided during the year	Years of business relationship	Whether customer is also a supplier (Yes/No)	Credit terms (days)	Payment method	Revenue (RMB'000)	Percentage of total revenue (%)
1	Customer A (Note 1)	A group of companies established in the PRC whose permitted scope of business includes garment manufacturing	Zhejiang province, the PRC	Plain weave fabrics and corduroy fabrics	4	No	90	Bank transfer/bank acceptance bill	78,722	11.9
2	Customer B (Notes 1 and 2)	A group of companies established in the PRC whose holding company is listed on the Shenzhen Stock Exchange with a market capitalisation of around RMB9.6 billion as at the Latest Practicable Date and whose permitted scope of business includes sales of garments and import and export of various commodities and technologies	Jiangsu province, the PRC	Plain weave fabrics, corduroy fabrics and processing services	5	Yes	90	Bank transfer/bank acceptance bill	77,509	11.7
3	Customer C	A PRC subsidiary of a company whose shares are listed on the Tokyo Stock Exchange with a market capitalisation of around JPY821.9 billion as at the Latest Practicable Date and engaging in various businesses such as manufacturing, processing and sales of fibres, textiles and performance chemicals	Shanghai, the PRC	Plain weave fabrics and corduroy fabrics	5	Yes	30	Bank transfer	59,159	8.9
4	Customer D (Note 1)	A group of companies headquartered in Taiwan whose holding company is listed on the Taiwan Stock Exchange Corporation with a market capitalisation of around NTD41.1 billion as at the Latest Practicable Date and engaging in various businesses including garment manufacturing	Taiwan	Plain weave fabrics	3	No	30	Bank transfer	30,708	4.6
5	Customer E	A PRC company whose permitted scope of business includes the sales of textiles, raw materials for textiles and garments	Jiangsu, the PRC	Plain weave fabrics, corduroy fabrics and processing services	4	Yes	90	Bank transfer/bank acceptance bill	27,117	4.2
Total									273,215	41.3

Notes:

- For customers which are within the same group or ultimately controlled by the same ultimate shareholder(s), they are considered as one customer for the purpose of presentation and our sales generated from such customers are aggregated.
- Customer B was also one of our top five suppliers (Supplier C) for the Track Record Period. Please refer to “Sales and marketing — Overlapping of customers and suppliers” in this section below for further details.

BUSINESS

Details of our top five customers for the year ended 31 December 2018 are set forth below:

Ranking	Name of customer	Background and principal business	Location	Products sold/ services provided during the year	Years of business relationship	Whether customer is also a supplier (Yes/No)	Credit terms (days)	Payment method	Revenue (RMB'000)	Percentage of total revenue (%)
1	Customer F (Note 1)	A group of companies whose holding company is listed on the Tokyo Stock Exchange and Nagoya Stock Exchange with a market capitalisation of around JPY3,829.5 billion as at the Latest Practicable Date and engaging in various businesses including the apparel industry	Chiyoda, Japan	Plain weave fabrics and corduroy fabrics	2	No	30	Bank transfer	124,927	14.5
2	Customer B (Notes 1 and 2)	A group of companies established in the PRC whose holding company is listed on the Shenzhen Stock Exchange with a market capitalisation of around RMB9.6 billion as at the Latest Practicable Date and whose permitted scope of business includes sales of garments and import and export of various commodities and technologies	Jiangsu province, the PRC	Plain weave fabrics, corduroy fabrics and processing services	5	Yes	60	Bank transfer/bank acceptance bill	67,850	7.9
3	Customer G (Note 1)	A group of companies established in the PRC whose permitted scope of business includes production and processing of denims	Shandong province, the PRC	Plain weave fabrics	2	No	60	Bank transfer	56,391	6.5
4	Customer H	A PRC company whose permitted scope of business includes the production, sales and washing of garments and processing, import and export of cotton yarns and cotton woven materials	Henan province, the PRC	Plain weave fabrics and corduroy fabrics	5	No	30	Bank transfer	44,241	5.1
5	Customer I (Note 1)	A group of companies established in the PRC whose permitted scope of business includes manufacturing and sales of garments and accessories and import and export of various commodities and technologies	Jiangsu province, the PRC	Plain weave fabrics and corduroy fabrics	5	No	60	Bank transfer	39,484	4.6
Total									332,893	38.6

Notes:

- For customers which are within the same group or ultimately controlled by the same ultimate shareholder(s), they are considered as one customer for the purpose of presentation and our sales generated from such customers are aggregated.
- Customer B was also one of our top five suppliers (Supplier C) for the Track Record Period. Please refer to “Sales and marketing — Overlapping of customers and suppliers” in this section below for further details.

BUSINESS

Details of our top five customers for the year ended 31 December 2019 are set forth below:

Ranking	Name of customer	Background and principal business	Location	Products sold/ services provided during the year	Years of business relationship	Whether customer is also a supplier (Yes/No)	Credit terms (days)	Payment method	Revenue (RMB'000)	Percentage of total revenue (%)
1	Customer B (Notes 1 and 2)	A group of companies established in the PRC whose holding company is listed on the Shenzhen Stock Exchange with a market capitalisation of around RMB9.6 billion as at the Latest Practicable Date and whose permitted scope of business includes sales of garments and import and export of various commodities and technologies	Jiangsu province, the PRC	Plain weave fabrics, corduroy fabrics and processing services	5	Yes	90	Bank transfer/bank acceptance bill	85,987	9.9
2	Customer F (Note 1)	A group of companies whose holding company is listed on the Tokyo Stock Exchange and Nagoya Stock Exchange with a market capitalisation of around JPY3,669.7 billion as at the Latest Practicable Date and engaging in various businesses including the apparel industry	Chiyoda, Japan	Plain weave fabrics	2	No	30	Bank transfer	80,230	9.3
3	Customer A (Note 1)	A group of companies established in the PRC whose permitted scope of business includes garment manufacturing	Zhejiang province, the PRC	Plain weave fabrics and corduroy fabrics	4	No	60	Bank transfer/bank acceptance bill	57,847	6.7
4	Customer G (Note 1)	A group of companies established in the PRC whose permitted scope of business includes production and processing of denims	Shandong province, the PRC	Plain weave fabrics and corduroy fabrics	2	No	60	Bank transfer	55,878	6.4
5	Customer I (Note 1)	A group of companies established in the PRC whose permitted scope of business includes manufacturing and sales of garments and accessories and import and export of various commodities and technologies	Jiangsu province, the PRC	Plain weave fabrics and corduroy fabrics	5	No	30	Bank transfer	50,536	5.8
Total									330,478	38.1

Notes:

- For customers which are within the same group or ultimately controlled by the same ultimate shareholder(s), they are considered as one customer for the purpose of presentation and our sales generated from such customers are aggregated.
- Customer B was also one of our top five suppliers (Supplier C) for the Track Record Period. Please refer to “Sales and marketing — Overlapping of customers and suppliers” in this section below for further details.

BUSINESS

Details of our top five customers for the four months ended 30 April 2020 are set forth below:

Ranking	Name of customer	Background and principal business	Location	Products sold/ services provided during the year	Years of business relationship	Whether customer is also a supplier (Yes/No)	Credit terms (days)	Payment method	Revenue (RMB'000)	Percentage of total revenue (%)
1	Customer G (Note 1)	A group of companies established in the PRC whose permitted scope of business includes production and processing of denims	Shandong province, the PRC	Plain weave fabrics and corduroy fabrics	2	No	60	Bank transfer	21,279	12.8
2	Customer F (Note 1)	A group of companies whose holding company is listed on the Tokyo Stock Exchange and Nagoya Stock Exchange with a market capitalisation of around JPY3,669.7 billion as at the Latest Practicable Date and engaging in various businesses including the apparel industry	Chiyoda, Japan	Plain weave fabrics	2	No	30	Bank transfer	18,001	10.8
3	Customer B (Note 1 and 2)	A group of companies established in the PRC whose holding company is listed on the Shenzhen Stock Exchange with a market capitalisation of around RMB9.6 billion as at the Latest Practicable Date and whose permitted scope of business includes sales of garments and import and export of various commodities and technologies	Jiangsu province, the PRC	Plain weave fabrics, corduroy fabrics and processing services	5	Yes	90	Bank transfer/bank acceptance bill	17,939	10.8
4	Customer J	A subsidiary whose holding company is listed on the Indonesia Stock Exchange with a market capitalisation of around RPI,438.2 billion as at the Latest Practicable Date and engaging in garment manufacture such as casual pants, dress shirts and jackets	Central Java province, the Indonesia	Plain weave fabrics	5	No	30	Bank transfer	8,697	5.2
5	Customer I (Note 1)	A group of companies established in the PRC whose permitted scope of business includes manufacturing and sales of garments and accessories and import and export of various commodities and technologies	Jiangsu province, the PRC	Plain weave fabrics and corduroy fabrics	5	No	30	Bank transfer	6,118	3.7
Total									72,034	43.3

Notes:

- For customers which are within the same group or ultimately controlled by the same ultimate shareholder(s), they are considered as one customer for the purpose of presentation and our sales generated from such customers are aggregated.
- Customer B was also one of our top five suppliers (Supplier C) for the Track Record Period. Please refer to “Sales and marketing — Overlapping of customers and suppliers” in this section below for further details.

During the Track Record Period, our textile fabric products were sold to a total of 402, 467, 569 and 297 customers, respectively, which were garment manufacturers or trading companies. All of our top five customers during the Track Record Period were Independent Third Parties as at the Latest Practicable Date.

To the best of our Directors' knowledge, during the Track Record Period, 12, 14, 14 and 15 of our customers were the garment manufacturers or sourcing agents of UNIQLO, respectively, including Customer A, Customer C, Customer F, Customer I and Customer J, who were our top five customers during the Track Record Period.

We have secured orders placed by an internationally renowned Japan-based brand operator through Customer F since March 2020. As at the Latest Practicable Date, such brand operator had placed orders for approximately 0.7 million metres of our textile fabric products, amounting to approximately RMB15.1 million in value.

To the best of our Directors' knowledge and belief, during the Track Record Period and up to the Latest Practicable Date, none of our Directors, their respective close associates or any of our Shareholders (who or which, to the knowledge of our Directors owns more than 5% of the issued share capital of our Company immediately upon completion of the Share Offer) had any interest in any of our top five customers.

Overlapping of customers and suppliers

According to the Ipsos Report, the overlapping relationship of customers and suppliers is considered one of the industry practices within the textile dyeing and finishing industry. Such sales arrangements generally appear in situations such as where the customer is a large-scale manufacturer and service provider within the textile and apparel manufacturing industry with a comprehensive chain of business coverage spanning from the production of greige fabrics, to provisions of fabric dyeing and processing. It is also an industry practice that raw material suppliers which are trading companies may also, as the customers, procure textile fabric products from suppliers like us if they engage in the trading of both raw materials and textile fabric products.

During the Track Record Period, we purchased greige fabrics from some suppliers who were also our customers to whom we provided dyeing and finishing services or sold our dyed and finished fabrics. Although these suppliers were also our customers during the Track Record Period, as confirmed by our Directors, the products we sold to them were not the same products we procured from them, or vice versa, and the sales and purchase orders were placed independently from one another. During the Track Record Period, our Group had a total of 28, 25, 23 and 11 overlapping customers and suppliers, respectively, and our revenue generated from these overlapping customers and suppliers amounted to approximately RMB249.2 million, RMB148.3 million, RMB118.6 million and RMB22.9 million, representing approximately 37.7%, 17.2%, 13.7% and 13.8% of our total revenue, respectively. During the Track Record Period, our purchases from them amounted to approximately RMB293.6 million, RMB413.8 million, RMB370.1 million and RMB60.6 million, respectively, representing approximately 58.7%, 64.8%, 58.1% and 38.7% of

BUSINESS

our total purchases, respectively. Our Directors confirmed that the respective transactions were conducted on an arm's length basis in the ordinary course of our business on normal commercial terms.

As confirmed by our Directors, the gross profit margins of our textile fabric products are determined based on a wide range of factors, such as type of plain weave and corduroy fabrics (which involve different quality of fabrics, thickness, function, etc.), production arrangement, damage during processing, sales volume, relationship with customers for future orders and storage, etc. The following table sets forth a breakdown of (i) revenue generated from; (ii) purchases from; and (iii) gross profit margin from the sales to our overlapping customers and suppliers during the Track Record Period:

	Revenue	Percentage of total revenue from overlapping customers and suppliers	Purchases	Percentage of total purchases from overlapping customers and suppliers	Gross profit margin
	RMB'000	%	RMB'000	%	%
Year ended 31 December 2017					
Customer B/Supplier C (<i>Note 1</i>)	77,509	31.1	44,953	15.3	6.7
Customer C (<i>Note 2</i>)	59,159	23.7	10,059	3.4	9.2
Customer E (<i>Note 3</i>)	27,117	10.9	3,897	1.3	1.4
Supplier A	1,402	0.6	160,390	54.6	9.3
Supplier D (<i>Note 4</i>)	18,176	7.3	26,458	9.1	1.6
Subtotal	183,363	73.6	245,757	83.7	6.2
Other overlapping customers and suppliers (<i>Note 6</i>)	65,813	26.4	47,795	16.3	5.9
Total/Overall	249,176	100.0	293,552	100.0	6.1
Year ended 31 December 2018					
Customer B/Supplier C (<i>Note 1</i>)	67,850	45.7	50,793	12.3	7.5
Customer C (<i>Note 2</i>)	18,976	12.8	4,405	1.1	15.8
Customer E (<i>Note 3</i>)	10,904	7.4	727	0.2	2.7
Supplier A	5,224	3.5	150,939	36.5	7.8
Supplier B	4	—	114,415	27.6	—
Supplier D (<i>Note 4</i>)	14,691	9.9	23,822	5.7	0.8
Subtotal	117,649	79.3	345,101	83.4	7.6
Other overlapping customers and suppliers (<i>Note 6</i>)	30,671	20.7	68,721	16.6	12.9
Total/Overall	148,320	100.0	413,822	100.0	8.9

BUSINESS

	Revenue	Percentage of total revenue from overlapping customers and suppliers	Purchases	Percentage of total purchases from overlapping customers and suppliers	Gross profit margin
	RMB'000	%	RMB'000	%	%
Year ended 31 December 2019					
Customer B/Supplier C (Note 1)	85,987	72.5	53,421	14.4	6.1
Customer C (Note 2)	16,779	14.1	4,327	1.2	14.7
Customer E (Note 3)	257	0.2	5	—	34.4
Supplier A (Note 5)	269	0.2	105,778	28.6	21.7
Supplier B	29	—	125,607	33.9	—
Supplier D (Note 4)	2,923	2.6	4,597	1.3	1.0
A non-top five customer	6,542	5.5	109	—	8.2
Subtotal	112,786	95.1	293,844	79.4	7.5
Other overlapping customers and suppliers (Note 6)	5,869	4.9	76,229	20.6	13.6
Total/Overall	<u>118,655</u>	<u>100.0</u>	<u>370,073</u>	<u>100.0</u>	7.8
Four months ended 30 April 2020					
Customer B/Supplier C (Note 1)	17,939	78.4	13,169	21.7	7.0
Supplier A	12	0.1	30,646	50.5	—
Supplier D (Note 4)	403	1.7	122	0.2	0.5
A non-top five customer	2,917	12.7	41	0.1	10.1
Subtotal	21,271	92.9	43,978	72.5	7.3
Other overlapping customers and suppliers (Note 6)	1,622	7.1	16,661	27.5	10.8
Total/Overall	<u>22,893</u>	<u>100.0</u>	<u>60,639</u>	<u>100.0</u>	7.6

Notes:

- We recorded a lower gross profit margin from the sales to Customer B of approximately 6.7%, 7.5%, 6.1% and 7.0% during the Track Record Period, respectively, which was primarily attributable to the fact that Customer B procured from us basic-style textile fabric products which are easier to process and, to the best of our Directors' knowledge, are supplied to various end-customers including hypermarkets focusing on low-margin sale.
- We recorded a lower gross profit margin from the sales to Customer C of approximately 9.2% in 2017 as compared to that of approximately 15.8% and 14.7% in 2018 and 2019, respectively, which was primarily attributable to the fact that we had started producing a new custom-made product for Customer C since 2017, for which we incurred additional costs in its development and fine-tuning of processing in 2017, thus resulting in a lower gross profit margin in 2017.
- We recorded a lower gross profit margin from Customer E of approximately 1.4% and 2.7% in 2017 and 2018, respectively, which was primarily attributable to the fact that we were willing to charge a very low margin given that Customer E (i) was one of the suppliers of an internationally recognised American Swedish clothing brand in the PRC and we were eager to expand our business relationship with such brand operator during that period, and (ii)

BUSINESS

was aggressive in negotiating a low unit price for their orders placed with our Group. However, owing to the increasing constraint on our production capacities and the level of profit margin that we can afford to lower, we gradually declined the orders from Customer E and resulted in the decrease in the revenue generated from the sales to Customer E in 2018 and 2019 and no revenue was generated from Customer E for the four months ended 30 April 2020.

4. We recorded a lower gross profit margin from Supplier D of approximately 1.6%, 0.8%, 1.0% and 0.5% for the Track Record Period, respectively, which was primarily because we sold our textile fabric products to Supplier D at a lower margin mainly due to the fact that (i) Supplier D had more bargaining power to negotiate lower unit prices with our Group as Supplier D supplied our Group with special types of printed grieger fabrics and that we would like to maintain a good business relationship with Supplier D; and (ii) the end customers of Supplier D are mainly domestic brands which are generally more price sensitive.
5. We recorded a higher gross profit margin from Supplier A of approximately 21.7% in 2019, which was primarily attributable to the fact that our major textile fabric products sold to Supplier A in 2019 were functional textile fabric products of higher specifications.
6. Our other overlapping customers and suppliers included 23, 19, 16 and 7 overlapping customers and suppliers during the Track Record Period, respectively.

As confirmed by our Directors, during the Track Record Period, the gross profit margins generated from the sales to our overlapping customers and suppliers were generally comparable with those of similar transactions conducted with our other independent customers of similar textile fabric products during the same period, except for certain circumstances such as when our customers ordered custom-made products, when we had spare production capacity and when we were eager to seek further business development opportunities with our customers and suppliers, etc.

Our Directors confirmed that the transactions with our overlapping customers and suppliers during the Track Record Period were conducted on an arm's length basis in the ordinary course of our business and on normal commercial terms.

To the best knowledge and belief of our Directors, the aforesaid overlapping suppliers/customers were Independent Third Parties as at the Latest Practicable Date. None of our Directors, their respective close associates, or any Shareholder who, to the best knowledge of our Directors, owned more than 5% of our issued share capital, had any interest in each of them during the Track Record Period. Save as disclosed above, to the best knowledge of our Directors, none of our suppliers were also our customers during the Track Record Period.

Major terms of our sales agreement

During the Track Record Period, we did not enter into any long-term sales agreement with our customers, which is in line with the industry practice according to the Ipsos Report. Our customers usually communicate with us, before placing their orders, details of their demand and requirements such as product specifications, expected quantity and expected delivery date. We generally enter into individual sale contracts with our customers, which are mostly on a standalone basis without any prescribed minimum purchase commitment.

BUSINESS

Such individual sales contracts typically set out, among others, the product specifications, required quantity, delivery date, unit price and payment terms.

Although in general we do not enter into long-term sales agreement with our customers, we regularly discuss with our major customers the sales order and the type of products they are likely to place with us. We utilise such information for our production planning and procurement purposes. Upon receiving orders from our customers, we will assess our production capacity. We generally only commence production after the purchase order is confirmed upon signing of a sales contract. Depending on the product type and the purchase order size, the finished fabric products are generally ready for delivery to our customers' designated destination within two to four months after the commencement of our procurement and production process.

Typical salient terms of our sales contract for the sale of our textile fabric products are set forth below:

Products sold:	The quantity of products, specification and requirements of the products.
Sale price:	The unit price and the total sale price.
Quality standard:	The standard of quality that our products shall meet. Certain recognised industry standard, such as four point system* (美標四分制) is typically specified.
Product defects:	If the customers discover any defects in relation to the quality of our products after we deliver the products to them, they will inform us in writing within ten days.
Product delivery and transportation costs:	Customers may either require us to deliver the products or opt to collect the products from us. We are typically required to deliver the finished products to a place in the PRC designated by the customer, or to the port in the PRC as designated by the customer for shipment to overseas. Save for self-pick-up by the customers, we are generally responsible for the transportation costs for our product delivery to domestic destinations.

Payment terms: Typically our customers are required to settle payment of sale price within a period ranging from 30 to 90 days upon receipt of our products.

We may impose a penalty fee calculated at 0.3% per day of the outstanding amount if our customer fails to settle the payment within the prescribed payment date.

Major terms of processing service agreement

We also engage in the provision of just processing services to our customers. During the Track Record Period, we did not enter into any long-term service contract with our customers for the provision of our processing services, which is in line with the industry practice according to the Ipsos Report. Our customers usually communicate with us, before placing their orders, details of their specifications. We generally enter into individual service contracts with our customers, which are mostly on a standalone basis. Such service contracts typically set out our customers' specifications and requirements, delivery date and manner of delivery, and service fee.

Typical salient terms of our service contract for our provision of standalone processing services are set forth below:

Scope of service:	The specifications and requirements required as well as the quantity of fabrics to be processed will be specified.
Service fees:	The total amount of service fees and the underlying unit price.
Quality standard:	The standard of quality that our processed fabric products shall meet. Certain recognised industry standard, such as four point system* (美標四分制) is typically specified.
Packaging requirements:	We are required to pack our processed fabric products according to the packaging requirements specified.
Product defects:	For quality issues due to the quality of our processing services, the customers shall have the right to request us for rectification or compensation based on the costs of the fabrics in question.

BUSINESS

Product delivery and transportation costs:

Customers may either require us to deliver the products or opt to collect the products from us.

We are typically required to deliver the finished products to a place in the PRC designated by the customer.

Save for self-pick-up by the customers, we are generally responsible for the transportation costs for our product delivery to domestic destinations.

Payment terms:

Typically our customers are required to settle payment of service fees upon collection of our processed fabric products.

We may impose a penalty fees calculated at 0.3% per day of the outstanding amount if our customer shall fail to settle the payment within the prescribed deadline.

Pricing and credit policies

For the sales of our textile fabric products, we normally set the prices for our textile fabric products on a cost-plus basis and take into account a variety of factors, including productions costs, quantity of purchase orders, product specifications, processing complexity and prevailing market prices. We price each order on a standalone basis. Our prices are negotiated on an individual basis with each customer before it enters into a sales contract with us. Generally any increase in the price of raw materials and any appreciation or depreciation in Renminbi are factored into the pricing consideration for the orders.

Our sale prices may fluctuate in the approximate range of 5% to 10%. Pursuant to our pricing policy, if the extent of downward fluctuation is 5% or less, the approval of the department manager is required, if the extent of downward fluctuation is above 5% but less than 10%, the approval of the deputy head of our sales and marketing team is required; and if the extent of downward fluctuation is 10% or more, the approval of the general manager is required.

During the Track Record Period,

- (i) the average price of our plain weave fabric products was approximately RMB16.3 per metre, RMB18.2 per metre, RMB18.4 per metre and RMB18.6 per metre, respectively; and
- (ii) the average price of our corduroy fabric products was approximately RMB22.5 per metre, RMB21.1 per metre, RMB21.1 per metre and RMB22.5 per metre, respectively.

Our Group's sales are mainly settled in US\$ for overseas sales and Renminbi for domestic sales. Most of our customers settle their payment by way of bank transfer or bank acceptance bill. We generally provide our customers with trade credit period of up to 90 days, depending on our Group's assessment of our customers' financial background, creditworthiness and the past payment history of customers.

For our provision of just processing services, we normally set our service fees with reference to the prevailing market price by taking into account the customer's specifications, the complexity of procedures involved, the quantity and delivery time. We price each order on a standalone basis. Our prices are negotiated on an individual basis with each customer before it enters into a service agreement with us. As all of our customers for our processing services during the Track Record Period were located in the PRC, our services fees were generally settled in Renminbi. Most of our customers settle their payment by way of bank transfer or bank's acceptance bill. We generally provide our customers with trade credit period of up to 90 days, depending on our Group's assessment of the customers' financial background, creditworthiness and the past payment history of the customer with us.

Product delivery

We arrange packaging and delivery of our finished products according to our agreed terms with our customers. Save for those customers who opt to collect the finished goods from our production plant, we typically arrange delivery of our finished goods to our customers to their designated addresses or domestic ports in the PRC. We are not responsible for transporting or exporting our finished products outside the PRC. We rely on third party logistics providers for the delivery of our products. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not experience any material delay or delivery issue from our logistics providers.

Product returns, warranty and liability and customer complaint handling

Our sales agreements generally do not provide for product returns and warranty periods given the high cost of delivery of the returned products. Whenever we receive any complaints from our customers regarding the quality of our products, we will handle them on a timely basis by, among others, communicating with the customer to understand the nature of its complaint, conducting quality checks on samples of the alleged sub-standard products or sending our personnel to our customer's site to identify the cause of the defective products.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not experienced any material litigation, claims, returns on sales, recalls, reprocessing from our customers, and we were not aware of any material quality defect in our sales of textile fabric products or provision of dyeing and finishing services, which could have a material adverse impact on our reputation, results of operations and financial position.

Seasonality

Our business and results of operations are generally subject to seasonality. The first two months of each year are usually the slack production season in the year with less production taking place at the beginning of each year when we normally have completed most of the orders for autumn/winter textile fabric products and given that the Lunar New Year usually takes place in January or February each year.

For the autumn and winter seasons, our customers generally purchase textile fabric products that are thicker, heavier and dark-coloured, which are more costly to produce/process as compared to spring/summer textile fabrics which are lighter in weight and light-coloured. As such, we generally charge higher prices for autumn/winter textile fabrics and our revenue generated from the sales of such autumn/winter textile fabric products could generally be higher.

INTRA-GROUP TRANSACTIONS

Background

In 2002, Mr. Xue established Changzhou Dongxia in the PRC to engage in the business of design and processing of textile fabrics. In 2011, Mr. Xue incorporated Yadong (Hong Kong) via his son in Hong Kong. Since the commencement of its business in 2011, Yadong (Hong Kong) has been principally engaging in the sales of textile fabrics to overseas customers. During the period from 2011 to 2014, Yadong (Hong Kong) purchased all textile fabrics from Changzhou Dongxia for sale to its customers. In 2014, Yadong (Hong Kong) established Yadong (Changzhou). Yadong (Changzhou) established its own production capabilities by acquiring the assets (comprising mainly factory machineries and equipment and sewage treatment system) from Changzhou Dongxia. Our Directors confirm that, as a result of such transfer, since December 2014, Changzhou Dongxia ceased to engage in the business of design and processing of textile fabrics. Yadong (Changzhou) commenced the production of textile fabrics in January 2015, and since then, it has been selling the textile fabric products it produced to its overseas customers through Yadong (Hong Kong).

During the Track Record Period, Yadong (Changzhou) procured raw materials from third party domestic suppliers and carried out the dyeing and processing activities. Upon completion of the manufacturing process, the dyed textile fabric products were then priced and physically delivered to the third party domestic customers as well as exported to third party overseas customers through Yadong (Hong Kong). Yadong (Hong Kong) was mainly responsible for solicitation and conclusion of sales transactions with overseas customers.

Commercial rationale

As confirmed by our Directors, the rationale behind the above arrangement was the general preference of overseas customers in entering into contracts with a Hong Kong incorporated entity, as compared to a PRC entity, given their preference for Hong Kong's well-established legal system and the absence of foreign exchange controls.

Transfer pricing tax implication

In order to assess whether the sales between Yadong (Changzhou) and Yadong (Hong Kong) (“**Intra-Group Transactions**”) were carried out on an arm’s length basis, we have engaged an independent Tax Adviser to conduct an analysis of the Intra-Group Transactions by benchmarking with companies comparable to Yadong (Changzhou).

According to the EIT Law and SAT Announcement [2017] No. 6, various transfer pricing methodologies can be accepted by tax authorities to analyse whether related party transactions are conducted on an arm’s length principle, and transactional net margin method (“**TNM Method**”) is one of them. The TNM Method determines the net profit of related party transactions by using profit level indicators of comparable unrelated party transactions. Profit level indicators include return on assets, operating margin, net cost plus ratio (“**NCP ratio**”), berry ratio etc. Compared to other transfer pricing methods which focus only on singular transaction, the TNM Method establishes a reasonable profit range through examining those comparable companies with similar functions in similar periods. The reasonable profit range is determined by analysing the profit level indicators of comparable companies with similar functions in similar periods. This method avoids the deadlock effect which may possibly be caused by the lack of comparability and relevant data under singular transaction. Therefore, TNM Method is considered as appropriate to be used for the benchmarking study. The method is widely accepted by tax authorities for internal processing work generally undertaken between related parties.

It is considered that the use of NCP ratio (which equals to dividing operating profit by total cost of goods sold and attributable expenses) under the TNM Method is the most appropriate method of benchmarking as it examines the operating profit of the company and divides that by the total cost which is a measure of return on costs using the total operational expenses of the company. NCP ratio often applies to sales of goods from manufacturing entities to related-party distributors. In this regard, the Tax Adviser considered that the NCP ratio under the TNM Method should be appropriate and directly related to be used for the benchmarking study.

The following principal factors were considered relevant by the Tax Adviser in selecting comparable companies for the transfer pricing analysis: (i) type of products transacted or services provided; (ii) geographic location; (iii) sufficiency of financial data; and (iv) function and risks. As such, 11 and 14 comparable companies (which are all public companies listed in the relevant and similar jurisdictions) were selected for the transfer pricing study to compare with the Intra-Group Transactions in 2017, 2018 and 2019, respectively. As our Group operates mainly in the PRC and Hong Kong, and engages in the sale of textile fabric products to Asian markets, such as Japan, Vietnam, Bangladesh and Indonesia, reference figures in similar geographic locations were used for the purposes of conducting comparable studies. The Tax Adviser is of the view, and the Sole Sponsor concurs, that the selection of the comparable companies used in the analysis of the Intra-Group Transactions is fair, reasonable and representative as (i) the comparable companies were selected from the OSIRIS database, an internationally recognised database which is generally accepted by tax authorities to extract data of exclusively public listed companies worldwide; and (ii) the selected comparable companies are independent from our Group and each other which could

BUSINESS

provide fair and impartial information for transfer pricing analysis. Specifically for the purpose of the transfer pricing analysis, the Tax Adviser selected potential comparable companies that (i) have the same Standard Industrial Classification (SIC) code, i.e. in the same industry engaging in dyeing activities similar to our Group's products categories; (ii) export the products to/distribute the products in the geographic locations similar to our Group; and (iii) have different scale of operations in terms of revenue as the analysis of transfer pricing mainly focuses on the NCP ratio, which is a ratio analysis instead of an absolute value analysis, and therefore the selected data provides a full-spectrum reflection of industrial operational circumstances, which enhances the robustness of the results of the transfer pricing analysis and would be widely accepted by the tax authorities in the respective locations.

For the three years ended 31 December 2017, 2018 and 2019, the NCP ratio of the Intra-Group Transactions was approximately 5.43%, 4.18% and 5.97%, respectively. By using the data from independent third parties extracted from the OSIRIS database, the following lower quartile, median and higher quartile of the average three-year NCP ratios of the comparable companies are identified:

	Year ended 31 December		
	2017	2018	2019 ^(Note)
Lower quartile	3.94%	3.34%	3.34%
Median	5.17%	5.18%	5.18%
Higher quartile	8.08%	11.97%	11.97%

Note: The financial data for 2019 would normally not be comprehensively available in the OSIRIS database until late October 2020. In order to facilitate the transfer pricing analysis, the average three-year NCP ratio for 2018 is applied to analyse the NCP ratio of the Intra-Group Transactions for 2019. As advised by the Tax Adviser, such methodology is an internationally accepted practice for transfer pricing analysis.

Based on the findings of the benchmarking study conducted by the Tax Adviser, it appears that the pricing basis of the transfer pricing arrangement of the Group, i.e. the NCP ratios of the Intra-Group Transactions for 2017, 2018 and 2019 were within the lower and higher inter-quartile ranges of the average three-year NCP ratios for the unrelated comparable companies. Based on the above, the Tax Adviser is of the view that the Intra-Group Transactions have properly complied with the relevant transfer pricing regulations or guidelines applicable in the PRC and Hong Kong, and the Tax Adviser is of the view that the risk of Yadong (Changzhou) being challenged of its tax positions by the relevant PRC tax authority is considerably remote, and that it is also unlikely that the IRD will initiate transfer pricing adjustment on Yadong (Hong Kong). Based on such transfer pricing analysis, our Directors are of the view that the Intra-Group Transactions were conducted in accordance with the arm's length principle from Hong Kong and the PRC perspectives.

Based on the confirmation by the Tax Adviser and the transfer pricing analysis conducted by the Tax Adviser, our Directors take the view that the transfer pricing arrangement under the Intra-Group Transactions complies with the applicable transfer pricing rules and regulations in the PRC and Hong Kong, which require related party transactions to be carried out on an arm's length basis.

Our Directors confirmed that, as at the Latest Practicable Date, Yadong (Changzhou) had completed all the relevant tax filings related to its related party transactions in compliance with the relevant PRC laws and regulations and we were not aware of any enquiry, audit or investigation by any tax authority in the PRC or Hong Kong with respect to the Intra-Group Transactions carried out by our Group.

Our Directors confirmed that Yadong (Changzhou) has not been required by any tax authority to submit contemporaneous documents relating to the related party transactions and has not received any notice from the tax authority indicating it will make a special tax adjustment in relation to transfer pricing issues for the past years. In addition, Yadong (Changzhou) obtained a compliance letter issued by and conducted an interview on 18 March 2020 with the relevant tax authorities, which are the competent tax authorities for Yadong (Changzhou)'s tax position in relation to transfer pricing as advised by our PRC Legal Advisers. A representative from Changzhou City Tianning District Tax Service of the State Taxation Administration* (國家稅務總局常州市天寧區稅務局), whom our PRC Legal Advisers confirmed had the appropriate authority for providing the relevant confirmation, confirmed in the interview that the relevant tax authority had no concerns with the related party transaction tax filings filed by Yadong (Changzhou) in 2017, 2018 and 2019, and the risk that Yadong (Changzhou) would be liable to penalties for the related party transactions in 2017, 2018 and 2019 was remote.

Measures to ensure on-going compliance

Our Group's transfer pricing arrangement is part of a normal trading operation where a transaction price needs to be established. We have implemented a general policy in this area to follow the arm's length principle and to achieve an arm's length outcome. We will regularly review the arrangements between Yadong (Changzhou) and Yadong (Hong Kong), and where necessary, appoint a tax adviser to review such transfer pricing arrangements to ensure compliance with the arm's length principle.

PROCUREMENT

Raw materials and price fluctuations

The principal raw materials for our production process comprise two broad categories, namely (i) plain weave and corduroy greige fabrics; and (ii) textile dyes and additives such as colourants and dyeing auxiliaries. We purchase our raw materials from local suppliers in the PRC. During the Track Record Period, we had not encountered any significant delays or shortages in the supply of our raw materials nor had we encountered any material disputes with our suppliers on quality issues.

During the Track Record Period, our total cost of materials amounted to approximately RMB466.1 million, RMB611.2 million, RMB596.8 million and RMB108.3 million, respectively, representing approximately 80.4%, 81.7%, 81.0% and 77.4% of our total cost of sales, respectively.

During the Track Record Period, our cost of plain weave and corduroy greige fabrics accounted for approximately 91.4%, 92.8%, 92.2% and 91.8% of our total cost of materials, respectively.

We monitor fluctuations in the prices of our raw materials closely and adjust our raw materials inventory policy in accordance with such price fluctuations as and when necessary. During the Track Record Period, we had not experienced any significant price fluctuations in relation to our raw materials. Please refer to “Financial information — Sensitivity and breakeven analysis” in this prospectus for the sensitivity analysis illustrating the impact of the fluctuations of our costs of materials on our profit before tax. We generally do not increase the prices of our textile fabric products due to a mere increase in the prices of our raw materials if such increase does not materially affect our profitability, so as to maintain good business relationships with our customers.

To minimise our exposure to price fluctuations of raw materials and to avoid delays and/or shortages in the supply of raw materials, we have implemented the following measures, including:

- (i) maintain a list of readily available alternative suppliers for each type of raw materials to reduce over-reliance on any one supplier and to avoid having any disruptions to our supply of raw materials; and
- (ii) review and monitor our inventory level of raw materials on a periodical basis.

Please refer to “Industry overview — Final product and raw material price analysis — Price trend of major raw materials” in this prospectus for further details of price trends of our raw materials.

Procurement process

Our procurement team is responsible for the purchase of raw materials and negotiation of purchase terms with our suppliers.

We normally only maintain a minimum level of greige fabrics given that greige fabrics come with different properties and textures and our need varies on a case by case basis. We generally procure most of our greige fabrics as and when needed based on our requirements and the demands of our customers after we receive purchase orders from our customers. We do not enter into long-term supply agreement, which is in line with the industry practice according to the Ipsos Report. Before we confirm our purchase, we communicate with our greige fabrics suppliers on our specific requirements of the greige fabrics, and our expected quantity and delivery time. For each purchase, we generally enter into an individual purchase contract with our greige fabrics supplier, which typically set out our specific requirements, quantity, expected delivery date, price and payment terms. As part of our design and development process, we place consideration on the qualities and features of the desired greige fabrics that will suit or complement our design for our customers. Accordingly, where necessary, our procurement team together with our sales team will coordinate with our greige fabrics suppliers in the manufacture of the greige fabrics to our requirements. Once we are satisfied that the greige fabrics meet our standards and requirements, we enter into an

individual purchase contract with our greige fabrics supplier for each of our purchases. Please refer to “Suppliers and outsourcing — Salient terms of our purchase contract for greige fabrics” in this section below for further details.

For textile dyes and additives such as colourants and dyeing auxiliaries, given that they are necessary for all our production, we normally maintain an ample level of inventories sufficient for production for around 30 days. For each purchases, we place purchase orders with our textile dyes and additives suppliers, which typically set out our specific requirements, quantity, expected delivery date, unit price and payment terms. We generally purchase textile dyes and additives based on our estimated production needs.

SUPPLIERS AND OUTSOURCING

Suppliers

We consider that it is commercially beneficial to maintain a stable and close business relationship with our suppliers. We have maintained stable business relationships with our top five suppliers for the Track Record Period ranging from one to five years. While it is our strategy to concentrate our purchases of raw materials from a few reliable suppliers so as to ensure the quality and reliability of our raw materials, we generally obtain price quotations from at least three potential suppliers and compare the pricing and terms offered by such suppliers before we place our purchases. We also maintain a list of readily available alternative suppliers for each type of raw materials to reduce over-reliance on any one supplier and to avoid having any disruptions to our supply of raw materials. To avoid any reliance on any one supplier, it is our policy that we generally will not procure from any one single supplier for more than 30% of our total purchasing needs at any one time.

Since 2018, we had been engaging Supplier F as a supplier to supply the raw materials and manufacture the textile fabric products. Supplier F sources raw materials on its own and manufactures textile fabric products in accordance with our specifications. We carry out our own design and development and finalise the product design and specifications with the apparel brand operators or our customers without the involvement of Supplier F. We are not required to obtain the consent from our customer for engaging Supplier F in such arrangement. Our personnel attend on-site at the Vietnam production plant of Supplier F for quality control and provision of technical assistance during the entire production process of the textile fabric products to ensure Supplier F’s products match our Group’s design specifications and are up to our Group’s technical and quality standards. The textile fabric products manufactured by Supplier F are then delivered by Supplier F to our customers’ designated garment manufacturers in Vietnam according to our instructions. Our Directors believe that by engaging Supplier F with its production plant in Vietnam, we are able to purchase the textile fabric products at a lower cost (mainly due to lower labour costs, raw material costs and transportation costs in Vietnam) and thereby achieve a higher margin.

We have not entered into any confidentiality agreement with Supplier F during the Track Record Period, which is in line with the industry practice according to Ipsos. In line with industry practice, there exists a mutual understanding between us and Supplier F that Supplier F should keep

all information relating to our Group confidential. Notwithstanding that Supplier F is one of our textile fabric suppliers, we consider that Supplier F will not be able to poach our customers or copy our designs on the following basis: (i) we have established a stable business relationship with our key customers and/or apparel brand operators. Throughout the whole process, only we communicate with our customer or apparel brand operator regarding order placements, sales, sample testing and quality control, while Supplier F, who lacks the product development capabilities to manufacture textile fabric products, merely engages in the production process; (ii) the orders that we outsourced to Supplier F are mainly the final products to be supplied to UNIQLO ultimately. Our Directors believe that the premise of such orders placed by UNIQLO is that our designs meet its requirements. Our Directors believe that UNIQLO has strict requirements on the quality and designs of its suppliers' products and the stability of its products and supply chain, therefore it tends not to replace its core supplier(s) easily; and (iii) as the textile fabric products for each season may change according to the characteristics of the season, fashion trends, dyeing and design needs, the ageing cycle of the design samples of popular fashion is very short.

Salient terms of our purchase contract for greige fabrics

We generally procure most of our greige fabrics as and when needed based on our requirements and the demands of our customers after we receive purchase orders from our customers. For each purchase, we generally enter into an individual purchase contract with our greige fabrics supplier. Typical salient terms of our purchase contracts for greige fabrics are set forth below:

Products purchased:	The quantity of greige fabrics purchased, specification and requirements of the greige fabrics and delivery date.
Purchase price:	The unit price and the total purchase price.
Quality standard:	The standard of quality of greige fabrics shall meet certain recognised industry standard, or alternatively, other specific standard specified by us.
Packaging requirements:	Our supplier is required to package the greige fabrics according to the packaging requirements specified by us.
Product delivery and transportation costs:	Our supplier shall deliver the greige fabrics to our premises at no additional costs.
Quality dispute:	We are entitled to raise issue about quality of the products within 30 days after delivery of the products (" Quality Dispute Period ").

Payment terms: Our supplier shall deliver to us documents such as payment application form, invoice and receipt notice as a formal request for payment. If we do not object to the quality of the products, we are required to settle the payment within one day after the expiry of the Quality Dispute Period.

If the parties have disputes over the quality of the products, the parties shall sign a quality dispute resolution report within 30 days after determining the loss, and any outstanding payment shall be settled within seven days after signing of such report.

Salient terms of framework purchase agreements for textile dyes and additives

To ensure stable supply, we generally enter into a framework purchase agreement with our textile dyes and additives suppliers. Typical salient terms of such agreement are set forth below:

Term:	In general for one year.
Quantity and price:	The quantity and price will be stated on each individual purchase order placed.
Quality requirements:	The textile dyes and/or additives shall comply with a certain standard, such as national quality standards.
Packaging and delivery:	Our supplier will be responsible for packaging the textile dyes and/or additives. The textile dyes and/or additives shall be delivered to the address specified by us. We are required to confirm our acceptance at delivery. Any quality issues identified shall be notified to the supplier in writing within 30 days of receipt of the textile dyes and/or additives. If quality issue is discovered upon usage of the textile dye and additive products, the supplier shall be liable for compensating our loss incurred as a result.
Payment terms and credit period:	Payment may be made by several methods, including bank transfer or bank acceptance bills.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not breach any of our framework purchase agreements for textile dyes and additives.

Selection criteria for suppliers

We have in place a selection criteria for suppliers of our raw materials. For every purchase of raw materials, we will obtain price quotations from at least three potential suppliers. We select our suppliers based on various factors, such as (i) product and/or service quality; (ii) pricing; (iii)

reputation in the industry; (iv) the products' compliance with the relevant laws and regulations; and (v) anticipated delivery time. We maintain a list of approved suppliers for each of our principal raw materials. Existing suppliers are also evaluated annually at the end of each year and those that meet our requirements will continue to remain on our list of approved suppliers.

Before our greige fabric suppliers commence production of greige fabrics, they are required to attend a pre-production meeting with the relevant personnel from our Group. In order to ensure that the production of our suppliers comply with our standards, we supervise and monitor the production process of our suppliers at their production sites.

During the Track Record Period and as at the Latest Practicable Date,

- (i) we did not experience any delays, shortages and/or material difficulties in obtaining any of our raw materials required for our production; and
- (ii) we did not have any material disputes with any of our suppliers.

Outsourcing

We occasionally outsource certain production processes to third party subcontractors, in particular, where (i) our Group does not possess the requisite equipment and/or techniques for such process, such as coating; and/or (ii) the quantity of the purchase order received exceeds our Group's production capacity and/or the purchase order received has to be fulfilled within a tight timeframe. All services provided by our third party subcontractors are on an ad-hoc basis. We will continue to engage such third party subcontractors as and when the need arises as described above, which we believe is in line with the industry practice.

During the Track Record Period, we had engaged a total of 31, 33, 29 and 15 third party subcontractors for the provision of textile processing services and textile dyeing services, respectively. We also maintain a list of readily available alternative subcontractors specialising in each type of process. During the Track Record Period, we had not experienced any difficulty in identifying and engaging subcontractors. Our Directors believe that there are no associated risks with outsourcing arrangements as there are a number of subcontractors available in Jiangsu province and Zhejiang province.

During the Track Record Period, our subcontracting costs amounted to approximately RMB18.8 million, RMB35.3 million, RMB29.3 million and RMB2.7 million, respectively, representing approximately 3.2%, 4.7%, 4.0% and 1.9% of our total cost of sales, respectively.

Selection procedure and relationship with subcontractors

Our sales team is responsible for the selection of subcontractors. In selecting our subcontractors, we will take into account various factors, including: (i) their expertise; (ii) quality of products/services; (iii) their current production capacity; (iv) subcontracting costs; (v) track record; and (vi) relevant qualifications (if applicable).

When assessing potential subcontractors, we will take the following steps:

- (i) request for, among others, their business licences;
- (ii) where applicable, check whether they possess the relevant certificates, permits and qualifications under the relevant PRC laws and regulations for the services to be provided by them; and
- (iii) where applicable, check whether the scope of business in such certificate, licences and/or permits cover the services to be provided by them.

We keep a copy of all the above mentioned documents provided by the potential subcontractors for our own records.

Our Directors confirm that all subcontractors that provided services to our Group during the Track Record Period were Independent Third Parties as at the Latest Practicable Date. Our Directors also confirm that during the Track Record Period and up to the Latest Practicable Date, we did not encounter any material dispute with any subcontractor that provided services to our Group.

Quality control of our subcontractors

As part of our quality control measures, we supervise and monitor the entire production process of our subcontractors at their production site. To ensure that the services provided by our subcontractors meet our standards, we apply the same quality control standards to our subcontractors as for our own production. If and where we become aware of any quality control issues during the course of our subcontractors' production, we resolve the issues with our subcontractors.

We require our subcontractors to maintain high quality standards for the services provided, and to have in place adequate occupational health, work safety and environmental protection measures that comply with the relevant PRC laws and regulations. In selecting our subcontractors, we conduct evaluation on their merits, including obtaining and reviewing their required permits relating to environmental protection, in addition to the quality of their work, their past performance and their industry reputation. We also pay visit to the production sites of our subcontractors from time to time, not only for the purpose of performing quality control over their production, but also assessing the occupational health and safety conditions provided by our subcontractors on-site as well as their production management on-the-spot, such as assessing (i) whether the employees of our subcontractors carry out the work with proper plant and equipment; (ii) whether our subcontractors will provide adequate instruction, training and supervision to their employees; (iii) whether our subcontractors have proper handling procedures for hazardous substances; and (iv) whether our subcontractors have implemented adequate first aid and fire precautionary measures. If any of our subcontractors encounter any non-compliance incidents, the relevant subcontractors shall rectify and undertake the necessary remedial actions at their own costs. We generally require such subcontractors to undertake the remedial actions regarding material non-compliance within a

reasonable time depending on the actions required of them. Upon completion of the necessary remedial actions, we will carry out the inspection to ensure that the remedial actions were performed to our satisfaction. If the corresponding subcontractor shall fail to rectify such material non-compliance within a reasonable period of time, we will re-evaluate its overall performance and compliance records and may consider to cease engaging such subcontractor for services in the future. All losses caused by or incurred by our Group as a result of such subcontractors' failure to maintain proper quality control shall be borne by such subcontractors.

Salient terms of third party subcontracting contracts

The typical salient terms of our subcontracting contracts with third party subcontractors are set forth below:

Quantity and price:	Quantity varies on a case-by-case basis. The price is usually charged at per metre basis.
Quality requirements:	Our subcontractor shall notify us when it has completed the processing of products pursuant to the contractual requirement. We will inspect the quality of the product by way of sample inspection. After inspection, if any products do not conform to our required standards, we are entitled to reject such defective products and claim against our subcontractor for consequential losses. If there is any dispute over the quality of the products, the parties may appoint an organisation mutually agreed by both parties to inspect the products and determine whether there is any defect. The fees incurred shall be borne by the party that is responsible for the defects of the products as so determined by such organisation.
Payment terms:	Payment is settled through internet banking on a monthly basis. If our subcontractor fails to deliver the products on or before the specified deadline, we are entitled to request our subcontractor to pay a penalty calculated at a rate of 0.3% of the value of the undelivered products per day.
Termination:	We are entitled to terminate the agreement forthwith and claim for loss if our subcontractor fails to process the greige fabrics in accordance with our requirements.

Top five suppliers/subcontractors

Details of our top five suppliers/subcontractors for the year ended 31 December 2017 are set forth below:

Ranking	Name of supplier/ subcontractor	Background and principal business	Location	Products or services supplied	Years of business relationship	Whether supplier/ subcontractor is also a customer (Yes/No)	Credit terms (days)	Payment method	Purchases (RMB'000)	Percentage of total purchases (%)
1	Supplier A (Notes 1 and 2)	Two companies established in the PRC whose permitted scope of business includes weaving, sales of textile products and raw materials for textile, and import and export of various commodities and technologies	Jiangsu province, the PRC	Greige fabrics	5	Yes	90	Bank transfer	160,390	32.1
2	Supplier B	A PRC company whose permitted scope of business includes the manufacturing and processing of woven clothes, sales of cotton yarns and textile products and import and export of various commodities and technologies operated by itself and as an agent	Jiangsu province, the PRC	Greige fabrics	4	No	90	Bank transfer	67,068	13.4
3	Supplier C (Notes 1 and 3)	A group of companies established in the PRC whose holding company is listed on the Shenzhen Stock Exchange and whose permitted scope of business includes sales of garments and import and export of various commodities and technologies	Jiangsu province, the PRC	Greige fabrics	5	Yes	30	Bank transfer/bank acceptance bill	44,953	9.0
4	Supplier D	A PRC company whose permitted scope of business includes the dyeing, processing, manufacturing and sales of high class textile fabrics and garments	Zhejiang province, the PRC	Greige fabrics	4	Yes	30	Bank transfer	26,458	5.3
5	Supplier E	A PRC company whose permitted scope of business includes the manufacturing, processing and sales of various greige fabrics and research and development of textile equipment and accessory technologies	Anhui province, the PRC	Greige fabrics	4	No	60	Bank acceptance bill	21,699	4.4
Total									320,568	64.2

Notes:

1. For suppliers/subcontractors which are within the same group or ultimately controlled by the same ultimate shareholder(s), they are considered as one supplier/subcontractor for the purpose of presentation and our purchase from such suppliers/subcontractors are aggregated.
2. Supplier A comprises two companies which are controlled by the same ultimate shareholders.
3. Supplier C was also one of our top five customers (Customer B) for the Track Record Period. Please refer to “Sales and marketing — Overlapping of customers and suppliers” in this section above for further details.

BUSINESS

Details of our top five suppliers/subcontractors for the year ended 31 December 2018 are set forth below:

Ranking	Name of supplier/ subcontractor	Background and principal business	Location	Products or services supplied	Years of business relationship	Whether supplier/ subcontractor is also a customer (Yes/No)	Credit terms (days)	Payment method	Purchases (RMB'000)	Percentage of total purchases (%)
1	Supplier A (Notes 1 and 2)	Two companies established in the PRC whose permitted scope of business includes weaving, sales of textile products and raw materials for textile, and import and export of various commodities and technologies	Jiangsu province, the PRC	Greige fabrics	5	Yes	90	Bank transfer	150,939	23.6
2	Supplier B	A PRC company whose permitted scope of business includes the manufacturing and processing of woven clothes, sales of cotton yarns and textile products and import and export of various commodities and technologies operated by itself and as an agent	Jiangsu province, the PRC	Greige fabrics	4	Yes	60	Bank transfer	114,415	17.9
3	Supplier F (Notes 1 and 3)	A group of companies whose holding company is listed on the Stock Exchange and whose permitted scope of business includes the manufacturing and sales of yarns, grey fabrics, garment fabrics as well as garments, with production facilities located in the PRC and Vietnam	Hong Kong, and Jiangsu province, the PRC	Greige fabrics and textile fabric products	2	No	60	Bank transfer/bank acceptance bill	79,453	12.4
4	Supplier C (Notes 1 and 4)	A group of companies established in the PRC whose holding company is listed on the Shenzhen Stock Exchange and whose permitted scope of business includes sales of garments and import and export of various commodities and technologies	Jiangsu province, the PRC	Greige fabrics	5	Yes	30	Bank transfer/bank acceptance bill	50,793	8.0
5	Supplier G	A PRC company whose permitted scope of business includes the weaving of high class textile fabrics and sales of self-produced products and domestically produced commodities procured	Jiangsu province, the PRC	Greige fabrics	5	Yes	30	Bank transfer	25,969	4.1
Total									421,569	66.0

Notes:

1. For suppliers/subcontractors which are within the same group or ultimately controlled by the same ultimate shareholder(s), they are considered as one supplier/subcontractor for the purpose of presentation and our purchase from such suppliers/subcontractors are aggregated.
2. Supplier A comprises two companies which are controlled by the same ultimate shareholders.
3. We engaged Supplier F to supply the raw materials and manufacture the textile fabric products in accordance with our specifications. Our team of personnel attended on-site at the Vietnam production plant of Supplier F for quality control and provision of technical assistance during the entire production process of the textile fabric products.
4. Supplier C was also one of our top five customers (Customer B) for the Track Record Period. Please refer to “Sales and marketing — Overlapping of customers and suppliers” in this section above for further details.

BUSINESS

Details of our top five suppliers/subcontractors for the year ended 31 December 2019 are set forth below:

Ranking	Name of supplier/ subcontractor	Background and principal business	Location	Products or services supplied	Years of business relationship	Whether supplier/ subcontractor is also a customer (Yes/No)	Credit terms (days)	Payment method	Purchases (RMB'000)	Percentage of total purchases (%)
1	Supplier B	A PRC company whose permitted scope of business includes the manufacturing and processing of woven clothes, sales of cotton yarns and textile products and import and export of various commodities and technologies operated by itself and as an agent	Jiangsu province, the PRC	Greige fabrics	4	Yes	60	Bank transfer	125,607	19.7
2	Supplier A (Notes 1 and 2)	Two companies established in the PRC whose permitted scope of business includes weaving, sales of textile products and raw materials for textile, and import and export of various commodities and technologies	Jiangsu province, the PRC	Greige fabrics and textile fabric products	5	Yes	60	Bank transfer	105,778	16.6
3	Supplier F (Notes 1 and 3)	A group of companies whose holding company is listed on the Stock Exchange and whose permitted scope of business includes the manufacturing and sales of yarns, grey fabrics, garment fabrics as well as garments, with production facilities located in the PRC and Vietnam	Hong Kong, and Jiangsu province, the PRC	Greige fabrics and textile fabric products	2	No	60	Bank transfer	80,799	12.7
4	Supplier C (Notes 1 and 4)	A group of companies established in the PRC whose holding company is listed on the Shenzhen Stock Exchange and whose permitted scope of business includes sales of garments and import and export of various commodities and technologies	Jiangsu province, the PRC	Greige fabrics	5	Yes	30	Bank transfer	53,421	8.4
5	Supplier H (Notes 1 and 5)	A group of companies established in the PRC whose permitted scope of business includes sales of textile products and knitwear	Henan province, the PRC	Greige fabrics	1	Yes	30	Bank transfer	29,895	4.7
Total									395,500	62.1

Notes:

1. For suppliers/subcontractors which are within the same group or ultimately controlled by the same ultimate shareholder(s), they are considered as one supplier/subcontractor for the purpose of presentation and our purchase from such suppliers/subcontractors are aggregated.
2. Supplier A comprises two companies which are controlled by the same ultimate shareholders.
3. We engaged Supplier F to supply the raw materials and manufacture the textile fabric products in accordance with our specifications. Our team of personnel attended on-site at the Vietnam production plant of Supplier F for quality control and provision of technical assistance during the entire production process of the textile fabric products.
4. Supplier C is also one of our top five customers (Customer B) for the Track Record Period. Please refer to “Sales and marketing — Overlapping of customers and suppliers” in this section above for further details.
5. A member of Supplier H is jointly owned by one of our suppliers and one of our customers during the Track Record Period as to 51% and 24.5%, respectively.

BUSINESS

Details of our top five suppliers/subcontractors for the four months ended 30 April 2020 are set forth below:

Ranking	Name of supplier/ subcontractor	Background and principal business	Location	Products or services supplied	Years of business relationship	Whether supplier/ subcontractor is also a customer (Yes/No)	Credit terms (days)	Payment method	Purchases (RMB '000)	Percentage of total purchases (%)
1	Supplier B	A PRC company whose permitted scope of business includes the manufacturing and processing of woven clothes, sales of cotton yarns and textile products and import and export of various commodities and technologies operated by itself and as an agent	Jiangsu province, the PRC	Greige fabrics	4	Yes	60	Bank transfer/bank acceptance bill	41,955	26.8
2	Supplier A (Notes 1 and 2)	Two companies established in the PRC whose permitted scope of business includes weaving, sales of textile products and raw materials for textile, and import and export of various commodities and technologies	Jiangsu province, the PRC	Greige fabrics and textile fabric products	5	Yes	60	Bank transfer	30,646	19.6
3	Supplier F (Notes 1 and 3)	A group of companies whose holding company is listed on the Stock Exchange and whose permitted scope of business includes the manufacturing and sales of yarns, grey fabrics, garment fabrics as well as garments, with production facilities located in the PRC and Vietnam	Hong Kong, and Jiangsu province, the PRC	Greige fabrics and textile fabric products	2	No	60	Bank transfer	25,321	16.2
4	Supplier I (Notes 1 and 4)	A group of companies established in the PRC whose permitted scope of business includes weaving and sales of knitwear, raw materials for textile as well as garments and accessories	Jiangsu province, the PRC	Greige fabrics	5	Yes	90	Bank transfer	13,937	8.9
5	Supplier C (Notes 1 and 5)	A group of companies established in the PRC whose holding company is listed on the Shenzhen Stock Exchange and whose permitted scope of business includes sales of garments and import and export of various commodities and technologies	Jiangsu province, the PRC	Greige fabrics	5	Yes	30	Bank transfer	13,169	8.4
Total									125,028	79.9

Notes:

1. For suppliers/subcontractors which are within the same group or ultimately controlled by the same ultimate shareholder(s), they are considered as one supplier/subcontractor for the purpose of presentation and our purchase from such suppliers/subcontractors are aggregated.
2. Supplier A comprises two companies which are controlled by the same ultimate shareholders.
3. We engaged Supplier F to supply the raw materials and manufacture the textile fabric products in accordance with our specifications. Our team of personnel attended on-site at the Vietnam production plant of Supplier F for quality control and provision of technical assistance during the entire production process of the textile fabric products.
4. Supplier I comprises three companies which are controlled by the same ultimate shareholders.
5. Supplier C is also one of our top five customers (Customer B) for the Track Record Period. Please refer to “Sales and marketing — Overlapping of customers and suppliers” in this section above for further details.

BUSINESS

During the Track Record Period, our materials were supplied by a total of 136, 138, 156 and 96 suppliers, respectively. All of our top five suppliers/subcontractors during the Track Record Period were Independent Third Parties as at the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date,

- (i) we did not experience any material difficulties in obtaining any of our raw materials required for our productions processes in a timely manner;
- (ii) we did not have any material disputes with any of our suppliers; and
- (iii) to the best of our Directors' knowledge and belief, 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/subcontractors.

INVENTORY CONTROL AND MANAGEMENT

Our Group has in place an inventory management system that tracks all incoming and outgoing inventories so as to ensure that an optimal inventory level is maintained at all times to satisfy the needs of our customers without over stocking. We carry out stocktake on a yearly basis and as and when necessary.

Our inventories comprise (i) raw materials; (ii) work-in-progress; and (iii) finished goods. Our raw materials mainly comprise greige fabrics, textile dyes and additives. Our work-in-progress mainly comprises our partially processed products that have not completed all the finishing procedures yet. Our finished goods mainly comprise our final textile fabric products that are ready to be delivered to our customers.

We generally produce our textile fabric products largely on individual purchase contract basis. Accordingly, we generally purchase greige fabrics as and when needed based on our requirements and after our customers place purchase orders with us. For textile dyes and additives, given that they are necessary for all our production, we generally purchase the same based on our estimated production needs. We normally only maintain a minimum level of greige fabrics and an ample level of textile dyes and other additives sufficient for production for around 30 days.

As at 31 December 2017, 2018 and 2019 and 30 April 2020, our inventories amounted to approximately RMB68.7 million, RMB54.6 million, RMB65.6 million and RMB109.4 million, respectively. During the Track Record Period, our average inventory turnover days were approximately 41.1 days, 30.1 days, 29.8 days and 75.7 days, respectively. For further details of our inventories, please refer to "Financial information — Discussion of selected items of consolidated statements of financial position — Inventories" in this prospectus. As at the Latest Practicable Date, approximately RMB104.5 million (or approximately 95.5%) of our inventories as at 30 April 2020 was subsequently consumed or sold.

BUSINESS

Given that we generally produce our textile fabric products based on our customers' demands and we purchase greige fabrics only after we receive purchase orders from our customers, we did not provide for impairment loss on inventories during the Track Record Period.

QUALITY CONTROL

We believe that the reliability and quality of our textile fabric products are crucial to the success of our Group. As such we have implemented quality control procedures covering all aspects and stages of our production process, from the procurement of raw materials to the delivery of finished products, so as to ensure the consistent production of high quality products. We have adopted a quality management system to ensure strict quality control of our textile fabric products at each and every stage of our production process. We believe that our high quality control standards enable us to maintain a low level of product reprocessing.

Our quality control measures, including product inspections and testings, are conducted by our in-house quality control team. The majority of our personnel on the quality control team have at least 10 years of experience in the textile industry. The team is responsible for conducting pre-production inspection, overseeing the quality control during the production, checking the quality of our finished goods before storage and inspecting our finished goods before delivery.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not receive any material claims or complaints by our customers in respect of the quality of our products, and there was no incident of failure of our quality control systems that had a material and adverse impact on our business operations.

Quality assurance standards

There were no national quality assurance standards applicable to our Group which must be complied with on a mandatory basis as at the Latest Practicable Date. We have complied with internationally/nationally recognised quality assurance standards and have obtained the following certifications:

Quality assurance standard	Particulars	Validity period
ISO9001:2015 GB/T 19001-2016	Quality management system in the area of dyeing and finishing of 100% cotton, T/C blending, ramie, linen blending plain cloth and corduroy	21 June 2018 to 9 July 2021

BUSINESS

Quality assurance standard	Particulars	Validity period
STANDARD 100 by OEKO-TEX® Certificate	Testing for harmful substances with direct contact to skin ^(Note) . The articles that are granted authorisation to use STANDARD 100 by OEKO-TEX® mark include but not limited to woven fabrics (including corduroy fabrics) made of 100% cotton, cotton/spandex, cotton/viscose/spandex, TENCEL®/spandex, cotton/polyester/spandex, cotton/linen, cotton/polyamide/spandex and viscose/polyester, piece-dyed (reactive, VAT, neutral or disperse), reactive printed and finished	14 January 2020 to 31 January 2021
ISO14001:2015 GB/T 24001-2016	Environmental management system in the area of dyeing and finishing of 100% cotton, T/C blending, ramie, linen blending plain cloth and corduroy and related management activities	15 June 2018 to 16 July 2021

Note: The products listed meet the human-ecological requirements of the STANDARD 100 by OEKO-TEX® established for products with direct contact to skin, which are in force when issuing the certificate. The certified articles fulfil requirements of Annex XVII of REACH under STANDARD 100 by OEKO-TEX® as well as the U.S. requirement regarding total content of lead in children's articles.

As confirmed by our PRC Legal Advisers, in consideration of the written confirmation from the competent authority, Yadong (Changzhou) was not subject to any material administrative penalties for failing to comply with the laws and regulations relating to quality supervision in the PRC during the Track Record Period.

In recognition of our quality control and our compliance with certain standards, we have also obtained the following certificates:

Awarding party	Certificate	Particulars	Validity period
UNIQLO	Laboratory Accreditation Certificate	In recognition of quality control of the products meeting the following standards: <i>Colour fastness test</i> — relating to, among others, colour fastness to light, washing, perspiration, rubbing and bleeding <i>Physical test</i> — relating to, among others, change in dimension, seam slippage and pH value	1 January 2016 to 31 December 2020

BUSINESS

Awarding party	Certificate	Particulars	Validity period
The Control Union Certifications B.V.	Certificate of Compliance	In compliance with the relevant environmental and toxicological criteria relating to trading, dyeing, printing and finishing laid down by the Global Organic Textile Standard (GOTS) version 5.0 for certain organic cotton products	26 October 2020 to 25 October 2021
China classification society certification company	Integration of Informationisation and Industrialisation Management system certificate	In recognition of integration of informationisation and industrialisation management system (GB/T23001/2017) in respect of quality control system	5 December 2019 to 5 December 2022

Quality control process

To ensure that our products meet the high standards required by our customers, we subject all our textile fabric products to comprehensive in-house quality control monitoring and testing at every stage of the production process. Our quality control measures mainly comprise the following:

1. *Raw materials*

The quality of our raw materials will affect the overall quality of our final textile fabric products. Depending on the desired features and functionalities of our finished products, we place great emphasis on the qualities and features of the underlying greige fabrics to be used for our products. Before we place orders with our greige fabrics suppliers, we communicate with them on our specific standards and requirements. We coordinate with our greige fabrics suppliers in the manufacture of the greige fabrics to ensure that the fabrics meet our requirements before we place orders with them. Once we have placed purchase orders with our suppliers, we will also carry out on-site inspection to monitor their production of our greige fabrics. We perform random inspections on samples of incoming greige fabrics and other raw materials before confirming our acceptance of such raw materials.

As to textile dyes and/or additives, we provide our suppliers with a guideline on the forbidden or controlled chemicals and the relevant national and international standards required in the production of our dyes and/or additives, and obtain written confirmations from our suppliers to ensure that the products they supply do not contain any forbidden chemicals or controlled chemicals the amounts of which exceed certain levels as stipulated in the relevant national and international standards.

2. *Production process and/or semi-finished products*

Quality inspections and testing are performed at every stage of our production process and semi-finished products. We rely on the expertise of our experienced staff, and technical testing machineries and equipment to carry out our quality control procedures. Our production personnel will inspect our products at each stage. We conduct a range of different quality

control tests to inspect various attributes in our products, such as testing for colour fastness to light and washing, tensile strength and stretch percentage. Our products will move on to the next production stage only when the result of inspection is satisfactory.

We have been awarded the Laboratory Accreditation Certificate by UNIQLO since 2016 for carrying out certain quality control tests in accordance with UNIQLO's testing methods.

3. *Finished products*

Our finished textile fabric products are all subject to a final inspection and random sample checking to ensure that they comply with all necessary quality standards and/or product specifications requested by our customers for use in their own production processes. Finished textile fabric products that do not meet the relevant quality standards and/or product specifications are either reprocessed or disposed of or sold at a discounted price to manufacturers who may have other uses for such sub-standard final products. If the sub-standard finished product is reprocessed, it will be subject to the same quality checks and inspections again.

EFFECTS OF THE COVID-19 OUTBREAK

Effects of the COVID-19 outbreak on our business operations

An outbreak of respiratory illness caused by a novel coronavirus (COVID-19) first emerged in January 2020 and continues to expand globally. The new strain of coronavirus is considered highly contagious and a serious public health threat. As at the Latest Practicable Date, COVID-19 had spread to over 200 countries and territories around the world with confirmed cases of more than 40 million and over one million deaths recorded all over the world. The death toll from the COVID-19 pandemic and the number of infected cases continue to rise. With an aim to contain the COVID-19 pandemic, draconian measures have been imposed within the PRC and globally, including the closing of national borders in various countries, the lockdowns of a vast number of cities across the world, travel restrictions, extensive suspension of business operations and mandatory quarantine requirements on infected individuals and anyone deemed potentially infected.

The COVID-19 pandemic, which has resulted in unprecedented shutdowns in many countries, is having a severe impact on the global economy. Advanced and developing countries are expected to suffer recession. In June 2020, the IMF forecasted that the global economy will contract by approximately 4.9% in 2020 but expects global growth to rebound to approximately 5.4% in 2021 on the assumptions about the fallout from the COVID-19 pandemic, in particular it is projected that the economy of the countries of advanced economies (such as the U.S., the Euro Area, Japan and the U.K.) will contract severely by approximately 8% or more whereas the economy of China will experience growth of approximately 1% in 2020. The PRC, which was the first country hardest-hit by the COVID-19 pandemic, started to ease the nationwide restrictions since late March 2020 and has since been gradually resuming operations and economic activities to full scale. While the European countries, the U.S. and other countries were still at the acute phases of the COVID-19 pandemic as at the Latest Practicable Date, the PRC appeared to have controlled the pandemic and

is ahead on the recovery path. According to the IMF, the latest indices from purchasing manager surveys (PMIs) are pointing to sharp slowdowns in manufacturing output in many countries, reflecting drops in external demand and growing expectations of declining domestic demand, while the PRC, on a positive note, is seeing a modest improvement in its PMI after sharp declines early in 2020, despite weak external demand. The extreme containment measures imposed by the governments around the world to curb the spread of COVID-19 is causing severe disruption to international trade and supply chain.

Among others, the global retail industry is hard hit by the COVID-19 pandemic although unevenly depending on the nature of goods and items sold. Our Directors are of the view, and Ipsos concurs, that while the demand for fashion and/or luxurious brand apparels may decline, the demand for basic essential and affordable clothing consumables would not be as significantly affected by the economic downturn as other luxurious brands. It is expected that there will be a change of consumer behaviour and preference as a result of the global recession consequent to the COVID-19 pandemic, leading to an increased demand for essential clothing consumable which are more affordable. Our Directors are of the view, and Ipsos concurs, that the market for essential and affordable clothing consumables, which our end-customers are engaging in, would likely revive quicker than other apparel brand operators from the impact of the COVID-19 pandemic. According to Ipsos, the market value of the dyeing and finishing industry in China is expected to decrease from 2019 to 2020, mainly attributable to the drop in the demand for apparel in both domestic and export markets given the COVID-19 pandemic. However, it is expected that such adverse impact of COVID-19 pandemic is not to persist given that the pandemic is expected to gradually under control, especially in some Asian countries, and a recovery in retail market has been taking place in the domestic market in China since March 2020 according to Ipsos. The retail market of apparel in China has also witnessed a recovery since April 2020 and the market value of the dyeing and finishing industry in China is projected to recover with the more positive outlook at an annual increase of approximately 12.8% and 7.2% in 2021 and 2022, respectively, supported by the substantial domestic demand and the continued maturation and accelerated shift to the online retail channels across the world. Please refer to “Industry overview — Overview of the textile dyeing and finishing industry — China” in this prospectus for the industry data substantiating the recovery of the domestic retail market of the PRC and the demand for essential and affordable clothing consumables.

Global recession, economy slowdown and/or negative business sentiment would inevitably have an indirect adverse impact on all industries, including the textile industry and our business operations and financial condition may as a result be adversely affected. Please refer to “Risk factors — Our business operations may be affected by the COVID-19 pandemic” in this prospectus for further details.

Our production facilities are located in Changzhou city, Jiangsu province, the PRC, which is one of the areas in the PRC hit by the COVID-19 pandemic. Our production experienced a temporary suspension for approximately one week after the Lunar New Year break as a result of the mandatory suspension of operations imposed by the local PRC government in early February 2020. We have gradually resumed our operations immediately upon our receipt of the consent to work resumption from the local PRC government dated 9 February 2020. We were able to resume our operations to almost full-scale since early March 2020 and to full-scale by the end of March 2020,

given that our workforce was affected by the travel restrictions implemented by the local PRC governments across various provinces and regions in the PRC as part of the measures to curb the spread of the COVID-19.

Since the outbreak of COVID-19 in early 2020 and up to the Latest Practicable Date, we had not encountered any material disruption to the supply of raw materials from our suppliers or the provision of services by our subcontractors. Our Directors consider that while the COVID-19 pandemic is causing major disruptions to the supply chains in all industries, our Directors do not expect that our Group will encounter any material disruption to our supply chain given that except for Supplier F, all our suppliers and subcontractors are located within the PRC, and most if not all of our major suppliers had resumed their production activities as at the Latest Practicable Date. Meanwhile, as most of our major suppliers and subcontractors are located in Jiangsu province, the PRC and we maintain a list of readily available alternative suppliers/subcontractors to reduce over-reliance on any one supplier/subcontractor, our Directors are of the view that we would be able to secure other supplier/subcontractor in time in case some of our existing suppliers/subcontractors are unable to resume full operations and/or unable to deliver their products or provide their services to us in a timely manner. Further, since the outbreak of COVID-19 and up to the Latest Practicable Date, there had not been any material disturbance in delivery of our products to our customers.

Based on our unaudited consolidated management accounts for the eight months ended 31 August 2019 and 2020 and the information currently available to us, there was a decrease in our revenue and gross profit for the eight months ended 31 August 2020 by approximately 17.7% and 6.1%, respectively, as compared to our revenue and gross profit for the eight months ended 31 August 2019, which was primarily attributable to the impacts of the COVID-19 pandemic. We also recorded a decrease in our overall sales volume by approximately 17.5% from approximately 31.4 million metres for the eight months ended 31 August 2019 to approximately 25.9 million metres for the eight months ended 31 August 2020. Our Directors believe that the decrease was primarily attributable to the suspension of most non-essential businesses (including garment manufacturing businesses) in the PRC from February to mid-March 2020 in response to the COVID-19 outbreak, resulting in a delay of approximately one and a half month in the resumption of business of our regular customers and therefore a corresponding delay in the placement of orders by our regular customers. We anticipate that our production schedule or volume would be affected for a certain period of time due to the COVID-19 pandemic causing a negative impact on our Group's production and sales volume.

BUSINESS

The amount and the volume of our Group's confirmed orders, delivered orders and backlog orders in respect of orders received by our Group for our textile fabric products and processing services as at the Latest Practicable Date are set forth below:

Volume of confirmed orders	Amount of confirmed orders	Volume of delivered orders for the period from 1 January 2020 to the Latest Practicable Date	Amount of delivered orders for the period from 1 January 2020 to the Latest Practicable Date	Volume of backlog orders	Amount of backlog orders
(million metres)	(RMB million)	(million metres)	(RMB million)	(million metres)	(RMB million)
35.0	601.3	27.9	482.5	7.1	118.8

For the period from 1 January 2020 to the Latest Practicable Date, we had received purchase orders from our customers for our textile fabric products in the aggregate amount of approximately 35.0 million metres (or approximately RMB601.3 million), which was relatively stable compared with the same period of 2019. We recorded backlog orders of approximately 7.1 million metres (or approximately RMB118.8 million) as at the Latest Practicable Date. Our Directors confirm that as at the Latest Practicable Date, none of our customers have cancelled their purchase orders placed, and most of our major customers have indicated that they have no intention to cancel or substantially reduce their purchase orders for the year of 2020.

We anticipate a decrease in our forecasted profit for the year ending 31 December 2020 primarily attributable to an expected decrease in our revenue and gross profit, which is mainly in line with the expected decrease in our sales volume in 2020 by approximately 13.5% as compared to that in 2019 (whilst the average unit prices of our products are estimated to remain relatively stable) due to the impact brought about by the COVID-19 pandemic and after taken into account our estimated non-recurring listing expenses of approximately RMB21.0 million for the year ending 31 December 2020. Based on the amount of confirmed orders placed by the garment manufacturers or sourcing agents of UNIQLO (i.e. our customers) with our Group up to 9 October 2020, which was approximately RMB47.3 million (or approximately 2.8 million metres) more than that for the same period of 2019, we anticipate that the amount of orders placed by the garment manufacturers or sourcing agents of UNIQLO (i.e. our customers) with our Group for the year ending 31 December 2020 will be at least approximately RMB50.0 million more than that for the year ended 31 December 2019, and that the contribution by UNIQLO through its designated garment manufacturers or sourcing agents (i.e. our customers) to our Group's revenue for the year ending 31 December 2020 will be at least approximately 15.9% higher (in terms of sales amount) than that for the year ended 31 December 2019. In light of the aforesaid industry and market outlook, we, however, do not expect that such downward trend will be material or that the impact of the COVID-19 pandemic on our operations or sales volume will be long-lasting given that (i) we have resumed our operations to almost full-scale (including manufacturing, delivery of products and sales) since early March 2020 and to full-scale by the end of March 2020; (ii) should there be a chance of delay in the delivery of our products to our customers, we would liaise and negotiate with our customers as soon as possible in order to minimise the damage that our customers may suffer therefrom, including exploring different ways of logistics arrangement and agreeing on a later

date of delivery; and (iii) the PRC has been gradually resuming economic activities to full scale. In view of the above, our Directors are of the view that our Expansion Plans as discussed in “Business strategies” in this section remain feasible, and it is unlikely that we would change the use of our net proceeds from the Share Offer as a result of the COVID-19 pandemic. To the best of our Directors’ knowledge, no material disagreement or dispute had arisen with our customers in relation to our product delivery arrangement up to the Latest Practicable Date.

In view of the foregoing and the fact that there had not been any material disturbance in delivery of our products to our customers since the outbreak of COVID-19 and up to the Latest Practicable Date, our Directors are of the view that we shall be able to deliver our products to our customers on agreed terms for the year ending 31 December 2020. While our Directors believe that the COVID-19 pandemic will have a certain extent of negative impact on our business operations and/or our financial performance for the year ending 31 December 2020, such impact will not be material or long-lasting. In the unlikely event that we are to reduce or suspend part of our business operations for a prolonged period of time, whether due to government policy or any other reasons beyond our control, as a result of the COVID-19 pandemic, we estimate that our existing financial resources (including bank balances and cash) as at 31 August 2020 could support our operations for approximately 29 months in the worst case scenario. Our key assumptions of the worst case scenario where our business is forced to be suspended due to the impact of COVID-19 include (i) we will not generate any income due to the suspension of business; (ii) according to our unaudited consolidated management accounts for the eight months ended 31 August 2020, we had bank balances and cash of approximately RMB31.9 million as at 31 August 2020; (iii) our trade and bills receivables as at 31 August 2020 will be settled at the average subsequent settlement rate during the period from February to April 2020, when the impact brought about by the COVID-19 pandemic was serious; (iv) we will be required to settle our trade and bills payables as at 31 August 2020 at the average subsequent settlement rate during the period from February to April 2020, when the impact brought about by the COVID-19 pandemic was serious; (v) all of our Directors and staff, including operational and administrative staff, are encouraged to take unpaid leave under mutual consent, or be paid by 80% of local minimum wage from the second month of suspension (as advised by our PRC Legal Advisers, the current minimum wage applicable in Changzhou Tianning District is RMB2,020 per month, and according to relevant regulations on wage payment of Jiangsu Province, if the employer does not arrange the employees to work during the shutdown or suspension, it shall also pay living expenses to the employees at no less than 80% of local minimum wage standard after one month of suspension) which in aggregate amounts to approximately RMB0.8 million per month; (vi) we will not dismiss any of our staff; (vii) rental payments and other miscellaneous charges in the aggregate amount of approximately RMB0.3 million per month will be paid in connection with our leased premises during the period of our business suspension; (viii) our minimal operating and administrative expenses in the aggregate amount of approximately RMB0.6 million per month will be incurred to maintain our operations at a minimum level (including basic maintenance cost and utilities expenses); (ix) we will incur the payment of interests and guarantee fee in an aggregate amount of approximately RMB0.6 million per month; (x) there will be no further internal or external financing from our Shareholders or financial institutions except for the renewal of the current borrowings upon maturity; (xi) no further dividend will be declared and paid under such situation; and (xii) the availability of approximately

HK\$9.6 million (representing approximately 10.0% of the net proceeds from the Share Offer based on the mid-point of the indicative Offer Price range of HK\$0.96 per Offer Share and assuming the Over-allotment Option is not exercised) as our general working capital.

Our Directors will continue to assess the impact of the COVID-19 pandemic on our Group's operations and financial performance and closely monitor our Group's exposure to the risks and uncertainties in this connection. We will take appropriate measures as necessary and inform our Shareholders as and when necessary.

Our contingency plan and response towards the COVID-19 outbreak

Contingency plan

As disclosed above, to avoid having any disruptions to our supply of raw materials, we maintain a list of readily available alternative suppliers/service contractors for each type of raw materials/process for our production. Our Directors believe that, while the business operations of our suppliers and subcontractors are likely to be affected to a certain extent by the COVID-19 pandemic and therefore may experience certain extent of supply/production shortage or instability, given the availability of readily available alternative suppliers/service contractors, it is unlikely that our business operations will be materially disrupted by any shortage and/or instability of our supplies and/or subcontracting services. Nevertheless, in response to the COVID-19 pandemic, we have formed an anti-epidemic and infection control committee with an aim to formulating a contingency plan to combat and prevent the spread of COVID-19 within our premises and to minimise the disruptions that may be caused to our business operations. Such plan includes (i) identification of and discussions with suitable alternative raw material suppliers which meet our demands and requirements to ensure the stability and consistency of our production; (ii) identification of suitable and readily available subcontractors to whom we can outsource certain production processes in case we cannot fulfil our customers' purchase orders in a timely manner; and (iii) maintaining close and on-going communication and negotiation with our customers should there be a chance of delay of delivery of our products in order to reach a consensus with our customers on alternative delivery arrangements.

Enhanced precautionary measures

We have also adopted enhanced hygiene and precautionary measures within our premises, including but not limited to (i) frequent sterilisation within our premises; (ii) distribution of surgical masks and relevant sanitising products to our staff; (iii) implementation of temperature measurement for all staff each day before they enter our premises; (iv) requiring all staff to report on their whereabouts during the period of 14 days immediately preceding their resumption of work for tracking; and (v) prohibition of entering into our premises by any individual without clearance. As at the Latest Practicable Date, there had been no confirmed cases of COVID-19 infection of our staff members. With the best estimate and belief of our Directors and based on the latest information currently available to our Directors, it is expected that we may incur additional costs of approximately RMB0.2 million for the year ending 31 December 2020 to implement these enhanced

measures. Our Directors confirm that the additional costs associated with the enhanced measures would not have a significant impact on our Group's financial position for the year ending 31 December 2020.

MARKET AND COMPETITION

According to the Ipsos Report, the market for the textile dyeing and finishing industry in the PRC is fragmented, with many small and medium size service providers present. In 2019, the top five service providers in the PRC only accounted for a market share of approximately 6.4% of the total market value. However, the industry is currently experiencing a consolidation, which is partially due to the stricter environmental regulations implemented in the PRC, which increases the operating costs of existing service providers whilst discouraging potential new entrants to the industry.

The industry's market value is forecasted to grow steadily at a CAGR of approximately 7.3% during the forecast period from 2020 to 2024. This is driven mainly by the reduction of outdated production facilities and excess production capacity, and the increasing application of automation equipment.

According to the Ipsos Report, the entry barriers to the textile dyeing and finishing industry are relatively high. New entrants to the industry require a significant sum of initial capital investment for production equipment and waste treatment plants. Additionally, service providers need to continuously upgrade or replace existing machineries and equipment to fulfil customers' rapidly changing requirements and remain competitive. Before entering the industry, new entrants need to comply with both national and provincial environmental regulations or specifications to obtain the necessary permits. To meet the aforementioned requirements, new entrants may require time to apply for the relevant permits, and need to commit a large initial investment. Furthermore, given the presence of a large number of textile dyeing and processing service providers in the PRC, it can be difficult for customers to distinguish service providers who are able to manufacture high quality goods and provide good customer service. Hence, reputation is one of the key competition factors in the textile dyeing and finishing industry.

Our Directors consider that the reputation and credibility that we have built over the years, our strong design and development capabilities and the high quality and timely delivery of our textile fabric products are the keys factors for our Group to remain competitive in the textile dyeing and finishing industry in the PRC.

Please refer to "Industry overview" in this prospectus for further details of the competitive landscape of the textile dyeing and finishing industry in the PRC.

INSURANCE

We maintain insurance coverage for our production plant, production facilities and inventories.

BUSINESS

We maintain third party liability insurance in relation to, among others, employer liabilities and vehicles. During the Track Record Period, our Group incurred approximately RMB0.5 million, RMB0.4 million, RMB0.4 million and RMB0.4 million, respectively, for insurance premium payments (excluding social insurance and housing provident fund contributions). Please refer to “Employees — Social insurance and housing provident fund contributions” in this section for further details.

It is not mandatory under the relevant PRC laws and regulations to maintain, and we do not maintain, among others, any business interruption insurance and product liability insurance.

Our Directors consider our existing insurance coverage to be in line with industry practice and is generally sufficient for businesses of our scale and type. Our Directors and senior management will also regularly review the risks relating to our business operations and adjust our insurance coverage accordingly from time to time.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, (i) save for the disruption to our business operations due to the outbreak of COVID-19 as disclosed in “Effects of the COVID-19 outbreak” in this section, we did not experience any material business interruption; (ii) we had not made any material insurance liability claims; and (iii) we had not received any material claims from third parties in relation to the use of our products or third party liability.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we owned one copyright, 15 utility model patents, six design patents, one invention patent, 11 registered trademarks and one domain name in the PRC, and one registered trademark and one domain name in Hong Kong. As at the Latest Practicable Date, we had made applications for three invention patents in the PRC which are still pending registration.

To protect our intellectual property rights, we have entered into confidentiality and non-compete agreements with members of our senior management, employees of the design and development team and technical support team and/or other employees who have access to secrets or confidential information of our Group. The confidentiality and non-compete agreements prohibit such members of our senior management and/or the relevant employees from (i) disclosing confidential information of our Group such as technology know-how and trade secrets acquired or generated during the course of their employment with us; and (ii) engaging in activities and/or business that may potentially compete with our Group.

In addition to confidentiality and non-compete agreements, we will keep track of the validity period of our registered intellectual property rights and carry out renewal procedures if necessary.

To the best of our Directors' knowledge and belief, during the Track Record Period and up to the Latest Practicable Date, we were not involved in any disputes or litigation relating to the infringement of intellectual property rights, nor are we aware of any such claims either pending or threatened.

For more information about our registered intellectual property and intellectual property applications, please refer to "B. Further information about our business — 2. Intellectual property rights" in Appendix V to this prospectus.

DESIGN AND DEVELOPMENT

We place great emphasis on our in-house product design and development capabilities as we believe that it will enable us to maintain our market position and allow us to compete effectively with leading players in the textile industry. We do not only respond to our customers' specific product requirements, we also take initiative to offer our self-designed and self-developed textile fabrics of different designs, textures and/or functionalities to our customers and the apparel brand operators. Our design and development capabilities fall into two main categories (i) design and development of new textile fabric products; and (ii) market research relating to unexplored markets within the textile industry.

Our design and development team is responsible for our product design and development together with our sales and marketing team and production and quality control team. As at the Latest Practicable Date, our design and development team comprised 31 personnel. Our design and development activities include market research and development of new textile fabric products. The majority of our personnel performing research and development activities have at least 10 years of experience in the textile industry.

Our laboratory is located inside our production plant in Changzhou city, Jiangsu province, the PRC. Our laboratory is equipped with systems and machineries to carry out necessary testing, design and development in carrying out our product design and development functions, including but not limited to, lab dips, a process to find out the formula that creates the best colour match for a particular quality of fabrics, such as Datacolor 600, GretagMacbeth Colour Eye 7000 and GretagMacbeth Spectralight. Additionally, we utilised machineries and equipment to conduct our quality control tests. Please refer to "Quality control — Quality control process" in this section for further details of our quality control process.

We believe that strong design and development capabilities, product innovations and a portfolio of diversified products are the key to success in the textile industry. We plan to devote more resources to strengthen our design and development capabilities for the development of new dyeing and processing techniques and technologies. We intend to build another design and development centre within the new premises that is currently under construction on our owned land in Changzhou city, Jiangsu province. We also intend to expand our design and development efforts by building up a designated design and development team with additional personnel with relevant experience and technical knowledge. Please refer to "Business strategies — Continue to devote resources for our product development capabilities" in this section for more details.

BUSINESS

During the Track Record Period, our design and development expenses amounted to approximately RMB5.2 million, RMB6.1 million, RMB6.7 million and RMB1.5 million, respectively. Our design and development expenses mainly represented (i) the salaries and other benefits paid to our design and development personnel; and (ii) the materials and supplies used for our design and development activities.

LAND AND PROPERTY INTERESTS

As at the Latest Practicable Date, we owned, occupied and leased the following properties in the PRC.

Owned properties

As at the Latest Practicable Date, we owned the land use rights of one parcel of land in the PRC with an exclusive use area of approximately 8,950.0 sq.m. Details of our owned properties are set forth below:

<u>Owner</u>	<u>Location</u>	<u>Exclusive use area sq.m.</u>	<u>Permitted use</u>	<u>Expiry date of land use right</u>
Yadong (Changzhou)	Zhongwu Avenue North Side, Daming South Road East Side, Changzhou city, Jiangsu province, PRC* (中 國江蘇省常州市中吳大道北 側, 大明南路東側) ("Owned Land")	8,950.0	Industrial use	27 September 2064

The properties listed above are used by us for non-property activities as defined under Rule 5.01(2) of the Listing Rules. As at 30 April 2020, no single property interest that forms part of our non-property activities has a carrying amount of 15.0% or more of our total assets. According 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 Chapter 5 of the Listing Rules and section 342(1)(b) of the Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (WUMP) Ordinance, and accordingly, no valuation report is required to be included in this prospectus with respect to our Group's interests in land or buildings.

According to our PRC Legal Advisers, we have obtained the land use right certificate of the Owned Land and own the full legal rights to use and assign the same.

We intend to build our own premises which are mainly used for production and design and development (the "Premises") with a total gross floor area of approximately 24,661.5 sq.m. on the Owned Land and designate certain areas within the building as our design and development centre. We intend to relocate our sampling team, testing team and quality control team, together with the relevant facilities to our new design and development centre. We also plan to gradually introduce new machineries and equipment used for the design and testing of products in anticipation of our business development, which will be funded by our internal resources in the future. The Premises,

however, are not expected to accommodate the new machineries to be acquired with the proceeds from the Share Offer. Our Directors confirm that such intended uses conform with the permitted usage of the Owned Land. As at the Latest Practicable Date, we had obtained the planning permit for construction use of land* (建設用地規劃許可證), planning permit for construction project* (建設工程規劃許可證) and the construction permit for construction project* (建築工程施工許可證) from the relevant PRC government authority. The construction of the Premises commenced in November 2018, but had been suspended since the Lunar New Year holiday in 2020 due to the outbreak of COVID-19 until Yadong (Changzhou) completed the construction resumption registration with the local government in Tianning District, Changzhou city, on 4 March 2020. We expect that the construction will complete by end of 2020. Our Directors confirmed that we did not incur any material compensation or loss as a result of the aforesaid suspension of construction of Premises.

Leased properties

As at the Latest Practicable Date, we (i) leased premises from Changzhou Dongxia with an aggregate leased area of approximately 27,467.0 sq.m. (inclusive of a number of rent-free buildings with a total gross floor area of approximately 4,743.0 sq.m.) in the PRC on which our production plant, warehouse, laboratory and administration and management office are located; and (ii) sub-leased premises from Changzhou Dongxia with a total leased area of approximately 6,515.1 sq.m. in the PRC on which part of our production facilities and our staff dormitory are located. As at the Latest Practicable Date, we also leased premises in Hong Kong for use as office for administration purposes. Details of our leased properties are set forth below:

<u>Location</u>	<u>Approximate leased area sq.m.</u>	<u>Use of leased property</u>	<u>Term of lease</u>
No. 381, Laodong East Road, Tianning District, Changzhou city, Jiangsu province, the PRC* (中國江蘇省常州市天 寧區勞動東路381號) (“ PRC Leased Property One ”)	27,467.0	Production, storage, laboratory and administration	31 December 2018 to 30 December 2021 with an option to renew the lease on the same terms
No. 379, Laodong East Road, Tianning District, Changzhou city, Jiangsu province, the PRC* (中國江蘇省常州市天 寧區勞動東路379號) (“ PRC Leased Property Two ”)	6,515.1	Production and staff dormitory	1 July 2020 to 30 June 2023 with an option to renew the lease on the same terms
Unit B, 11th Floor, Eton Building, No. 288 Des Voeux Road Central, Hong Kong	42.0	Office and administration	1 July 2020 to 30 June 2022

BUSINESS

Mr. Xue, our Controlling Shareholder, is the sole shareholder of Changzhou Dongxia. As at the Latest Practicable Date, due to the failure to obtain the construction-related certificates, Changzhou Dongxia had not obtained the building ownership right certificates for certain building structures with an aggregate gross floor area of approximately 4,743.0 sq.m. (“**Rent-free Area**”) that form the rent-free area within the premises of the PRC Leased Property One. During the Track Record Period and up to the Latest Practicable Date, the Rent-free Area was used by us mainly for storage of our finished products and auxiliary production. As advised by an independent valuer engaged by our Group, the assessed market rent of the Rent-free Area was approximately RMB0.4 million per annum during the Track Record Period.

As advised by our PRC Legal Advisers, the obligations to complete the registration with the relevant authority and to obtain the building ownership right certificates lies with the landlord of the property, namely Changzhou Dongxia, and we, being the lessee, will not be subject to any penalty that may be imposed by the relevant governmental authority as a result of Changzhou Dongxia’s failure to perform and/or obtain the same. As further advised by our PRC Legal Advisers, due to the failure to obtain the construction-related certificates, the relevant PRC government authority may order the demolition of the structures pertaining to the Rent-free Area. In view of the potential risks and losses to which our Group may be subject as a result of such demolition, Changzhou Dongxia decided not to charge any rent for leasing of the Rent-free Area to us. Nonetheless, pursuant to the lease agreement between us and Changzhou Dongxia in respect of the PRC Leased Property One, Changzhou Dongxia has agreed that, in the event that any part of the said structures is subject to any demolition order, (i) it shall immediately inform us of the same within two days and liaise with the relevant government authority for the extension of the deadline for demolition to allow us sufficient time for relocation; (ii) it shall be responsible for the costs that we may incur for the relocation and re-installation of our plant and equipment and raw materials, as well as the loss that we may suffer as a result of the disruptions that may be caused to our operations; and (iii) we shall be given the right of first refusal to lease from Changzhou Dongxia another property for which it has obtained valid legal title on same terms and conditions.

Based on the aforementioned advice of our PRC Legal Advisers and the aforesaid provisions under the lease agreement in respect of the PRC Leased Property One, and having considered that the said rent-free building structures are mainly used for storage and auxiliary production only, and that there are available in the market alternative premises in the vicinity which we will be able to relocate to without incurring substantial amount of additional costs, our Directors are of the view that Changzhou Dongxia’s failure to comply with the said registration and filing procedures will not have any material adverse implications on our financial performance or business operations.

As advised by our PRC Legal Advisers, Changzhou Dongxia has obtained proper and valid approval from the landlord of the PRC Leased Property Two for the sub-lease of the same to us, and as such, Changzhou Dongxia has the authority to sub-lease the same to us. As at the Latest Practicable Date, the landlord of the PRC Leased Property Two had not registered the lease or the sub-lease in respect of the PRC Leased Property Two with the local housing administration authority as required under the relevant PRC laws and regulations. Our PRC Legal Advisers have

BUSINESS

advised us that we might be ordered to rectify such non-registration by the competent authority and if we shall fail to rectify within a prescribed period of time, a penalty of up to RMB10,000 may be imposed on us.

Our Directors also confirm that, during the Track Record Period, our Group did not experience any difficulty in renewing the leases.

EMPLOYEES

As at the Latest Practicable Date, our Group had a total of 468 full time employees, of which 467 were based in the PRC and one was based in Hong Kong. A breakdown of our Group's employees by function as at the Latest Practicable Date is set forth in the table below:

Function	Number of employees
Management and administration	41
Accounting and finance	18
Design and development	31
Sales and marketing	49
Production and quality control	329
Total	468

Recruitment policy and remuneration

We believe that our employees are valuable assets that are crucial to the success of our Group. We recruit our employees through external recruitment and internal referral based on a number of factors such as their experience in the textiles and dyeing industry, their educational background, our operational needs and vacancies available. In particular, we require our accounting and finance, technical support personnel to have the relevant qualifications, certificates and/or licences requisite to discharge the job duties prior to joining our Group.

We have a labour union to protect our employees' interest and benefits, assist us in attaining our economic objectives, encourage employees to participate in management decisions and assist us in resolving disputes, if any, with the union members.

We generally enter into employment contracts with each of our employees covering matters such as wages, employee benefits, employment scope and grounds for termination. We also enter into confidentiality and non-compete agreements with members of our senior management, personnel responsible for the design and development activities and/or other employees who have access to secrets or confidential information of our Group.

We generally pay our employees a fixed salary and discretionary year-end bonus and other allowances based on their respective positions and responsibilities. During the Track Record Period, our employees did not negotiate their terms of employment through any labour union or by way of collective bargaining agreements.

During the Track Record Period, our staff costs amounted to approximately RMB38.8 million, RMB42.7 million, RMB49.9 million and RMB12.4 million, respectively, representing mainly salaries, allowances and other benefits, and contributions to retirement benefit scheme.

Employee training

Our employees undergo internal training to enhance, among others, their technical skills, knowledge of industry quality standards, procedures and protocols relating to quality control, environmental protection, production safety, occupational health and safety standards and the applicable laws and regulations.

Employee relationship

We believe that we have maintained a good working relationship with our employees. We do not outsource our labour services. During the Track Record Period and up to the Latest Practicable Date, we did not experience any major labour disputes with our employees, disruption to our operations due to labour disputes, work stoppages or strikes, or work safety-related incidents that led to disruptions in our Group's operations, or receive any notices or orders from relevant government authorities or third parties, or receive any claims from our employees.

Social insurance and housing provident fund contributions

Under the relevant PRC laws and regulations, we are required to contribute to a number of employee social welfare schemes in respect of our employees. Such schemes include social insurance contributions and housing provident fund contributions.

Under the PRC's social insurance system, we are required to make contributions for our employees towards five categories of insurance, including the basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. We are also required to make housing provident fund contributions for our employees.

Save for the non-compliance incidents relating to social insurance contributions and housing provident fund contributions during the Track Record Period as disclosed in "Legal and compliance matters — Regulatory non-compliance incidents" in this section, we have complied with the applicable labour laws and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

AWARDS AND RECOGNITIONS

The notable awards and/or recognitions obtained by our Group throughout our operating history are set forth below:

Award/recognition	Year	Issuer of award
Green Enterprise* (綠色企業)	2015	Changzhou City Environmental Protection Bureau* (常州市環境保護局)
17/18 Autumn/Winter Fabrics China Appraisal Entry Enterprise Award Certificate* (17/18 秋／冬中國流行面料入圍企業)	2016	China Textile Information Center* (中國紡織信息中心) and Fabrics China Pioneer Center* (國家紡織產品開發中心)
Trusted business partner with the authorisation to produce products under the UNIQLO label	2017 to 2019 ^(Note)	UNIQLO CO., LTD.
Green Factory* (綠色工廠)	2018	Administrative Office of MIIT* (工業和信息化部辦公廳) and the 5 th Electronics Research Institute of MIIT* (工業和信息化部電子第五研究所)
Outstanding Enterprise of Changzhou City in Year 2018* (2018年常州市優秀企業)	2018	Working Committee of Subdistricts of Diaozhuang, Tianning District, Changzhou City, Jiangsu Province* (江蘇省常州市雕莊街道辦事處工作委員會)
Award of Role Model of Sales Achievement and Tax Payment in Year 2017* (2017年度納稅銷售楷模上臺階獎)	2018	The People's Government of Tianning District, Changzhou City, Jiangsu Province* (江蘇省常州市天寧區人民政府)
Environmental Trust Enterprise 2019* (2019年度常州市環保信任企業)	2019	Changzhou City Ecology and Environment Bureau* (常州市生態環境局)
Advanced Collective Entity* (先進集體)	2019	Changzhou City Textile Engineering Society* (常州市紡織工程學會)

Note: Our Group expects to obtain the trusted business partner certification for the year 2020 by the end of 2020.

OCCUPATIONAL HEALTH, WORK SAFETY AND ENVIRONMENTAL MATTERS

Our business operations are subject to certain PRC laws and regulations relating to occupational health, work safety and environmental protection.

We are committed to creating a safe working environment for our employees. We have designated personnel responsible for monitoring the occupational health and safety of our business operations and have developed a set of occupational health and safety procedures covering various aspects of our business. In order to avoid any potential occupational health issues and/or workplace accidents, we have implemented certain measures, including (i) annual review of health conditions of our employees; and (ii) additional staff training on occupational health and work safety related matters. During the Track Record Period, we had not experienced any material incidents or complaints of work-related injuries or casualties. Our PRC Legal Advisers have advised us that, during the Track Record Period, we were not subject to any material administrative penalties for violating applicable production safety laws and regulations in the PRC.

In response to the COVID-19 outbreak, we have enhanced our hygiene and precautionary measures with an aim to maintain a higher hygiene standard and to curb the spread of COVID-19 through community transmission. For details, please refer to “Effects of the COVID-19 outbreak — Our contingency plan and response towards the COVID-19 outbreak — Enhanced precautionary measures” in this section.

We have complied with internationally recognised assurance standard and have obtained the following certificate as recognition of our achievement in the occupational health and safety management system:

<u>Quality assurance standard</u>	<u>Particulars</u>	<u>Validity period</u>
OHSAS18001:2007 GB/T28001-2011	Occupational health and safety management system in the area of dyeing and finishing of 100% cotton, T/C blending, ramie, linen blending plain cloth and corduroy fabrics and related management activities	20 June 2018 to 16 July 2021

The PRC laws and regulations relating to environmental protection matters cover aspects such as noise emission, waste disposal and discharge of wastewater. Textile dyeing enterprises in the PRC are subject to various PRC environmental protection laws and regulations. Under current PRC national and local environmental protection laws and regulations, enterprises which are on the administration list permitted to carry out pollutant discharge shall apply for and obtain pollutant discharge permits before they can discharge pollutants. The relevant authorities may impose penalty, including ordering the suspension of operations, on enterprises which discharge pollutants without permission or whose discharged pollutants exceed the permitted level. Details of the PRC laws and regulations in relation to environment matters applicable to our business operations in the PRC are set out in “Regulatory overview — Laws and regulations in relation to environmental protection” in this prospectus.

We are committed to operating in compliance with applicable environmental laws and regulations. We have established policies and measures to govern our environmental compliance matters and to control our discharged pollutants and waste recycling within the permitted level, so as to minimise adverse impact on the environment. Such policies and measures include (i) including waste management related measures into the production lines; (ii) providing a specific place for waste recycling and appointing external professional parties to handling toxic waste; (iii) assigning a designated staff member for monitoring and recording the implementation of our Group's environmental measures including those related to waste management. Such record is submitted to our management for review; (iv) seeking advice or assistance from external environmental bodies in relation to its environmental measures, including waste management measures, for recommendations on remedial actions to be taken, if necessary; (v) requiring the designated personnel to monitor the reporting to the relevant authority on a timely basis and to closely monitor any change or update in environmental regulations in the PRC, and promptly improve corresponding environmental and waste management measures for compliance purpose accordingly; and (vi) providing waste management related training to production staff regularly or when there are any updates on the rules and regulations. We have an on-site sewage treatment system at our production plant that treats sewage generated from our production process.

Our Directors confirmed that as we had duly made tax filings to the relevant tax authority based on our actual pollutant discharge situation (in which no or minimal pollutant discharge was recorded), our Group was not required to pay any pollutant discharge tax of the PRC during the Track Record Period. Based on the confirmation letters obtained from and the interviews conducted with the relevant tax authorities, as advised by our PRC Legal Advisers, there was no non-compliance record in relation to Yadong (Changzhou) during the Track Record Period.

With an aim to improve our sewage treatment efficiency, uphold our values in maintaining an environmentally friendly manufacturing process, and reduce our sewage treatment fees, throughout the Track Record Period, we carried out technical upgrade of our on-site sewage treatment system. Such technical upgrade mainly involved the acquisition of sewage treatment equipment and upgrade of technology. Such upgrade of our sewage treatment system had not caused any major interruption to our operations and production. As advised by our Directors, our business operations have had no significant adverse impact on the surrounding environment, which our Directors believe is mainly attributable to the implementation of the aforesaid environmental policies and measures and the effectiveness of the continuous technical upgrade carried out to our on-site sewage treatment system and our adherence to our environmental policies and measures.

During the Track Record Period, we failed to complete the relevant planning and construction work approval procedures and the relevant completion and acceptance filing formalities for the on-site sewage treatment system we acquired from Changzhou Dongxia in 2014, and failed to complete the relevant environmental acceptance inspection for the technical upgrading works we carried out to such sewage treatment system. For further details, please refer to “Legal and compliance matters — Regulatory non-compliance incidents” in this section. Save for the aforesaid non-compliance incidents, up to the Latest Practicable Date, we had not encountered any material claims, administrative actions or penalties by the relevant PRC authorities in relation to environmental

issues. As advised by our PRC Legal Advisers, we were not subject to any material administrative penalty for violating applicable environmental protection laws and regulations during the Track Record Period. As advised by our PRC Legal Advisers, based on the interviews with the competent authorities, our aforesaid delay in completing (i) the planning and construction work approval procedures and the acceptance inspection filing formalities for our on-site sewage treatment; and (ii) the environmental acceptance inspection for the technical upgrading works carried out to our on-site sewage treatment system would not have an impact on our renewal of our pollution discharge permit, which will expire on 19 December 2020.

During the Track Record Period, our environmental protection-related expenses amounted to approximately RMB4.9 million, RMB5.9 million, RMB4.8 million and RMB1.4 million, respectively. Our Directors are of the view that the annual cost of compliance with applicable environmental laws and regulations was not material during the Track Record Period and the cost of such compliance is not expected to be material going forward.

LEGAL AND COMPLIANCE MATTERS

As our production operations are in the PRC, we are required to comply with and conduct our business in accordance with the relevant PRC laws and regulations. A summary of the material PRC laws and regulations applicable to our production operations in the PRC is set out in “Regulatory overview” in this prospectus.

As advised by our legal advisers as to Hong Kong laws and PRC laws and as confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, save as disclosed in “Land and property interests”, “Occupational health, work safety and environmental matters” and “Legal and compliance matters” in this section, we have (i) obtained all the material approvals, consents, certificates, licences and permits for our business operations in Hong Kong and the PRC; and (ii) complied with all applicable PRC laws and regulations in all material aspects.

To the best knowledge of our Directors, as at the Latest Practicable Date, no member of our Group was a party to any litigation, arbitration or administrative proceedings, and our Directors were not aware of any pending or threatened litigation, arbitration or administrative proceedings against our Group that would have a material adverse effect on our business operations, results of operations and financial condition.

BUSINESS

Major licences, permits and approvals obtained

The material licences, permits and/or approvals required by our Group for our production operations are set forth below:

Name of licence/permit	Issuing authority	Date of issue	Validity period	Particulars
Business licence* (營業執照)	The Administration of Industry and Commerce of Changzhou* (常州市工商行政管理局)	7 September 2017	27 March 2014 to 27 March 2034	Licensed business activities: include, among others, sizing, dyeing, denim finishing, sale of self-produced products, research and development of high-grade fabrics, etc.
Pollutant discharge permit* (排污許可證)	Changzhou City Environmental Protection Bureau* (常州市環境保護局)	20 December 2017	20 December 2017 to 19 December 2020	Industry category: cotton textile and printing and dyeing finishing (棉紡織及印染精加工)
Third-grade enterprise of work safety standardization certificate* (安全生產標準化三級企業)	Changzhou Tianning Administration of Work Safety* (常州市天寧區安全生產監督管理局)	2 May 2017	May 2017 to May 2020	Yadong (Changzhou) was authorised as the third-grade enterprise of work safety standardization

Our Directors also confirmed that they are not aware of any non-compliance with the national standards applicable to our Group's production operations during the Track Record Period, and that our Group had not been subject to any penalty or adverse consequence as a result thereof.

For renewal of the pollution discharge permit, we need to submit the renewal application within 30 working days before the expiry date of the pollution discharge permit, together with the requisite application documents for the assessment and approval by the relevant PRC authority. The relevant PRC authority will review the application documents and renew the permit if we are able to meet certain conditions under the relevant PRC laws and regulations, such as using or taking pollution prevention and control facilities or measures capable of meeting the concentration requirements for permitted discharge, ensuring the discharge concentrations conforming to the relevant regulatory requirements, and adopting a self-monitoring plan which conforms to the relevant technical specifications, etc. Our Directors confirmed that we complied with the aforesaid conditions during the Track Record Period and as at the Latest Practicable Date.

According to the notice issued by Changzhou Tianning District Emergency Management Bureau* (常州市天寧區應急管理局), Changzhou Tianning District* (常州市天寧區) had suspended the acceptance of application for the evaluation of the third-grade enterprise of work safety standardization certificate since 20 March 2020 and until further announcement of new relevant policies is issued by the higher authorities, as such no renewal of such certificate can be made for the time being. We conducted an interview with Changzhou Tianning District Emergency Management Bureau* (常州市天寧區應急管理局), which is a competent authority for overseeing the renewal application of our Company as advised by our PRC Legal Advisers, on 17 June 2020. Changzhou Tianning District Emergency Management Bureau* (常州市天寧區應急管理局) confirmed in the interview that the obtaining of a third-grade enterprise work safety standardization certificate is not a compulsory legal requirement, and Yadong (Changzhou)'s production and operations will not be affected by the failure to renew the third-grade enterprise of work safety standardization certificate.

Regulatory non-compliance incidents

The following table sets forth: (i) our Group's material non-compliance incidents during the Track Record Period and up to the Latest Practicable Date and the reasons therefor; (ii) the legal consequences and financial liabilities (if any) arising therefrom; (iii) the remedial actions taken/to be taken in respect of such non-compliance incidents; and (iv) the measures adopted to prevent recurrence of such non-compliance incidents in the future:

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
1.	Failure to make adequate social insurance contribution				
	During the Track Record Period, Yadong (Changzhou) failed to make full contribution to the social insurance fund for all its employees in accordance with the relevant PRC laws and regulations ("Social Insurance Non-compliance"). We estimate that the aggregate outstanding amount of social insurance fund contributions was approximately RMB3.3 million during the Track Record Period.	Such non-compliance was primarily due to the administrative personnel's inadvertent oversight and misunderstanding of requirements of the relevant PRC laws and regulations. Additionally, some of our employees preferred not to make their respective social insurance contributions due to personal reasons.	According to the relevant PRC laws and regulations, Yadong (Changzhou) may be ordered to pay the overdue social insurance contribution within a prescribed time and be subject to an overdue fine on the delinquent amount at the daily rate of 0.05%; and if Yadong (Changzhou) shall fail to make such payments within the prescribed time limit, a penalty in the sum equivalent to one to three times the overdue amount may be imposed on Yadong (Changzhou).	As at the Latest Practicable Date, we had not received any notification from the relevant PRC authorities alleging that we had not fully contributed to the social insurance and demanding payment of the same before a stipulated deadline. We had obtained a written confirmation dated 17 June 2020 from and conducted an interview with Changzhou City Tianning District Social Security Management Services Centre* (常州市天寧區社會保障管理服務中心) ("Social Security Centre"), which is a competent authority for overseeing our social insurance contributions as advised by our PRC Legal Advisers, on 11 March 2020. The Social Security Centre confirmed that: (i) as at the date of the interview, Yadong (Changzhou) had made social insurance contributions for its employees in accordance with the practical payment index and payment percentage* (繳費基數及繳費比例) of the Social Security Centre; (ii) no administrative penalty had been imposed on Yadong (Changzhou) since its establishment by the Social Security Centre; and (iii) according to current policy, the Social Security Centre will not require Yadong (Changzhou) to pay the outstanding amount, overdue charge or imposing any penalty on Yadong (Changzhou).	We have been making contributions and actively encouraging our employees to make contributions to the social insurance fund for our employees and as advised by our PRC Legal Advisers, up to 30 June 2020, Yadong (Changzhou) had made contributions of social insurance for all of its employees, except for those employees on retirement or probation and those who were unwilling to cooperate despite our efforts. Notwithstanding this, our Directors believe that such failure would not have a material and adverse effect on our business and results of operations for the reasons aforementioned. We have implemented an internal control policy since October 2018 which provides, among others, that (i) our administration department/finance department will prepare a monthly report which sets out names of our employees,

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
				In addition, our Controlling Shareholders have undertaken to fully indemnify us against all liabilities arising from the Social Insurance Non-compliance in this regard. Based on the confirmation given by our Company, the confirmations given under the said written confirmation issued by and during the said interview with the competent authority and the indemnity given by our Controlling Shareholders, our PRC Legal Advisers are of the view that the risk of us being required to pay (i) the outstanding social insurance contributions; or (ii) the fine and/or overdue charge is remote. Accordingly, our Directors are of the view that the likelihood of the relevant social insurance authorities requiring us to make the outstanding payment or imposing any penalty on us is remote, and there is no need to make provision for the Social Insurance Non-compliance.	employees' respective salary and our contribution amounts, (ii) our finance department and the Board will review such report on a monthly basis to ensure our compliance with the requirements under the relevant laws and regulations to avoid future non-compliance, and (iii) we will conduct internal training on the PRC laws and regulations applicable to this issue. Our Directors are of the view that the enhanced internal control measures are adequate and effective to address the non-compliance incident.

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
2.	Failure to make adequate housing provident fund contribution Yadong (Changzhou) failed to register with the managing centre of the housing provident fund and open an account for the housing provident fund within 30 days after its establishment, and it failed to make full housing provident fund contributions for all of its employees in accordance with the applicable PRC laws and regulations during the Track Record Period (“Housing Provident Fund Non-compliances”). We estimate that the aggregate outstanding amount of housing provident fund contributions was approximately RMB2.5 million during the Track Record Period.	Such non-compliance was primarily due to the administrative personnel's inadvertent oversight and misunderstanding of requirements of the relevant PRC laws and regulations. Additionally, some of our employees preferred not to make their respective housing provident fund contributions due to personal reasons.	According to the relevant PRC laws and regulations, Yadong (Changzhou) may be ordered to register with the managing centre of the housing provident fund and open an account for the housing provident fund within a prescribed time, and if Yadong (Changzhou) fails to comply within the prescribed time limit, a penalty in the range of RMB10,000 to RMB50,000 may be imposed. In respect of any outstanding housing provident fund contributions, according to the relevant PRC laws and regulations, Yadong (Changzhou) may be ordered to pay the outstanding shortfall amount of housing provident fund contributions within a prescribed time. If Yadong (Changzhou) fails to act accordingly, an application of compulsory enforcement can be made to the People's Court of the PRC.	Yadong (Changzhou) registered with the managing centre of housing provident fund and opened an account for making housing provident fund contributions for part of its employees in October 2016. As at the Latest Practicable Date, we had not received any notification from the relevant PRC authorities alleging that we had not fully contributed to the housing provident fund and demanding payment of the same before a stipulated deadline. We had obtained a written confirmation dated 17 June 2020 from Changzhou City Housing Provident Fund Management Centre* (常州市住房公积金管理中心) (“Housing Fund Centre”), which is a competent authority for overseeing our housing provident fund contributions as advised by our PRC Legal advisers. The Housing Fund Centre confirmed that: (i) Yadong (Changzhou) had duly registered with the Housing Fund Centre in October 2016 and had since then been making housing provident fund contributions for its employees in accordance with the relevant PRC laws and regulations; (ii) the Housing Fund Centre had not received any complaint, report or dispute record regarding the housing provident fund contributions of Yadong (Changzhou); and (iii) the likelihood of the Housing Fund Centre requiring Yadong (Changzhou) to pay the outstanding amount was remote. In addition, our Controlling Shareholders have undertaken to fully indemnify us against all liabilities arising from the Housing Provident Fund Non-compliance in this regard. Based on the written confirmation from the competent authority and the indemnity given by our Controlling Shareholders, our PRC Legal Advisers are of the view that the risk of us (i) being punished for our failure to register with the relevant managing centre and open the housing provident fund account on time; and (ii) being required to pay the outstanding amount of housing provident fund is remote. Accordingly, our Directors are of the view that the likelihood of the relevant housing provident fund authorities requiring us to make the outstanding payment is remote and there is no need to make provision for the Housing Provident Fund Non-compliances.	We have been making contributions and actively encouraging our employees to make contributions to the housing provident fund for our employees and as advised by our PRC Legal Advisers, up to 30 June 2020, Yadong (Changzhou) had made contributions of housing provident fund for all of its employees, except for those employees who are on retirement or probation and those employees who were unwilling to cooperate despite our efforts. Notwithstanding this, our Directors believe that such failure would not have a material and adverse effect on our business and results of operations for the reasons aforementioned. We have implemented an internal control policy which provides, among others, that (i) our administration department/finance department will prepare a monthly report which sets out names of our employees, employees' respective salary and our contribution amounts, (ii) our finance department and the Board will review such report on a monthly basis to ensure our compliance with the requirements under the relevant laws and regulations to avoid future non-compliance, and (iii) we will conduct internal training on the PRC laws and regulations applicable to this issue. Our Directors are of the view that the enhanced internal control measures are adequate and effective to address the non-compliance incident.

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
3.	Failure to obtain the planning and construction permits and complete the acceptance inspection for the on-site sewage treatment system We acquired the on-site sewage treatment system, together with other machineries and equipment, from Changzhou Dongxia in 2014 when we started to develop our own production facilities. Changzhou Dongxia had not completed the relevant planning and construction work approval procedures and the relevant completion and acceptance filing formalities for the on-site sewage treatment system.	Such non-compliance was attributable to the failure of Changzhou Dongxia (as the vendor) to complete the relevant planning and construction work approval procedures and the relevant completion and acceptance filing formalities for the on-site sewage treatment system. Our Group was made aware of such requirements by our PRC Legal Advisers after the acquisition of the sewage treatment system and during the course of our preparation of our Listing.	Our PRC Legal Advisers advised us that under the PRC Law on Urban and Rural Planning* (中華人民共和國城鄉規劃法), we may be required to rectify the non-compliance within a specified period and may be subject to a fine of not less than 5% but not more than 10% of the construction cost of the project for the failure to obtain the permit for a planned construction project, and if such impact cannot be eliminated, we may be required to demolish such buildings or structures, or if such buildings or structures cannot be demolished, the unlawful income shall be confiscated, and we may, in addition, be fined not more than 10% of the construction cost of the project. We may be ordered to pay a penalty between 1% to 2% of the construction contract price for the project that have commenced construction without construction permits under the Measures for the Administration of Construction Permits for Construction Projects* (建築工程施工許可管理辦法) and related laws and regulations.	We have conducted interviews with Changzhou Natural Resources and Planning Bureau Tianming Division* (常州市自然資源和規劃局天寧分局), and Changzhou Tianming District Housing and Urban-Rural Development Bureau* (常州市天寧區住房和城鄉建設局) together with Changzhou Tianming District Urban Administrative and Law Enforcement Unit* (常州市天寧區城管行政執法大隊), which are confirmed by our PRC Legal Advisers as the competent authorities, on 17 October 2019 and 18 October 2019, respectively. The authorities confirmed that they were aware of our non-compliance situation and would assist us in completing the said relevant procedures, and that we could continue to use our on-site sewage treatment system during the rectification period. It was also confirmed that the authorities would not impose any order for demolition or penalties for our failure to complete the relevant procedures. As at the Latest Practicable Date, we were in the process of applying for the completion of the said relevant approval, inspection and acceptance procedures as a remedial action. Based on the respective interviews with the relevant authorities, our PRC Legal Advisers are of the view that (i) it is unlikely that the confirmations obtained from the relevant authorities during the said interviews would be challenged by higher authorities, as they are the competent authorities supervising our Group's compliance with the relevant laws and regulation, and (ii) there is no major legal impediment for us to complete the said relevant procedures after we have submitted all the relevant application materials pursuant to the relevant PRC laws and regulations.	As at the Latest Practicable Date, upon completion of the environmental acceptance inspection for our on-site sewage treatment system referred to in “Legal and compliance matters — Regulatory non-compliance incidents — 4. Failure to complete the environmental acceptance inspection for the technical upgrading works carried out to our on-site sewage treatment system” below in this section, we were in the process of applying for the completion of the said relevant approval, inspection and acceptance procedures as a remedial action. As advised by our PRC Legal Advisers, our Directors are of the view that there is no major legal impediment for us to complete the said relevant procedures after we have submitted all the relevant application materials pursuant to the relevant PRC laws and regulations.

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
			Furthermore, we may be required to pay a penalty between 2% and 4% of the construction contract price for the project for the failure to obtain the completion and acceptance approval under the Regulation on the Quality Management of Construction Projects* (建設工程質量管理條例) and related laws and regulations.	In consideration of the above, our Directors are of the view that the above incident would not have any material adverse impact on our business, financial condition and results of operations.	

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
4.	Failure to complete the environmental acceptance inspection for the technical upgrading works carried out for our on-site sewage treatment system. During the Track Record Period, we had not completed the relevant environmental acceptance inspection for the technical upgrading works in relation to the removal of sewage sludge we carried out for our on-site sewage treatment system.	Such non-compliance was primarily due to the lack of experience in treating sewage sludge of our administrative/operating personnel who did not fully understand the relevant requirements under applicable PRC laws and regulations. Due to the lack of experience in handling removal of sewage sludge as our Group's on-site sewage treatment system did not possess such function previously, and that we had to carry out the environmental acceptance inspection for the technical upgrading works in relation to treatment of sewage sludge to our sewage treatment system on our own as the relevant authority would not arrange the same, our Group's administrative/operating personnel's then understanding was that the corresponding environmental acceptance inspection could be undertaken in parallel with the use of the corresponding upgraded parts. As a result, we did not conduct the environmental acceptance inspection immediately upon the completion of the construction of the upgraded parts around mid-2018 and the corresponding upgraded facilities were put into use in September 2018. Our Group was made aware of the legal requirements by our PRC Legal Advisers in 2019, and engaged a local environmental	Our PRC Legal Advisers advised us that according to the Regulations on the Administration of Construction Project Environmental Protection* (建設項目環境保護管理條例), for the construction projects that require an environmental impact report or an environmental impact report form, the environmental protection facilities shall achieve environmental acceptance before the construction project is put into production and used. The competent authority may order us to rectify such non-compliance within a prescribed deadline and we may be liable for a fine from RMB0.2 million to RMB1 million and a fine from RMB1 million to RMB2 million if we fail to rectify within the prescribed deadline. The person-in-charge and the relevant responsible personnel may be liable for a fine from RMB50,000 to RMB0.2 million. We may also be ordered by the competent authority to suspend production or shut down our production facilities if we cause serious environmental pollution or destruction.	We have conducted an interview with Changzhou Tianming District Ecology and Environment Bureau* (常州市天寧區生態環境局), which is confirmed by our PRC Legal Advisers as the competent authority, on 17 October 2019. The authority confirmed that (i) it had no objection to our current usage of our sewage treatment system and would not impose any administrative penalty on us for our failure to complete the said environmental acceptance inspection; and (ii) the environmental acceptance inspection shall be completed by ourselves according to the relevant PRC laws and regulations where the authority would not organise any environmental acceptance inspection for our upgraded sewage treatment system separately. Based on the interview with the relevant authority, our PRC Legal Advisers are of the view that (i) it is unlikely that the confirmation obtained from the relevant authority during the said interview would be challenged by higher authorities, as it is the competent authority supervising our Group's compliance with the relevant laws and regulations; and (ii) the risk of us being penalised by the relevant authority for our failure to complete the said environmental acceptance inspection is remote. As a remedial action, we have engaged a local environmental assessment agent to carry out the relevant environmental acceptance inspection so that we can undertake and complete the relevant environmental acceptance inspection for the technical upgrading works we carried out to our sewage treatment system. As advised by our PRC Legal Advisers, the conduct of the environmental acceptance inspection of the sewage treatment system by engaging a third party agent to perform the inspection and compile the inspection report complies with the relevant PRC laws and regulations.	We completed the relevant environmental acceptance inspection for the aforementioned technical upgrading works carried out for our on-site sewage treatment system on 17 September 2020, with the assistance of the environmental assessment agent engaged.

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
		assessment agent in June 2019 to carry out the relevant environmental acceptance inspection. Further, there was certain delay in the engaged agency's undertaking of the inspection and completion of the assessment report due to its staff turnover in September 2019 and the COVID-19 outbreak in early 2020. The agent eventually completed and produced the corresponding environmental acceptance inspection report in August 2020.		In consideration of the above, our Directors are of the view that the above incident would not have any material adverse impact on our business, financial condition and results of operations.	

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
5.	Failure to file profits tax returns and settle profits payments on time				
	Yadong (Hong Kong) failed to file its profits tax returns ("Return") on time for the years of assessment ("YOA") 2011/12, 2012/13, 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18.	Such non-compliance was primarily due to the absence of competent tax and accounting advice given that our Group was principally operating in the PRC and our senior management were principally residing in the PRC. Our Directors were unaware of the Return filing requirements when Yadong (Hong Kong) was incorporated in June 2011.	As advised by the legal counsel as to Hong Kong laws ("Legal Counsel"), failure to file Returns on time constitutes non-compliances of section 51 (1) and section 80(2) of the IRO, such non-compliances committed without reasonable excuse are a criminal offence and are subject to a maximum penalty of a fine of HK\$10,000 and a further 300% of any undercharged tax, and the IRO can impose additional tax under section 82A of the IRO in lieu of prosecution.	As Yadong (Hong Kong) was not satisfied with the performance of the Predecessor Auditor for its lack of experience, resources and dedications to carry out the audit work for Yadong (Hong Kong) and our Group for the proposed listing, Yadong (Hong Kong) terminated the engagement of the Predecessor Auditor in October 2017 and engaged another audit firm as its auditor ("Replacement Auditor") and a tax representative ("Tax Representative") with an aim to expedite its tax filings. Also in October 2017, our Group engaged SHINEWING (HK) CPA Limited as the reporting accountants of our Company for the proposed listing application. The Replacement Auditor was responsible of our Company for the preparation of the audit reports for Yadong (Hong Kong) for the year ended 31 December 2013 and onwards. With the assistance of the Replacement Auditor and the Tax Representative, Yadong (Hong Kong) filed its Returns for YOA 2013/14 and YOA 2014/15 in December 2017, and Returns for YOA 2015/16 and YOA 2016/17 in April 2018.	Our Group has established relevant policies and procedures to govern its profits tax filing, under which our Group's finance manager is responsible for monitoring the work progress of our external auditor and tax representative to ensure the auditor's report, profits tax computation and profits tax return are completed and submitted in a timely manner. Our finance manager will review the auditor report and profits tax computation compiled by the external auditor and tax representative, and pass the same for our Directors' further review. Subject to our Directors' approval, the corresponding profits tax return will be prepared accordingly and submitted to our Directors for their review prior to submission. Upon receipt of the tax assessment and payment notice, our finance manager will arrange payment to ensure the profits tax payable is settled in a timely manner.
	For YOA 2011/12, we received a compound offer letter from the IRD in June 2013 requiring Yadong (Hong Kong) to file a Return and pay a fine of HK\$1,200 for the failure to file the Return for YOA 2011/12 on time. The fine was subsequently settled in February 2014 in compliance with the IRD compound offer letter.	Besides, Yadong (Hong Kong) had been considering changing its auditor since 2013 in contemplation of its plan to seek a listing in Hong Kong. Subsequently, in October 2014, Yadong (Hong Kong) formally engaged a new auditor (the "Predecessor Auditor") to replace the previous auditor. The Predecessor Auditor was responsible for, among others, the preparation of the audited reports for Yadong (Hong Kong) for the period ended 31 December 2012 and onwards. As a result of the change of auditor, Yadong (Hong Kong) delayed in commencing the audit work. Yadong (Hong Kong) was anxious in making			
	For YOA 2012/13, the IRD issued a notice of assessment and demand for additional tax to Yadong (Hong Kong) for its failure to file the Return for YOA 2012/13 in January 2017. The additional tax of HK\$75,000 was fully settled in February 2017.			We have made a request to the IRD regarding tax record of Yadong (Hong Kong) and received a letter dated 16 March 2020 issued by the IRD, which states that save for the aforesaid, there were no other records of written or verbal enquiry, complaint, warning, investigation and/or prosecution in relation to any non-compliance under the IRO administered by the IRD identified for Yadong (Hong Kong) during the period from 27 June 2011 to 4 March 2020.	
	In December 2014, Yadong (Hong Kong) received a compound offer letter from the IRD for its failure				Our Directors are of the view that the enhanced internal control measures are adequate and effective to address the non-compliance incident.

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
	to file the Return for YOA 2013/14. In November 2015, Yadong (Hong Kong) received a summons for its failure to file the Return for YOA 2013/14 and was convicted and imposed a fine of HK\$2,400 in January 2016. Yadong (Hong Kong) was unable to file the Return on time in compliance with the court order due to the delay in the preparation and finalisation of the audited report by the Predecessor Auditor for the year ended 31 December 2013 and hence the Return was still not available at the material time, as a result, it was convicted again and was imposed an additional fine of HK\$4,500 in October 2016 which was fully settled.	good the late tax filings as soon as possible. However, the Predecessor Auditor was unable to extend the assistance in an efficient manner as desired by Yadong (Hong Kong).		As advised by our Legal Counsel, since fines and additional tax had been imposed by the IRD, there will be no further liability on Yadong (Hong Kong) nor will there be any prosecution upon due payments of such fines and additional tax.	
	Our Directors were aware of Yadong (Hong Kong)'s failure to file the Returns on time, comply with the respective timelines imposed under the	Our Directors also confirmed that Yadong (Hong Kong) was late in filing its Return for YOA 2017/18 because of the unavailability of a director due to business schedule at the material time in signing off the relevant audited report for filing purpose.		Our Legal Counsel is of the view, having taken into account the reasons for such late filings of the Returns, the liabilities under the IRO and the rectification actions taken by our Group, that (i) the aforesaid late filings did not involve fraud, deceit or dishonesty; (ii) nothing has suggested that such late filings were committed wilfully or deliberately; (iii) such incidents, individually or in aggregate, did not and will not have in the future, a material financial or operational impact on our Group; and (iv) notwithstanding the recurring nature of the late filings, such incidents do not reflect negatively on Yadong (Hong Kong)'s directors' ability or tendency to operate in a compliant manner.	
				Based on the above, our Legal Counsel is of the conclusion that such late filing incidents are immaterial and do not constitute systemic or integrity non-compliance.	
				In addition, Yadong (Hong Kong) filed its tax return for YOA 2018/19 and 2019/20 in a timely manner, which completed all its statutory tax filing requirements. Payment of the relevant profits tax for YOA 2018/19 and the provisional profits tax have been settled in full by the deadline.	

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
	For YOA 2014/15, Yadong (Hong Kong) was late in filing the Return and was again convicted and imposed a fine of HK\$2,400 which was fully settled in February 2017. Yadong (Hong Kong) was unable to file the Return on time in compliance with the court order due to the delay in the preparation and finalisation of the audited report by the Predecessor Auditor for the year ended 31 December 2014 and hence the Return was still not available at the material time, as a result, it was convicted again and was imposed an additional fine of HK\$4,500 in November 2017 which was fully settled. Yadong (Hong Kong) also failed to make full payment of the second instalment of its profits tax for YOA 2014/15 on time notwithstanding its	said two court orders for the filing of the Returns for YOA 2013/14 and YOA 2014/15, and make payment for the second instalment of the profits tax for YOA 2014/15 on time. However, such failures were unintentional and rectification actions had been taken immediately to the extent practicable. Such failures were not committed for tax avoidance or evasion purposes and did not involve fraud, deceit or dishonesty.			

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
	compliance for full payment of the first instalment. Such failure was due to its administrative staff's delay in making the interbank transfer of funds for payment of the second instalment of the profits tax on time in early April 2018, leading to the return of the corresponding cheque by the debit bank, as a result of which, a surcharge of 5% in the sum of approximately HK\$0.2 million was imposed by the IRD. The outstanding second instalment of the profits tax was fully settled in April 2018 when Yadong (Hong Kong) became aware of its payment failure as aforesaid and the IRD waived the surcharge imposed after considering Yadong (Hong Kong)'s reasons for the late payment of the second instalment of the profits tax. For YOA 2015/16 and YOA 2016/17, Yadong (Hong Kong) failed to file its Returns on time again and the IRD issued a notice of assessment and demand for additional tax to Yadong (Hong Kong) in October 2018 and imposed an additional tax of approximately HK\$0.3 million in aggregate which was fully settled in November 2018.				

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
	Yadong (Hong Kong) was also late in filing its Return for YOA 2017/18 in October 2018. As a result, the IRD issued a notice of assessment and demand for additional tax to Yadong (Hong Kong) in March 2019 and imposed an additional tax of HK\$0.3 million which was fully settled in April 2019. For YOA 2011/12 to YOA 2017/18, the aggregate amount of the fines and additional tax imposed on Yadong (Hong Kong) by the IRD was approximately HK\$0.7 million, respectively, which individually or in aggregate, did not and will not have in the future, a material financial or operational impact on our Group. Our Directors confirmed that all fines and additional tax imposed on Yadong (Hong Kong) as aforesaid had been duly settled as at the Latest Practicable Date. Having, among others, (i) considered the remedial actions taken by Yadong (Hong Kong) and its latest profits tax filing and payment status, (ii) reviewed all relevant documentations including, among others, copies of the correspondence between Yadong (Hong Kong) and the IRD, tax filings made by Yadong (Hong Kong), records of Yadong (Hong Kong)'s payments to the IRD and clearance letter from the Predecessor Auditor to the Replacement Auditor, the Replacement Auditor, the Tax Representative and SHINEWING (HK) CPA Limited, respectively; (iv) reviewed and considered the legal opinion given by the Legal Counsel; and (v) considered that, to the best information of the Sole Sponsor, none of our Directors was the subject of any court order laid by Hong Kong courts, or any litigation, investigation, proceeding or prosecution initiated or filed by the IRD or Hong Kong courts, the Sole Sponsor concurred with the views and conclusions made by the Legal Counsel and is satisfied that Yadong (Hong Kong)'s aforesaid failures to file the Returns on time, comply with the respective timelines imposed under the court orders for the filing of the Returns, and make full payment for its profits tax on time were unintentional, and such failures were not committed for tax avoidance or evasion purposes nor did they involve fraud, deceit or dishonesty, and that the aforesaid incidents would not have any material effect on our suitability for listing.				
6.	Failure to file accurate EIT returns	In the annual EIT return for the year ended 31 December 2015 filed by Yadong (Changzhou) with the Changzhou City Tiansheng District Tax Service of the State Taxation Administration* (國家稅務總局常州市天寧區稅務局) (“Changzhou Tiansheng District Tax Authority”), certain listing Our Group contemplated the proposed listing application since 2013 and started to select different professional parties in 2015. The preparation for the proposed listing application kicked off in 2016. Yadong (Changzhou) filed with the Changzhou Tiansheng District Tax Authority As it was decided in 2017 that the proposed listing of our Group would most likely be delayed or even suspended, Yadong (Changzhou) would not be obliged to settle the professional parties' fees and expenses in relation to our Company's proposed listing and as such, listing expenses would not be incurred. As a result, Yadong (Changzhou) notified the Changzhou Tiansheng District Tax Authority of its intention to add back the relevant listing expenses for the annual EIT computation for the year ended 31 Our Group has established relevant policies and procedures, under which (a) our Group's finance manager is responsible for monitoring and reviewing the computation of EIT returns prepared by our accounting personnel, (b) our finance manager will consult our auditor on the			

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
	expenses in relation to our Company's proposed listing (in aggregate amounting to approximately RMB15.3 million) were mistakenly treated as tax deductible. On such basis, Yadong (Changzhou) settled the EIT for the year ended 31 December 2015.	District Tax Authority the PRC EIT returns for the year ended 31 December 2015. The accounting personnel of Yadong (Changzhou) accrued certain estimated fees and expenses payable to professional parties in relation to our Company's proposed listing in the books of Yadong (Changzhou). During the preparation of the annual EIT return, the accounting personnel was not aware that listing expenses were not tax deductible under tax treatment of the PRC due to the lack of knowledge and experience in initial public offering and misunderstanding of treatment of listing expenses in the annual EIT return.	evidence, inspections and verifications, and when the taxpayer is not suspected of tax evasion, the relevant authorities need not to put the corresponding taxpayer on file for investigation, and the taxpayer may correct such errors and repay the shortfalls in taxes by himself. And in the case that a taxpayer is suspected of evading taxes, he may be ordered to pay the unpaid tax and overdue fine, and the tax authorities may impose on him a fine of more than 50% and less than five times of the unpaid or underpaid taxes.	December 2015. Subsequently, Yadong (Changzhou) voluntarily filed the revised annual EIT return for the year ended 31 December 2015 to the Changzhou Tanning District Tax Authority and fully paid the final annual EIT shortfall of approximately RMB3.9 million, together with the surcharge of approximately RMB0.6 million in 2017.	computation and items of tax deductible and tax non-deductible, (c) our finance manager will pass the same for our Directors' further review, (d) subject to our Directors' approval, the corresponding EIT returns will be submitted, and (e) our Group will provide training to our accounting and financial personnel from time to time on the relevant requirements, updated laws and regulations.
	Estimated listing expenses in the amount of approximately RMB25.0 million and RMB33.0 million were again treated as tax deductible items in the annual EIT returns for the years ended 31 December 2017 and 2018, respectively, and the EIT for the corresponding years were settled on the same basis.	Our Directors are of the view that the enhanced internal control measures are adequate and effective to address the non-compliance incident.	In mid-2019 when it was certain that the Listing would proceed, our Directors considered in detail and discovered from the draft accountants' report prepared by SHINERWING (HK) CPA Limited that the listing expenses were treated as non-tax deductible items. Accordingly, Yadong (Changzhou) took steps to rectify and voluntarily filed revised annual EIT returns to the Changzhou Tanning District Tax Authority to reflect the tax positions for the years ended 31 December 2017 and 2018, and fully paid the final annual EIT shortfall of approximately RMB5.1 million and RMB8.3 million, respectively, together with the surcharges in the amount of approximately RMB2.0 million in aggregate in 2019.	Subsequently, our Company found that the listing expenses for the year ended 31 December 2017 had been over-estimated by approximately RMB4.8 million and therefore voluntarily reported the same to the Changzhou Tanning District Tax Authority in order to rectify the tax position. The corresponding EIT shortfall of approximately RMB1.2 million was fully settled in 2018.	Our Directors are of the view that the enhanced internal control measures are adequate and effective to address the non-compliance incident.
	In 2018, the proposed listing application of our Group resumed after the change of the reporting accountants of our Company. Again, the accounting personnel of Yadong (Changzhou) accrued				

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
		the estimated listing expenses in relation to our Company's proposed listing in the books of Yadong (Changzhou) and continued to treat such estimated listing expenses as tax deductible items in the annual EIT computation for the years ended 31 December 2017 and 2018, due to the lack of knowledge and misunderstanding of the tax treatment of listing expenses. Such inadvertent mistakes were partly attributable to during the voluntary revised filing in 2017, Yadong (Changzhou) was not notified by the Changzhou Tianning District Tax Authority that the listing expenses were non-tax deductible and the accounting personnel of Yadong (Changzhou) therefore continued to prepare the EIT returns for the years ended 31 December 2017 and 2018 under such mistaken belief.		(Changzhou) may treat the estimated listing expenses as tax deductible items in the preparation of its prepaid quarterly EIT returns (which are to be filed within 15 days after the end of a quarter in a financial year) and that it is reasonable for Yadong (Changzhou) to adjust such estimated listing expenses as non-tax deductible items in the preparation of the annual EIT return (which is to be filed within five months after the end of the relevant financial year). Accordingly, Yadong (Changzhou) treated the estimated listing expenses of approximately RMB40.0 million as tax deductible items in its prepaid quarterly EIT returns filed during 2019. Subsequently, when Yadong (Changzhou) filed its annual EIT return and made settlement of the final annual EIT (匯算清繳) for the year ended 31 December 2019 in February 2020, Yadong (Changzhou) adjusted its tax position by treating the said estimated listing expenses of approximately RMB40.0 million as non-tax deductible and fully paid the final annual EIT shortfall of approximately RMB10.0 million. As at the Latest Practicable Date, Yadong (Changzhou) had paid all EIT due and payable in the PRC.	

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
				We have conducted interviews with the Changzhou Tianning District Tax Authority which, the PRC Legal Advisers confirmed, is the competent authority regarding tax filing, on 17 October 2019, 14 November 2019 and 11 March 2020. During the said interviews, the Changzhou Tianning District Tax Authority confirmed that (a) it has no concerns on the tax returns filed by Yadong (Changzhou); (b) the treatment of the estimated listing expenses of approximately RMB40.0 million as tax deductible items in the prepaid quarterly EIT returns filed by Yadong (Changzhou) in 2019 was communicated with and agreed by it; (c) Yadong (Changzhou)'s subsequent adjustment of its tax position in its annual EIT return for the year ended 31 December 2019 and settlement of the final annual EIT (匯算清繳) by payment of the shortfall of the final annual EIT are in compliance with the applicable laws and regulations, and that such approach was agreed by it; (d) it will not impose any penalty or other surcharge on Yadong (Changzhou) for the aforesaid revised tax filing incidents; and (e) there have been no ongoing investigations or records of administrative penalty against Yadong (Changzhou) since its establishment.	

Number	Non-compliance incident	Reason(s) for non-compliance and person(s) involved	Legal consequences and financial liabilities (if any)	Remedial action(s) taken/to be taken and latest status	Measures adopted to prevent future recurrence
				In addition, Yadong (Changzhou) obtained written confirmations from the Changzhou City Tax Service of the State Taxation Administration* (國家稅務總局常州市稅務局) in the PRC dated 13 March 2020 and 8 July 2020, confirming that during the period between 1 January 2016 and 7 July 2020, (i) Yadong (Changzhou) had filed the tax returns and paid the taxes on time; (ii) the tax categories, tax rates and the tax concessions applied by Yadong (Changzhou) were consistent with the relevant requirements under applicable laws and regulations; and (iii) there were no unpaid taxes or penalty records against Yadong (Changzhou). In consideration of the above, the PRC Legal Advisers are of the view that the likelihood of Yadong (Changzhou) being investigated or penalised by the relevant authorities as a result of such revised tax filing incidents is minimal.	

Controlling Shareholders' indemnity for any losses incurred due to non-compliance incidents

Pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to our Group that they will indemnify and at all times keep our Group indemnified, on a joint and several basis, from all claims, payments, suits, damages, settlements, payments, fines, actions, liabilities and any associated costs and expenses which would be incurred or suffered by our Group directly or indirectly, from or on the basis of or in connection with any non-compliance matters relating to our Group as described above in this section or in connection with any other non-compliance matters of our Group which have occurred at any time on or before the Listing Date. Please refer to “E. Other information — 1. Tax and other indemnity” in Appendix V to this prospectus.

INTERNAL CONTROL AND RISK MANAGEMENT

Our Directors and senior management are responsible for the formulation of and overseeing the implementation and effectiveness of our internal control and risk management systems, which have been designed to ensure our Group's ongoing compliance with the applicable laws, regulations and rules relevant to our business operations and/or corporate governance, and to prevent the recurrence of non-compliance incidents. Our internal control and risk management systems cover, among others, corporate governance, operations, management, legal matters, finance and auditing. We engaged an independent internal control consultant to review our internal control system and we have implemented and will continue to implement the relevant suggestions they proposed/propose.

We will adopt or have adopted and implemented the following internal control measures:

- (i) to ensure our compliance with the requirements under the relevant laws and regulations in relation to social insurance contribution and housing provident fund contribution, we have implemented an internal control policy which provides, among others, that (a) our administration department/finance department will prepare a monthly report which sets out names of our employees, employees' respective salary and our contribution amounts; and (b) our accounting and finance department and the Board will review such report on a monthly basis;
- (ii) to ensure our compliance with the requirements under the IRO in relation to the filing of Hong Kong profits tax returns and payments of the relevant tax, we have implemented internal policies and procedures, under which (a) our Group's finance manager is responsible for monitoring the work progress of our external auditor and tax representative to ensure the audit report, profits tax computation and profits tax return are completed and submitted in a timely manner; (b) our finance manager will review the auditor's report and profits tax computation compiled by the external auditor and the tax representative, and pass the same for our Directors' further review; (c) subject to our Directors' approval, the corresponding profits tax return will be prepared accordingly and submitted to our Directors for their review prior to submission; and (d) upon receipt of the tax assessment and payment notice, our finance manager will arrange payment to ensure the profits tax payable is settled in a timely manner;

- (iii) to ensure our compliance with the requirements under the relevant PRC laws and regulations in relation to the filing of EIT returns, we have implemented internal policies and procedures, under which (a) our Group's finance manager is responsible for monitoring and reviewing the computation of EIT returns prepared by our accounting personnel; (b) our finance manager will consult our auditor on the computation and items of tax deductible and tax non-deductible; (c) our finance manager will pass the same for our Directors' further review; (d) subject to our Directors' approval, the corresponding EIT returns will be submitted; and (e) our Group will provide training to our accounting and financial personnel from time to time on the relevant requirements, updated laws and regulations;
- (iv) to ensure our compliance with environmental matters and to control our discharged pollutants and waste recycling within the permitted level, we have implemented internal policies and procedures, which include (a) including waste management related measures into the production lines; (b) providing a specific place for waste recycling and appointing external professional parties to handle toxic waste; (c) assigning a designated staff member for monitoring and recording the implementation of our Group's environmental measures, and to prepare records for review by the management; (d) seeking advice or assistance from external environmental bodies in relation to our environmental measures, and for recommendations on remedial actions to be taken, if necessary; (e) requiring the designated personnel to monitor our reporting to the relevant authority on a timely basis and to closely monitor any change or update in environmental regulations in the PRC, and to promptly improve corresponding environmental and waste management measures for compliance purpose accordingly; and (f) providing waste management related training to production staff regularly or when there are any updates on the rules and regulations;
- (v) our Directors believe that compliance creates value for us and dedicate to cultivating a compliance culture among all of our employees. To ensure such compliance culture is embedded into everyday workflow and set the expectations for individual behaviour across the organisation, we regularly conduct internal compliance checks and inspections, adopt strict accountability internally and conduct compliance training;
- (vi) we also consider environmental, social and governance ("**ESG**") essential to the development of our Company. To ensure the effectiveness of our ESG risk management measures and internal control systems, our Board is and will be responsible for overseeing the formulation and reporting of our ESG strategies and determining the ESG related risks. We intend to adopt various strategies and measures to evaluate and manage the material ESG related issues and to ensure our compliance with the Stock Exchange's requirements on ESG, including but not limited to, reviewing the ESG reports of similar companies in the industry to identify the relevant ESG matters, discussing among our management team from time to time to ensure all the material ESG areas are recognised and reported, and ensuring the recommendations and the requirements on ESG under the Listing Rules are complied with.

BUSINESS

Our Board has the collective and overall responsibility for establishing, adopting and reviewing the ESG vision, policy and target of our Group, and evaluating, determining and addressing our ESG-related risks at least once a year upon the Listing. Our Board may assess or engage independent third party(ies) to evaluate the ESG risks and review our existing strategy, target and internal controls. Necessary improvement will then be implemented to mitigate the risks;

- (vii) the establishment of an audit committee responsible for overseeing our financial records, risk management related policies and procedures, reviewing the effectiveness and adequacy of risk management measures and reporting related risk findings to the Board;
- (viii) we have appointed Fortune Financial as our compliance adviser upon Listing to advise our Group on compliance matters relating to the Listing Rules;
- (ix) we will appoint a qualified PRC law firm upon Listing as our Group's external PRC legal adviser to advise us on compliance with the applicable PRC laws and regulations and, if necessary, to provide us with the relevant training from time to time;
- (x) we will appoint a Hong Kong law firm upon Listing as our Group's external Hong Kong legal adviser to advise us on compliance with the Listing Rules and the applicable Hong Kong laws and regulations and, if necessary, to provide us with the relevant training from time to time;
- (xi) we have arranged training sessions for our Directors and senior management as to (a) the responsibilities of Directors and compliance with the Listing Rules, conducted by our legal advisers as to Hong Kong laws; and (b) the material PRC laws and regulations applicable to our business operations, conducted by our PRC Legal Advisers; and
- (xii) we will continue to appoint an independent internal control consultant to review the internal control system of our Group on an annual basis upon Listing.

Our independent internal control consultant conducted a follow-up review on our internal control system in November 2019. Based on the facts and circumstances regarding the non-compliance incidents as disclosed in “Legal and compliance matters — Regulatory non-compliance incidents” in this section above, and the enhanced internal control measures in place, our Directors are of the view, and our independent internal control consultant concurs that, the enhanced internal control measures adopted by our Group, if implemented on an ongoing basis, are adequately and effectively designed to reasonably prevent the occurrence of any similar non-compliance in the future.

Views of our Directors and the Sole Sponsor

After considering the nature and reasons for our historical non-compliance incidents, the remedial actions taken by our Group and our business nature and operation scale, our Directors are satisfied that our internal control procedures are adequate and effective and are of the view that our non-compliance incidents do not have any material impact on (i) the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules; and (ii) the suitability of our Company for listing under Rule 8.04 of the Listing Rules. Having considered the remedial actions taken by us and our business nature and operation scale, the Sole Sponsor concurred with our Directors' view.

CONNECTED TRANSACTION

CONNECTED TRANSACTION

Leasing of factory premises, office buildings, ancillary dormitory buildings and underlying land to our Group

During the Track Record Period, Changzhou Dongxia, which was wholly-owned by Mr. Xue (one of our Controlling Shareholders), had leased and sub-leased certain premises in Changzhou city, Jiangsu province, the PRC (the “**Properties**”) to Yadong (Changzhou). It is expected that the tenancy between Changzhou Dongxia and Yadong (Changzhou) will continue after the Listing.

The Lease Agreements between Yadong (Changzhou) and Changzhou Dongxia

On 30 December 2018, Yadong (Changzhou) (as lessee) entered into a lease agreement and a sub-lease agreement, the latter of which was renewed on 3 May 2020 (collectively, the “**Lease Agreements**”) with Changzhou Dongxia (as lessor), to lease the Properties stated below in accordance with the Lease Agreements. The following table summarises the major terms of the Lease Agreements:

Lessor	Lessee	Properties	Annual rent	Term
Changzhou Dongxia	Yadong (Changzhou)	1. Factory premises, office buildings, ancillary dormitory buildings and the underlying land located in No. 381, Laodong East Road, Tianning District, Changzhou city, Jiangsu province, the PRC* (中國江蘇省常州市天寧區勞動東路381號)	RMB3.2 million	31 December 2018 to 30 December 2021 with an option to renew the lease on the same terms
		2. Certain parts of the factory premises and dormitory building located in No. 379, Laodong East Road, Tianning District, Changzhou city, Jiangsu province, the PRC* (中國江蘇省常州市天寧區勞動東路379號)	RMB0.8 million	1 July 2020 to 30 June 2023 with an option to renew the lease on the same terms

For details of our leased properties from Changzhou Dongxia please refer to “Business — Land and property interest — Leased properties” in this prospectus.

Listing Rules implications

Since Mr. Xue is an executive Director and one of our Controlling Shareholders, and that Changzhou Dongxia is wholly-owned by Mr. Xue, Changzhou Dongxia is a connected person of our Company under the Listing Rules. As such, the transaction contemplated under the Lease Agreements constitutes connected transaction of our Company under Chapter 14A of the Listing Rules.

In accordance with HKFRS 16, our Group recognised the rental payments to be paid by our Group under the Lease Agreements as acquisition of right-of-use asset which constitutes one-off connected transaction for our Group under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTION

Our Directors (including the independent non-executive Directors) consider that the Lease Agreements were entered into in the ordinary and usual course of business of our Group and are on normal commercial terms which are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Immediately upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme), Oriental Ever Holdings (which is wholly-owned by Mr. Xue) is entitled to exercise, or control the exercise of, 30% or more voting rights in general meetings of our Company. For the above reasons, our Controlling Shareholders are Oriental Ever Holdings and Mr. Xue.

Mr. Xue is interested in a number of companies other than our Group (collectively, the “**Excluded Companies**”). None of the companies within the Excluded Companies currently carries out our Group’s business. The following table sets out the details of the Excluded Companies and the reasons for not including them in our Group.

<u>Name</u>	<u>Current principal business</u>	<u>Reasons for not being included in our Group</u>
Changzhou Yadong Textile Company Limited* (常州市亞東紡織品有限公司) (“ Yadong Textile ”)	Textile manufacturing and processing	Yadong Textile and its branch company Yadong Velvet Factory* (常州市亞東紡織品有限公司亞東割絨廠) (“ Yadong Velvet Factory ”) have ceased business since July 2005 and the deregistrations of the above entities were approved by the Changzhou Tianning District Market Supervisory Board* (常州天寧區市場監督管理局) on 30 July 2020 and 29 July 2020, respectively. For details, please refer to “Directors and senior management — Directors — Executive Directors — Management role in Yadong Textile and Yadong Velvet Factory” in this prospectus.
Changzhou Dongxia	Real estate property holding	Changzhou Dongxia was established in the PRC with limited liability on 4 June 2002. It was wholly-owned by Mr. Xue as at the Latest Practicable Date.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Name	Current principal business	Reasons for not being included in our Group
		Changzhou Dongxia was formerly engaged in designing and processing of textile fabrics. In December 2014, Changzhou Dongxia transferred certain factory machineries and equipment and sewage treatment system to Yadong (Changzhou). Since then, Changzhou Dongxia has been leasing and sub-leasing certain premises in Changzhou to Yadong (Changzhou) on which the production plant and administration management offices of our Group are located. After Yadong (Changzhou) commenced its own production in January 2015, Changzhou Dongxia ceased the business of designing and processing of textile fabrics and became a real estate property holding vehicle, which is different from the principal business of our Group.
Changzhou Shicai Smart Science and Technology Co., Ltd.* (常州碩彩智能科技有限公司)	Research and development of smart electronics products, software development, computing system service	Changzhou Shicai Smart Science and Technology Co., Ltd. was established in the PRC with limited liability on 5 August 2016. It was owned as to 99% and 1% by Mr. Xue and his spouse, respectively, as at the Latest Practicable Date. The principal business of Changzhou Shicai Smart Science and Technology Co., Ltd. is different from that of our Group.

As confirmed by our Directors, none of our Controlling Shareholders, our Directors or the directors of any of our subsidiaries has any interest in a business apart from our Group's business, which competes or is likely to compete, either directly or indirectly, with our Group's business.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on its business independently from our Controlling Shareholders and their close associates (other than our Group), and our Controlling Shareholders have entered into non-competition undertakings in our favour.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Financial independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. Our Directors believe that we have sufficient capital to operate our business independently, and have adequate internal resources and a strong credit profile to obtain financing from Independent Third Parties to support our daily operations. During the Track Record Period, our Group relied on cash generated from operations as well as bank borrowings which were partially guaranteed by Mr. Xue and his associates during the Track Record Period and up to the Latest Practicable Date to carry on its business. Our Directors confirm that the non-trade related amounts due to or from our Controlling Shareholders, or companies controlled by him/it will be settled and all guarantees provided to us by our Controlling Shareholders and their associates will be released upon Listing.

Having considered the above, our Directors consider that there is no financial dependence on our Controlling Shareholders.

Operational independence

Our Group has an independent work force to carry out the procurement, production, sales and marketing and accounting functions and has not shared its operation team with our Controlling Shareholders and their respective close associates. Our Group has independent access to its suppliers and customers. Our Group has also implemented internal controls to facilitate the effective operations of its business. Other than the transactions disclosed under "Connected transaction" in this prospectus, there was no business transaction between our Group on one hand and our Controlling Shareholders and/or their respective close associates on the other hand during the Track Record Period. Therefore, our Directors consider that our Group's operations do not rely on our Controlling Shareholders and/or any of their respective close associates.

Management independence

Our Company aims at establishing and maintaining a strong and independent Board to oversee our Group's business. The main function of our Board includes the approval of our overall business plans and strategies, monitoring the implementation of these policies and strategies and the management of our Company. We have an independent management team, which is led by a team of senior management with substantial experience and expertise in our business, to implement our Group's policies and strategies.

Our Board consists of eight Directors, comprising five executive Directors and three independent non-executive Directors. Mr. Xue is the sole director of Oriental Ever Holdings and our Controlling Shareholder. Save for Mr. Xue, no other Directors nor members of senior management of our Group hold any directorship or position in Oriental Ever Holdings.

Each Director is aware of his/her fiduciary duties as a director of our Company which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. In the

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors and/or their respective close associates, the interested Director(s) (the “**Conflicted Directors**”) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions.

Our independent non-executive Directors have been appointed in compliance with the requirements under the Listing Rules to ensure that the decisions of our Board will be made only after due consideration of independent and impartial opinions. Our Directors believe that the presence of independent non-executive Directors provides a balance of views and opinions. Further, our Board acts collectively by majority decisions in accordance with the Articles and the laws, and no single Director is expected to have any decision-making power unless otherwise authorised by our Board.

In addition, our Group has adopted certain corporate governance measures for conflict situation in order to safeguard the interests of our Shareholders as a whole, details of which are set out in “Corporate governance measures” in this section.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that our Group is capable of managing the business independently from Mr. Xue and his close associates after the Listing.

UNDERTAKINGS

Each of our Controlling Shareholders has given certain undertakings in respect of the Shares to our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, details of which are set out in “Underwriting — Undertakings by our Controlling Shareholders” in this prospectus.

NON-COMPETITION UNDERTAKINGS

Our Controlling Shareholders have entered into the Deed of Non-competition in favour of our Company (for itself and as trustee for the benefit of each of its subsidiaries), under which our Controlling Shareholders have undertaken to our Company that they will not, and will procure that none of their respective close associates (other than members of our Group) will, during the Restricted Period (as defined below), directly or indirectly, either on their own account, in conjunction with, on behalf of, or through any person, firm or company, partnership, joint venture or other contractual arrangement, among other things, carry on, participate or be interested, engaged, concerned or otherwise involved in or acquire or hold (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) any business which competes or is likely to compete directly or indirectly with the business currently engaged by our Group, and any other new business which our Group may undertake from time to time after the Listing (the “**Restricted Business**”), provide support in any form to persons or entities (other than members of our Group) to engage in the Restricted Business and where they become aware of such engagement of the Restricted Business they shall notify our Company in writing immediately.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

For the purpose of the Deed of Non-competition, “close associates” has the meaning ascribed to it under Rule 1.01 of the Listing Rules.

The non-competition undertakings do not apply to the relevant Controlling Shareholders in the circumstances where it or he has:

- (a) any interests in the shares of any member of our Group; or
- (b) interests in the shares of a company other than our Group provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating to any Restricted Business) accounts for less than 30% of that company’s consolidated sales or consolidated assets, as shown in that company’s latest audited accounts; and
 - (ii) the total number of shares held by our Controlling Shareholders and their close associates in aggregate does not exceed 30% of the issued shares of that class of the company in question and our Controlling Shareholders and their close associates are not entitled to appoint a majority of the directors of that company.

The “Restricted Period” stated in the Deed of Non-competition refers to the period during which:

- (a) our Shares remain listed on the Stock Exchange; and
- (b) our Controlling Shareholders and their close associates (other than members of our Group), individually or jointly, are entitled to exercise, or control the exercise of, not less than 30% of the voting power at general meetings of our Company; or
- (c) our Controlling Shareholders or their relevant close associates remain as a director of any member of our Group.

Our Controlling Shareholders have further unconditionally and irrevocably undertaken to procure that, during the Restricted Period, any business investment or other commercial opportunity relating to the Restricted Business (the “**New Opportunity**”) identified by or offered to our Controlling Shareholders and/or any of their close associates (other than members of our Group) (the “**Offeror**”) is first referred to us in the following manner:

- (a) Our Controlling Shareholders are required to, and shall procure their close associates (other than members of our Group) to, promptly within seven days upon identifying or being offered any New Opportunity, refer, or procure the referral of, the New Opportunity to us on the terms no less favourable than those offered to the Offeror, and shall give written notice to us of any New Opportunity containing all information reasonably necessary for us to consider whether (i) the New Opportunity would constitute competition with our core business and/or any other new business which our

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Group may undertake at the relevant time; and (ii) it is in the interest of our Group to pursue the New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs (the “Offer Notice”).

- (b) The Offeror will be entitled to pursue the New Opportunity only if (i) the Offeror has received a written notice from us declining the New Opportunity and confirming that the New Opportunity would not constitute competition with our core business; or (ii) the Offeror has not received the notice from us within 30 business days from our receipt of the Offer Notice (or such longer period if our Group is required to complete any approval procedures as set out in the Listing Rules from time to time). If there is a material change in the terms and conditions of the New Opportunity pursued by the Offeror, the Offeror will refer the New Opportunity as so revised to us in the manner as set out above.

Upon receipt of the Offer Notice, we will seek opinions and decisions from all independent non-executive Directors who do not have a material interest in the matter as to whether (a) such New Opportunity would constitute competition with our core business; and (b) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunity.

Further undertakings

Our Controlling Shareholders have further undertaken to:

- (a) procure all relevant information relating to the implementation of the Deed of Non-competition in their possession and/or the possession of any of their close associates to be provided to us;
- (b) allow, subject to confidentiality restrictions imposed by any third party, our representatives and those of our auditors to have access to their financial and corporate records as may be necessary for us to determine whether the non-competition undertakings have been complied with by our Controlling Shareholders and their close associates; and
- (c) provide us, within 10 business days from the receipt of our written request, with a written confirmation in respect of their compliance and that of their close associates with the non-competition undertakings and consent to the inclusion of such confirmation in our annual report.

Our Controlling Shareholders, for themselves and on behalf of their close associates (except any members of our Group), have also acknowledged that we may be required by the relevant laws, regulations, rules of the stock exchange(s) on which we may be listed and the regulatory bodies to disclose, from time to time, information on the New Opportunity, including but not limited to disclosure in public announcements or our annual report or decision made by us to pursue or decline the New Opportunity and we may agree to the disclosure to the extent necessary to comply with any such requirement.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Assessment of compliance with non-competition undertakings

Our independent non-executive Directors who have no material interest in the matters discussed will, based on the information available to them, including information and confirmation provided by or obtained from our Controlling Shareholders and their close associates (other than members of our Group) as described above, review on an annual basis (a) the compliance with the non-competition undertakings; and (b) all the decisions taken in relation to whether to pursue any business opportunities which may be referred or offered to us by our Controlling Shareholders or their close associates (other than members of our Group) under the Deed of Non-competition. Findings of such review will be disclosed in our annual report after the Listing.

CORPORATE GOVERNANCE MEASURES

Our Company has adopted the following stringent corporate governance measures for conflict situation in order to safeguard the interests of our Shareholders as a whole:

- (a) all the Conflicted Director(s) will abstain from participation in any board meeting of our Company or part thereof when matters relating to the exercise of any rights of first refusal granted to our Group or any other connected transactions with those companies controlled by our Controlling Shareholders (other than our Group) are discussed, unless his/her attendance is agreed by a majority of the independent non-executive Directors. Notwithstanding his/her attendance, he/she shall not vote or be counted towards the quorum in respect of such matters;
- (b) a committee comprising all Directors (excluding those Directors who are interested in the relevant Restricted Business) shall decide whether or not to pursue the opportunity offered by our Controlling Shareholders and/or their respective close associates (other than our Group). When considering whether or not to pursue such opportunity, the committee will consider whether the relevant business opportunities are expected to present a sustainable level of profitability, accord with the development strategy of our Group at the material time, and would be in the best interest of the Shareholders as a whole. Notwithstanding that the Conflicted Director(s) shall abstain from voting on any resolution of the board relating to connected transactions with those companies controlled by our Controlling Shareholders and/or their respective close associates other than our Group, the Conflicted Director(s) shall be obliged to provide useful information to assist the committee or independent financial adviser or other professional advisers for them in assessing such opportunity. Such committee may appoint an independent financial adviser or other professional advisors to give the necessary advice;
- (c) our Company has appointed Fortune Financial as the compliance adviser which shall provide our Company with professional advice and guidance in respect of compliance with the Listing Rules and applicable laws;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (d) our Company will disclose in the annual reports compliance and enforcement of the undertakings by our Controlling Shareholders in respect of the Deed of Non-competition and the appropriate actions to be taken by our Company. Our Company will disclose the details and basis of the decisions on the matters reviewed by the independent non-executive Directors in relation to the compliance and enforcement of arrangement of any new business opportunity;
- (e) the Board will ensure any event relating to the potential conflict of interests shall be reported to our independent non-executive Directors as soon as practicable when it realises or suspects any event relating to potential conflict of interests may occur during the daily operations;
- (f) following the reporting of any event relating to potential conflict of interests, the Board will hold a management meeting to review and evaluate the implications and risk exposures of such event and the compliance of the Listing Rules in order to monitor any irregular business activities and alert the Board, including our independent non-executive Directors, to take any precautions actions;
- (g) our Company will disclose the non-competition undertakings given by our Controlling Shareholders in its annual report or by way of announcement to the public in addition to complying with the disclosure requirements under the Listing Rules; and
- (h) our Controlling Shareholders also undertake to provide all information necessary for the enforcement of the non-competition undertakings as requested by the committee from time to time and make an annual declaration in compliance with the non-competition undertakings in the annual report of our Company.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme), the following persons 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 will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group:

Long position in our Shares

<u>Name</u>	<u>Capacity/Nature of interest</u>	Number of Shares held/interested immediately following completion of the Capitalisation Issue and the Share Offer	Percentage of shareholding immediately following completion of the Capitalisation Issue and the Share Offer
Oriental Ever Holdings	Beneficial owner ¹	450,000,000	75%
Mr. Xue	Interest of a controlled corporation ¹	450,000,000	75%
Ms. Hu Beixia	Interest of spouse ²	450,000,000	75%

Notes:

1. Oriental Ever Holdings is wholly-owned by Mr. Xue. Therefore, Mr. Xue is deemed, or taken to be, interested in all Shares held by Oriental Ever Holdings for the purpose of the SFO.
2. Ms. Hu Beixia is the spouse of Mr. Xue. Accordingly, Ms. Hu Beixia is deemed, or taken to be, interested in the Shares which Mr. Xue is interested in for the purpose of the SFO.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme), have interests or short positions in the Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Our Board consists of eight Directors, including five executive Directors and three independent non-executive Directors.

The following table sets forth certain information regarding our Directors:

Name	Age	Position(s)	Date of appointment as Director	Date of joining our Group	Principal responsibilities	Relationship with other Directors and members of the senior management
Mr. Xue Shidong (薛士東)	57	Chairman of our Board and executive Director	22 September 2016	July 2011	Formulating the overall corporate directions, development strategies and business plans and overseeing the operations of our Group	Nil
Mr. Wang Bin (王斌)	50	Executive Director	22 November 2019	April 2016	Operations and production management of our Group	Nil
Mr. Qiu Jianyu (邱建宇)	48	Executive Director	22 November 2019	March 2014	Budgeting, financial and accounting management of our Group	Nil
Ms. Zhang Yeping (張葉萍)	50	Executive Director	22 November 2019	March 2014	Marketing and sales and customer relationship management of our Group	Nil
Mr. Jin Rongwei (金榮偉)	46	Executive Director	22 November 2019	January 2015	Procurement and fixed assets management and maintenance of our Group	Nil
Mr. Zhu Qi (朱旗)	49	Independent non-executive Director	21 October 2020	21 October 2020	Supervising and providing independent judgment to our Board	Nil
Mr. Ho Kin Cheong Kelvin (何建昌)	53	Independent non-executive Director	21 October 2020	21 October 2020	Supervising and providing independent judgment to our Board	Nil
Mr. Wang Hongliang (王洪亮)	47	Independent non-executive Director	21 October 2020	21 October 2020	Supervising and providing independent judgment to our Board	Nil

DIRECTORS

Executive Directors

Mr. Xue Shidong (薛士東), aged 57, is the founder of our Group. Mr. Xue was appointed as a Director on 22 September 2016 and re-designated as the chairman of our Board and an executive Director on 22 November 2019. He is mainly responsible for formulating the overall corporate directions, development strategies and business plans and overseeing the operations of our Group.

Mr. Xue had accumulated years of experience in the textile dyeing and finishing industry prior to the forming of our Group in 2011. He co-founded Yadong Textile in 1993 and was its director and legal representative prior to its deregistration in July 2020. Mr. Xue also co-founded Changzhou Dongxia in 2002 as a shareholder and was its director as at the Latest Practicable Date. He currently is a director of each subsidiary of our Group.

Management role in Yadong Textile and Yadong Velvet Factory

Yadong Textile was established in the PRC as a limited liability company on 28 October 1993. Yadong Velvet Factory was established as a branch company of Yadong Textile on 5 January 1997. Mr. Xue was the director and legal representative of Yadong Textile and the responsible person of Yadong Velvet Factory prior to their deregistrations in July 2020.

The permitted scope of business of Yadong Textile and Yadong Velvet Factory mainly included textile manufacturing and processing. Each of Yadong Textile and Yadong Velvet Factory had ceased business operation since July 2005.

Yadong Textile had failed to carry out annual inspection with the Tianning Branch of Changzhou Administration for Industry and Commerce* (常州工商行政管理局天寧分局) (“**Tianning AIC**”) within the prescribed time limit for the year of 2005, resulting in the revocation of its business licence by the Tianning AIC on 30 January 2007. Similarly, Yadong Velvet Factory had failed to carry out annual inspection with the Tianning AIC within the prescribed time limit for the year of 2005, resulting in the revocation of its business licence by Tianning AIC on 20 December 2005.

Since each of Yadong Textile and Yadong Velvet Factory had ceased business operation since July 2005, Mr. Xue confirmed that the failure of Yadong Textile and Yadong Velvet Factory in carrying out annual inspection within the prescribed time limit was due to inadvertent oversight and lack of timely legal and professional advice.

Pursuant to the PRC Company Law and Registration Management Regulations on Legal Representative of Enterprise Entity* (企業法人法定代表人登記管理規定), for any person (i) being the legal representative of a PRC company of which the business licence has been revoked due to violation of laws or regulations; and (ii) bearing personal responsibility for such violation of laws

DIRECTORS AND SENIOR MANAGEMENT

or regulations, he/she is prohibited from acting as legal representative, director, supervisor or member of senior management in other PRC companies within three years upon the revocation of business licence.

According to a letter issued by the Changzhou Tianning District Market Supervisory Board* (常州天寧區市場監督管理局), Mr. Xue was prohibited from acting as legal representative, director, supervisor or member of senior management in other PRC companies (a) for the period from 30 January 2007 to 30 January 2010 following the revocation of Yadong Textile's business licence; and (b) for the period from 20 December 2005 to 20 December 2008 following the revocation of Yadong Velvet Factory's business licence. As confirmed by the Tianning AIC, Mr. Xue has been eligible to register as legal representative, director, supervisor or member of senior management in other PRC companies since the expiry of the prohibition term on 30 January 2010.

The deregistrations of Yadong Textile and Yadong Velvet Factory were approved by the Changzhou Tianning District Market Supervisory Board* (常州天寧區市場監督管理局) on 30 July 2020 and 29 July 2020, respectively.

Mr. Wang Bin (王斌), aged 50, has joined our Group since April 2016. Mr. Wang was appointed as an executive Director on 22 November 2019. He is mainly responsible for operations and production management of our Group.

From April 1998 to January 2001, he worked for Jiangyin Kangyuan Printing & Dyeing Company Limited* (江陰市康源印染有限公司) as a workshop manager. From February 2001 to December 2003, he worked for Changzhou Dongheng Weaving and Dyeing Group Company Limited* (常州東恒染織集團有限公司) as a workshop manager. From April 2004 to February 2016, he worked for Changzhou Shengyu Textile Printing and Dyeing Company Limited* (常州市盛宇紡織印染有限公司) as the head of production department. In April 2016, Mr. Wang joined our Group and worked as the vice production manager of Yadong (Changzhou). He currently is a director of Yadong (Hong Kong) and Yadong (Changzhou).

Mr. Qiu Jianyu (邱建宇), aged 48, has joined our Group since March 2014. Mr. Qiu was appointed as an executive Director on 22 November 2019. He is mainly responsible for budgeting, financial and accounting management of our Group.

Mr. Qiu attended secondary education in the PRC. From September 2001 to September 2003, he worked for Changzhou Wujin branch of PICC Property and Casualty Company Limited* (中國人民財產保險股份有限公司常州市武進支公司) as a department head. Prior to joining our Group, Mr. Qiu has worked for Changzhou Dongxia as the head of finance department since September 2003. In March 2014, Mr. Qiu joined our Group and served as supervisor of Yadong (Changzhou) until August 2016. He was also appointed as the vice financial manager of Yadong (Changzhou) in January 2015. He currently is a director of Yadong (Hong Kong) and Yadong (Changzhou).

Mr. Qiu obtained the Chief Financial Officer Position Certificate* (財務總監崗位證書) issued by Cambridge International Partner in 2011.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Zhang Yeping (張葉萍), aged 50, has joined our Group since March 2014. Ms. Zhang was appointed as an executive Director on 22 November 2019. She is mainly responsible for marketing and sales and customer relationship management of our Group.

Ms. Zhang completed the professional studies in weaving at Jiangsu Changzhou Textile Industry School* (江蘇省常州紡織工業學校) in July 1988 and the professional studies in computer information management at Nanjing University (南京大學) in the PRC in July 2001. Prior to joining our Group, Ms. Zhang has worked for Changzhou Dongxia as a sales manager since April 2004. Ms. Zhang has concurrently served as a director and a vice sales manager of Yadong (Changzhou) since March 2014 and January 2015, respectively. Ms. Zhang currently is also a director of Yadong (Hong Kong).

Mr. Jin Rongwei (金榮偉), aged 46, has joined our Group since January 2015. Mr. Jin was appointed as an executive Director on 22 November 2019. He is mainly responsible for procurement and fixed assets management and maintenance of our Group.

From May 2004 to December 2014, he worked for Changzhou Dongxia as the head of electrical and mechanical department. In January 2015, Mr. Jin joined our Group and has been the vice administrative manager of Yadong (Changzhou) since then. He currently is also the supervisor of Yadong (Changzhou).

Independent non-executive Directors

Mr. Zhu Qi (朱旗), aged 49, was appointed as an independent non-executive Director on 21 October 2020. He is responsible for supervising and providing independent judgment to our Board.

Mr. Zhu obtained a university diploma in economic management from Nanjing Institute of Politics (南京政治學院) in the PRC in June 2007. Since February 2010, he has worked for Changzhou Sheng Rui Tax Advisory Company Limited* (常州市升瑞稅務師事務所有限公司) as an executive director and general manager. Mr. Zhu currently is an independent director of Jiangsu Lidao New Material Co., Ltd.* (江蘇麗島新材料股份有限公司) (stock code: 603937), the shares of which are listed on the Shanghai Stock Exchange.

Mr. Zhu was admitted as member of The Chinese Institute of Certified Public Accountants in November 2009.

Mr. Ho Kin Cheong Kelvin (何建昌), aged 53, was appointed as an independent non-executive Director on 21 October 2020. He is responsible for supervising and providing independent judgment to our Board.

Mr. Ho obtained a bachelor degree of business administration from Hong Kong Baptist College (currently known as Hong Kong Baptist University) in November 1990. From December 2000 to October 2003, he worked for Hanny Magnetics Limited, a subsidiary of Hanny Holdings Limited (currently known as Master Glory Group Limited) (stock code: 0275) at which his last position was financial analyst. From April 2004 to September 2005, he worked for Garron

DIRECTORS AND SENIOR MANAGEMENT

International Limited (currently known as China Investment and Finance Group Limited) (stock code: 1226) as the company secretary and financial controller. From August 2008 to January 2010, he worked for FU JI Food and Catering Services Holdings Limited (currently known as Fresh Express Delivery Holdings Group Co., Ltd) (stock code: 1175) as company secretary and chief financial officer. From April 2010 to March 2012 and from May 2012 to December 2014, he worked for Greens Holdings Ltd (stock code: 1318) at which his last position was company secretary and chief financial officer. From January 2016 to December 2017, he worked for Sand River Golf Club Limited as chief financial officer. From April 2019 to May 2020, he worked for Richly Field China Development Limited (stock code: 0313) as company secretary and chief financial officer. Since August 2020, Mr. Ho has been the company secretary and chief financial officer of HongDa Financial Holding Limited (currently known as China Wood International Holding Co., Limited) (stock code: 1822).

Mr. Ho was an independent non-executive director of Cheung Tai Hong Holdings Limited (currently known as ITC Properties Group Limited) (stock code: 0199) from October 2001 to May 2003 and a non-executive director of HongDa Financial Holding Limited (currently known as China Wood International Holding Co., Limited) (stock code: 1822) from April 2016 to April 2017. Since 6 August 2018, Mr. Ho has been an independent non-executive director of CECEP COSTIN New Materials Group Limited (In Provisional Liquidation) (“**CECEP COSTIN**”) (stock code: 2228). Based on published information, CECEP COSTIN received a winding up petition and a summons for the appointment of joint provisional liquidators dated 30 October 2017. Mr. Ho’s appointment was made subsequent to the winding up petition against CECEP COSTIN and he was appointed by the joint provisional liquidators to meet the relevant requirements under the Listing Rules. Since 1 July 2020, Mr. Ho has been an independent non-executive director of Rosan Resources Holdings Limited (stock code: 0578). Since 5 August 2020, he has been an independent non-executive director of Green Leader Holdings Group Limited (stock code: 0061). Since 22 October 2020, he has been an independent non-executive director of JW (Cayman) Therapeutics Co. Ltd (stock code: 2126). Notwithstanding the above appointments as independent non-executive director, Mr. Ho confirmed that his time commitment for the directorship in CECEP COSTIN would not be more than 10 hours per month and he will devote sufficient time to act as an independent non-executive Director of our Company. In addition, Mr. Ho is neither a full-time member of the above-mentioned listed companies nor involved in day-to-day operations or management of the above-mentioned listed companies, and as such he has no executive or management responsibility.

Mr. Ho was admitted as an associate member of the Hong Kong Society of Accountants (currently known as The Hong Kong Institute of Certified Public Accountants) in June 1997 and a fellow member of The Association of Chartered Certified Accountants in the United Kingdom in April 2002.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Ho was a director of the following companies which were dissolved:

<u>Name of company</u>	<u>Place of incorporation</u>	<u>Date of dissolution</u>	<u>Nature of dissolution</u>	<u>Nature of business before dissolution</u>
Asia High Yield Capital.com Limited	Hong Kong	24 January 2003	Deregistration ^(Note)	Investment holding
Asia Pacific Strategic Corporation Limited	Hong Kong	24 January 2003	Deregistration ^(Note)	Investment holding
China A To Z.com Limited	Hong Kong	12 July 2002	Deregistration ^(Note)	Investment holding
China Abovenet Limited	Hong Kong	12 July 2002	Deregistration ^(Note)	Investment holding
China BBC Limited	Hong Kong	24 January 2003	Deregistration ^(Note)	Investment holding
China Biotech Limited	Hong Kong	31 May 2002	Deregistration ^(Note)	Investment holding
China Cable & Wireless Holdings Limited	Hong Kong	31 May 2002	Deregistration ^(Note)	Investment holding
China Cable Union Limited	Hong Kong	31 May 2002	Deregistration ^(Note)	Investment holding
China Corporative Net.com Limited	Hong Kong	12 July 2002	Deregistration ^(Note)	Investment holding
China Doctor Online Limited	Hong Kong	31 May 2002	Deregistration ^(Note)	Investment holding
China Duty Free Shop (Holdings) Co., Limited	Hong Kong	12 July 2002	Deregistration ^(Note)	Investment holding
China Healthcare Net.com Limited	Hong Kong	24 January 2003	Deregistration ^(Note)	Investment holding
China International Internet Corporation Limited	Hong Kong	12 July 2002	Deregistration ^(Note)	Investment holding
China Internet Alliance Limited	Hong Kong	16 August 2002	Deregistration ^(Note)	Investment holding
China Internet Barter Limited	Hong Kong	31 May 2002	Deregistration ^(Note)	Investment holding
China Internet Gateway Limited	Hong Kong	24 January 2003	Deregistration ^(Note)	Investment holding
China Multi-Media Corporation Limited	Hong Kong	24 January 2003	Deregistration ^(Note)	Investment holding
China Net Financial Information Services Limited	Hong Kong	12 July 2002	Deregistration ^(Note)	Investment holding
China Nutritious & Health Pharmaceutical Limited	Hong Kong	12 July 2002	Deregistration ^(Note)	Investment holding
China Post Online Limited	Hong Kong	24 January 2003	Deregistration ^(Note)	Investment holding
China Power (Holdings) Limited	Hong Kong	12 July 2002	Deregistration ^(Note)	Investment holding
China Publishing Holdings Limited	Hong Kong	2 August 2002	Deregistration ^(Note)	Investment holding
China Satellite Limited	Hong Kong	31 May 2002	Deregistration ^(Note)	Investment holding
China Shipping (Holdings) Limited	Hong Kong	12 July 2002	Deregistration ^(Note)	Investment holding
China Strategic Investment (Holdings) Limited	Hong Kong	31 May 2002	Deregistration ^(Note)	Investment holding
China Telecom Holdings Limited	Hong Kong	24 January 2003	Deregistration ^(Note)	Investment holding
China Telecommunications (Holdings) Co., Limited	Hong Kong	24 January 2003	Deregistration ^(Note)	Investment holding
China U-online Limited	Hong Kong	31 May 2002	Deregistration ^(Note)	Investment holding
China Woman Net.com Limited	Hong Kong	12 July 2002	Deregistration ^(Note)	Investment holding
Egreaterchina.com Limited	Hong Kong	31 May 2002	Deregistration ^(Note)	Investment holding
H.K. Strategic Investment Limited	Hong Kong	28 October 2004	Members' voluntary winding up	Investment holding
I Link China Limited	Hong Kong	24 January 2003	Deregistration ^(Note)	Investment holding
International Trade (I.T.).com Limited	Hong Kong	24 January 2003	Deregistration ^(Note)	Investment holding
Internet Currency.com Limited	Hong Kong	12 July 2002	Deregistration ^(Note)	Investment holding
MBK China Strategic Limited	Hong Kong	8 March 2004	Members' voluntary winding up	Investment holding
Ruby Holdings Limited	Hong Kong	24 January 2003	Deregistration ^(Note)	Investment holding

DIRECTORS AND SENIOR MANAGEMENT

Note: Under section 291AA of the Predecessor Companies Ordinance, an application for deregistration can only be made if (a) all members of such company agree to such deregistration; (b) such company has never commenced business, 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.

Mr. Ho confirmed that the above-mentioned companies were solvent at the time of dissolution and there was no wrongful act on his part leading to the dissolution of the companies.

Mr. Wang Hongliang (王洪亮), aged 47, was appointed as an independent non-executive Director on 21 October 2020. He is responsible for supervising and providing independent judgment to our Board.

Mr. Wang obtained a bachelor degree in law from Northwest University of Political Science and Law (西北政法大學) in the PRC in July 1995. He subsequently obtained a master degree and a doctoral degree in law from China University of Political Science and Law (中國政法大學) in the PRC in July 1998 and July 2001, respectively. He obtained a doctoral degree in law from Albert Ludwig University of Freiburg in Germany in July 2004. Since October 2004, he has worked for School of law of Tsinghua University and currently is a professor. Since June 2016, Mr. Wang has been an independent director of CITIC Guoan Information Industry Co., Ltd, a company listed on the Shenzhen Stock Exchange (stock code: 000839). Since October 2018, Mr. Wang has been an independent director of Inner Mongolia First Machinery Group Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600967). Since January 2020, Mr. Wang has been an independent director of Guangxi Wuzhou Zhongheng Group Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600252).

Save as disclosed in this prospectus, each of our Directors confirmed that he/she (i) did not hold any directorships in the last three years prior to the Latest Practicable Date in public companies, the securities of which are listed on any securities market in Hong Kong or overseas; (ii) does not hold any other positions with us or other members of our Group; and (iii) does not have any relationship with other Directors, senior management or Controlling Shareholders of our Company or any interest in our Shares within the meaning of Part XV of the SFO.

Save as disclosed in this prospectus, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

The following table sets forth certain information regarding our senior management:

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>	<u>Date of joining our Group</u>	<u>Principal responsibilities</u>
Mr. Lu Jigang (魯積剛)	48	Head of technical department	January 2015	Overseeing textile dyeing, printing and finishing processes of our Group in the PRC
Ms. Zhou Jie (周潔)	44	Head of administration department	January 2015	Overseeing the administration and human resources management of our Group

Biographies of each member of the senior management team are set out below:

Mr. Lu Jigang (魯積剛), aged 48, is the head of our technical department. He is mainly responsible for overseeing textile dyeing, printing and finishing processes of our Group in the PRC.

Mr. Lu completed the professional studies in dyeing works at Hubei Textile Industrial School* (湖北省紡織工業學校) in July 1992. From March 2006 to December 2014, he worked for Changzhou Dongxia as the head of technical department. In January 2015, Mr. Lu joined our Group and has worked as the head of technical department of Yadong (Changzhou) since then.

Ms. Zhou Jie (周潔), aged 44, is the head of our administration department. She is mainly responsible for overseeing the administration and human resources management of our Group.

Ms. Zhou attended the Chinese Trainee Senior Technical Institute* (中國研修生高等技能學院) in Japan between 1999 and 2002. From June 2007 to December 2011, she worked for Changzhou Mingqi Garment Company Limited* (常州茗企服飾有限公司) as a manager. From February 2012 to December 2014, she worked for Changzhou Dongxia as a management associate. In January 2015, Ms. Zhou joined our Group and has worked as the head of administration department of Yadong (Changzhou) since then.

Save as disclosed in this prospectus, each of our senior management confirmed that he/she (i) did not hold any directorships in the last three years prior to the Latest Practicable Date in public companies, the securities of which are listed on any securities market in Hong Kong or overseas; and (ii) does not have any relationships with the Directors, senior management or Controlling Shareholders of our Company.

DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Ms. Chou Kwai Wah (周桂華), *ACIS, ACS*, was appointed as the company secretary of our Company on 31 July 2020. Ms. Chou joined corporate services department of Trident Corporate Services (Asia) Limited in August 2010 and currently serves as a senior manager. Ms. Chou has over 22 years of experience in the company secretarial field. Ms. Chou obtained her master's degree in professional accounting and corporate governance from City University of Hong Kong in November 2007 and a master's degree in bilingual corporate communication from The Hong Kong Polytechnic University in March 2020. Ms. Chou is an associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators (currently known as The Chartered Governance Institute) in the United Kingdom.

BOARD COMMITTEES

Audit committee

We established an audit committee on 21 October 2020 in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. The primary duties of the audit committee are to assist our Board to provide an independent review of the effectiveness of the financial reporting process, internal control system and risk management system of our Group, oversee the audit process, review our annual and interim financial statements, and perform other duties and responsibilities as assigned by our Board. The audit committee consists of three independent non-executive Directors, namely Mr. Ho Kin Cheong Kelvin, Mr. Zhu Qi and Mr. Wang Hongliang. Mr. Ho Kin Cheong Kelvin is the chairman of the audit committee.

Remuneration committee

We established a remuneration committee on 21 October 2020 in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the CG Code. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to our Directors on our policy and structure for all remunerations of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of our Directors and senior management; (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time; and (iv) considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme. The remuneration committee consists of an executive Director, namely Mr. Xue Shidong, and two of our independent non-executive Directors, namely Mr. Zhu Qi and Mr. Ho Kin Cheong Kelvin. Mr. Zhu Qi is the chairman of the remuneration committee.

Nomination committee

We established a nomination committee on 21 October 2020 in compliance with paragraph A.5.1 of the CG Code. The primary duties of the nomination committee are to make recommendations to our Board on the appointment or re-appointment of Directors and other senior

DIRECTORS AND SENIOR MANAGEMENT

management of our Group, and review the structure, size and composition (including the skills, knowledge and experience) and diversity of our Board. The nomination committee currently consists of an executive Director, namely Mr. Xue Shidong, and two of our independent non-executive Directors, namely Mr. Zhu Qi and Mr. Wang Hongliang. Mr. Xue Shidong is the chairman of the nomination committee.

BOARD DIVERSITY POLICY

We recognise and embrace the benefit of having a diverse Board to enhance the quality of our Board's performance. We have adopted a board diversity policy which sets out our approach to achieve a sustainable and balanced development of our Company and to enhance our quality of performance. Selection and recommendation of candidates will be based on the nomination procedures and the process and criteria adopted by our nomination committee and a number of perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services, personal integrity and time commitments of the proposed candidates. We will take into account factors relating to our own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the selected candidates will bring to our Board.

Currently, our Board includes one female executive Director. While we recognise that gender diversity at the board level has been achieved given its current composition, we will continue to select and recommend candidates to our Board based on merits and contribution with reference to our board diversity policy as a whole. We will, on a best-effort basis, maintain the gender diversity and include at least one female Director in our Board where appropriate. We will commit to continuously looking for suitable female candidates to join our Group and providing career development and offering training opportunities to our female staff such that they will be eligible for managerial and board-level positions in the future. Our Board and our nomination committee will also ensure that appropriate balance of gender diversity is achieved with reference to investors' expectation, and international and local recommended best practices.

Our nomination committee has been delegated with the overall responsibility for implementation, monitoring and periodic review of our board diversity policy. Any revisions to the policy as recommended by our nomination committee will be submitted to our Board for consideration and approval.

DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The aggregate amount of fees, salaries, allowances and other benefits, and contributions to retirement benefits scheme paid by us to our Directors were approximately RMB1.3 million, RMB1.3 million, RMB1.8 million and RMB0.4 million for the Track Record Period, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Our Group's five individuals with highest emoluments included three, three, three and two Directors for the Track Record Period, respectively. The emoluments of the remaining two, two, two and three individuals, respectively, who are not our Directors, with highest emoluments were approximately RMB0.6 million, RMB0.6 million, RMB0.8 million and RMB0.3 million for the Track Record Period, respectively.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office. In addition, none of our Directors or the five highest paid individuals has waived any emoluments.

Save as disclosed above, no other payments have been paid, or are payable, by our Group to our Directors during the Track Record Period.

Under the arrangements currently in force, the aggregate remuneration of our Directors (including our independent non-executive Directors) payable in respect of the year ending 31 December 2020 is estimated to be approximately RMB1.6 million.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Further information on the Share Option Scheme is set out in "D. Share Option Scheme" in Appendix V to this prospectus.

COMPLIANCE ADVISER

We have appointed Fortune Financial as our compliance adviser, pursuant to Rule 3A.19 of the Listing Rules to provide the following services:

- (a) to provide our Company with proper guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines;
- (b) upon receiving reasonable prior notice from our Company, to accompany our Company to any meetings with the Stock Exchange that our Company is asked to attend, unless otherwise requested by the Stock Exchange;
- (c) no less frequently than at the time of reviewing the financial report of our Company under Rule 3A.23(1) of the Listing Rules and upon our Company notifying Fortune Financial of a proposed change in the use of proceeds of the Share Offer under Rule 3A.23(3) of the Listing Rules, Fortune Financial shall timely discuss the following (as appropriate) with our Company:
 - (i) our Company's operating performance and financial condition with reference to our Company's business objectives and proposed use of proceeds as stated in this prospectus;

DIRECTORS AND SENIOR MANAGEMENT

- (ii) our Company's compliance with the terms and conditions of any waivers from the strict compliance with the Listing Rules at the time of Listing and any other waivers as may be granted by the Stock Exchange under the Listing Rules to our Company from time to time;
 - (iii) whether any profit forecast or estimate, if any, in this prospectus will be or has been met by our Company and advise our Company to notify the Stock Exchange and inform the public in a timely and appropriate manner; and
 - (iv) our Company's compliance with any undertakings provided by our Company and our Directors at the time of Listing, and, in the event of non-compliance, discuss the issue with the Board and make recommendations to the Board regarding appropriate remedial steps;
- (d) if required by the Stock Exchange, to deal with the Stock Exchange in respect of any or all matters listed in Rule 3A.23 of the Listing Rules;
 - (e) in relation to an application by our Company for a waiver from any of the requirements in Chapter 14A of the Listing Rules, to advise our Company on our obligations and in particular the requirement to appoint an independent financial adviser;
 - (f) to assess the understanding of all new appointees to the Board regarding the nature of their responsibilities and fiduciary duties as a director of a listed company, and, to the extent Fortune Financial forms an opinion that the new appointees' understanding is inadequate, discuss the inadequacies with the Board and make recommendations to the Board regarding appropriate remedial steps such as provision of training to such new appointee;
 - (g) to inform our Company as soon as reasonably practicable of any amendment or supplement to the Listing Rules announced by the Stock Exchange from time to time and any new or amended law, rule, code and guideline in Hong Kong which is material and applicable to our Company; and
 - (h) to discharge such duties and functions as may be required to be performed by Fortune Financial under the Listing Rules from time to time.

The term of the appointment will commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

Our Company's authorised and issued share capital immediately following the Capitalisation Issue and the Share Offer will be as follows:

HK\$

Authorised share capital:

<u>10,000,000,000</u>	Shares	<u>100,000,000</u>

Issued and to be issued, fully paid or credited as fully paid upon completion of the Share Offer:

100,001	Shares in issue as at the date of this prospectus	1,000.01
449,899,999	Shares to be issued under the Capitalisation Issue	4,498,999.99
<u>150,000,000</u>	Shares to be issued pursuant to the Share Offer	<u>1,500,000.00</u>
<u>600,000,000</u>	Total	<u>6,000,000.00</u>

ASSUMPTION

The above table assumes that the Capitalisation Issue and the Share Offer become unconditional. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the exercise of any options which may be granted under the Share Option Scheme, or of any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates given to our Directors to allot and issue or repurchase the Shares as referred to below.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08 of the Listing Rules, at least 25% of the total issued share capital of our Company must be at all times be held by the public (as defined in the Listing Rules). The 150,000,000 Offer Shares represent not less than 25% of the issued share capital of our Company upon Listing.

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and rank *pari passu* in all respects with all Shares currently in issue or to be issued as mentioned in this prospectus, and will qualify in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus other than participation in the Capitalisation Issue.

SHARE CAPITAL

CAPITALISATION ISSUE

Pursuant to the written resolutions of our sole Shareholder passed on 21 October 2020, conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company under the Share Offer, our Directors were authorised to allot and issue a total of 449,899,999 Shares credited as fully paid at par to the shareholder(s) whose name(s) appear(s) on the register of members of our Company at the close of business on 21 October 2020 by way of capitalisation of the sum of HK\$4,498,999.99 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued under such resolutions shall rank *pari passu* in all respects with the existing issued Shares.

GENERAL MANDATES

General mandate to issue Shares

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total number of issued Shares of not more than the sum of:

1. 20% of the total number of Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer; and
2. the total number of Shares repurchased by us under the authority referred to in “General mandate to repurchase Shares” in this section below.

The Issuing Mandate does not apply to situations where our Directors allot, issue or deal with Shares by way of rights or an issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or under the exercise of any options which may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the grant or issue to officers and/or employees of our Company and/or any of its subsidiaries of Shares or rights to acquire Shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or a specific authority granted by our Shareholders in our general meeting.

The Issuing Mandate will expire:

- at the conclusion of our Company’s next annual general meeting;
- at the expiration of the period within which our Company’s next annual general meeting is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

SHARE CAPITAL

For further details of the Issuing Mandate, please refer to “A. Further information about our Group — 4. Written resolutions of our sole Shareholder” in Appendix V to this prospectus.

General mandate to repurchase Shares

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total number of Shares of up to 10% of the number of the Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer.

The Repurchase Mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in “A. Further information about our Group — 6. Repurchase of our own securities” in Appendix V to this prospectus.

The Repurchase Mandate will expire:

- at the conclusion of our Company’s next annual general meeting;
- at the expiration of the period within which our Company’s next annual general meeting is required by the Articles of Association or any other applicable laws of the Cayman Islands to be held; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of the Repurchase Mandate, please refer to “A. Further information about our Group — 4. Written resolutions of our sole Shareholder” in Appendix V to this prospectus.

SHARE OPTION SCHEME

We conditionally adopted the Share Option Scheme. A summary of the principal terms is set out in “D. Share Option Scheme” in Appendix V to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and Articles of Association, our Company may from time to time by ordinary resolutions of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into several classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may

SHARE CAPITAL

subject to the provisions of the Cayman Companies Law reduce its share capital or capital redemption reserve by its Shareholders passing a special resolution. For details, please refer to “2. Articles of Association — (a)(iii) Alteration of capital” in Appendix IV to this prospectus.

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and Articles of Association, all or any of the special rights attached to the Shares or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For details, please refer to “2. Articles of Association — (a)(ii) Variation of rights of existing shares or classes of shares” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

The following discussion and analysis should be read in conjunction with the our audited consolidated financial information for the Track Record Period and the accompanying notes (“Financial Information”), included in the Accountants’ Report in Appendix I to this prospectus. Our Financial Information and consolidated financial statements have been prepared in accordance with HKFRS, which may differ in certain respects from generally accepted accounting principles in other countries. Potential investors should also read the entire Accountants’ Report in Appendix I to this prospectus and should not rely merely on the information contained in this section.

The discussion and analysis in this section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected. Factors that might cause our future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this prospectus, particularly in “Risk factors” in this prospectus.

Discrepancies between totals and sums of amounts listed herein in any table or elsewhere in this prospectus may be due to rounding.

OVERVIEW

We principally engage in the design, process and sale of textile fabrics, and the provision of processing services to our customers. Our textile fabric products can be categorised into two broad types, namely plain weave fabrics and corduroy fabrics, which feature a variety of different colours, patterns, textures and functionalities. According to the Ipsos Report, we ranked third among the textile dyeing and finishing service providers in Jiangsu province in terms of revenue in 2019, accounting for approximately 0.2% of the market value in China in 2019 and approximately 1.6% of the market value in Jiangsu province in 2019. We sell our textile fabrics mainly to garment manufacturers as well as trading companies. To the best of our knowledge, during the Track Record Period, most, if not all, of our textile fabric products were purchased by our customers for further processing into finished garments for apparel brand operators, some of which were operators of international or national brands, such as UNIQLO and Semir.

During the Track Record Period, our revenue (i) increased from approximately RMB661.7 million in 2017 to approximately RMB861.5 million in 2018 and further to approximately RMB866.7 million in 2019, representing a CAGR of approximately 14.4%; and (ii) decreased by approximately 24.5% from approximately RMB220.4 million for the four months ended 30 April 2019 to approximately RMB166.3 million for the four months ended 30 April 2020, whereas our net profit (i) increased from approximately RMB30.6 million in 2017 to approximately RMB49.1 million in 2018 and further to approximately RMB52.7 million in 2019, representing a CAGR of approximately 31.3%; and (ii) decreased by approximately 77.2% from approximately RMB11.3 million for the four months ended 30 April 2019 to approximately RMB2.6 million for the four months ended 30 April 2020.

FINANCIAL INFORMATION

Please refer to “Business — Our operations” and “Business — Business strategies” in this prospectus for further details of our business operations and business strategies, respectively.

BASIS OF PREPARATION

The Financial Information is presented in RMB and was prepared and presented in accordance with HKFRS.

Pursuant to our Reorganisation, our Company became the holding company of the companies now comprising our Group. Our Group has been under the control of our Controlling Shareholder throughout the Track Record Period or since their respective dates of incorporation or establishment up to 30 April 2020. Our Group has been under the control of Mr. Xue prior to and after the Reorganisation. Our Group comprising our Company and its subsidiaries resulting from our Reorganisation is regarded as a continuing entity. Accordingly, our Financial Information has been prepared on the basis as if our Company had always been the holding company of the companies comprising our Group throughout the Track Record Period.

Our consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period have been prepared to present the results and cash flows of the companies now comprising our Group as if the current group structure upon completion of our Reorganisation had been in existence throughout the Track Record Period or since their respective dates of incorporation or establishment up to 30 April 2020, where this is a shorter period.

Please refer to “History, Reorganisation and Group structure — Group structure and Reorganisation” in this prospectus for further details of our Reorganisation.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial condition, results of operations and the period to period comparability of our financial results are principally affected by the following factors:

Relationship with our customers

Our business growth and financial performance are principally depending on our ability to develop and maintain business relationship with our existing customers, especially our major customers, and also to expand our customer portfolio to boost up the demand of our textile fabric products and processing services. During the Track Record Period, our top five customers accounted for approximately 41.3%, 38.6%, 38.1% and 43.3% of our total revenue, respectively. Please refer to “Business — Sales and marketing — Sales and customers” in this prospectus for further details of our top five customers.

As we generally do not enter into any long-term sales contract with our customers, it is crucial for us to maintain good business relationship with our customers and diversify our customer base. Though our Directors consider that we have established good relationships with our major customers, there is no assurance that we will be able to maintain good long

FINANCIAL INFORMATION

term business relationships with our major customers in the future. If our major customers reduce their purchases of or do not order any textile fabric products from us because of various reasons, such as change of their suppliers, requesting new terms of sales which are unacceptable to us, and we are not able to identify any new major customers or expand our customer base on a timely manner to minimise such loss, our revenue, business, financial condition and results of operations will be materially and adversely affected.

Pricing of our products and product mix

Our revenue and profitability are directly affected by our product mix in which each type of our textile fabric products is selling at a different unit price, and also the pricing strategy of each of our textile fabric products. Our product mix is largely dependent on the fashion trends. We normally set the selling prices of our textile fabric products on a cost-plus basis and also based on a number of factors, including (i) productions costs; (ii) quantity of purchase orders; (iii) product specifications; (iv) processing complexity; and (v) prevailing market prices. Please refer to “Business — Sales and marketing — Pricing and credit policies” in this prospectus for further details of our product pricing.

During the Track Record Period, our revenue was primarily derived from the sale of our principal textile fabric products, plain weave fabric products, which accounted for approximately 73.4%, 82.3%, 72.2% and 74.6% of our total revenue, respectively. We will adjust our mix of textile fabric products offerings to accommodate the changing market demands. If there is any significant change of our product mix and selling prices, our gross profit and net profit will be affected both by any change in revenue attributable to, and any change in the gross profit margin of, each textile fabric product. There will be new challenges to us for the changing market environment and customer preferences which in return will affect our product pricing policy and product mix. In addition, if there are other alternative textile fabric products from our competitors offered to the market which we may not able to manufacture, the demand for our textile fabric products may decline. As a result, our financial condition and results of operations may be materially and adversely affected.

Please refer to “Sensitivity and breakeven analysis — Sensitivity analysis” in this section for further details of our sensitivity analysis of the average selling prices of our textile fabric products.

Reliance on key suppliers

During the Track Record Period, we purchased approximately 64.2%, 66.0%, 62.1% and 79.9% of our total purchases from our top five suppliers, respectively. We did not enter into any long-term purchase agreement with our suppliers. Developing and maintaining long term stable business relationships with our major suppliers is a key success factor of our Group. Please refer to “Business — Suppliers and outsourcing — Suppliers” in this prospectus for further details of our top five suppliers.

FINANCIAL INFORMATION

There is no assurance that we will be able to maintain good business relationships with our major suppliers in the future or the supply from our major suppliers will not be interrupted due to any circumstances. In addition, we may not be able to source any alternative supplier on similar or favourable terms on a timely manner to replace any loss of our current major suppliers. In the event of a shortage in supply of products from our major suppliers, our business, financial condition and results of operations may be materially and adversely affected.

Production capacity, utilisation rate and sales volume

Our financial condition and results of operations are affected by our production capacity, utilisation rate and sales volume. If we are able to operate at full or near full production capacity and subsequently sell our products quickly, this will create a positive effect on our gross profit margin and net profit margin because a portion of our manufacturing costs, such as depreciation and amortisation, is of a fixed nature. When there is an increase in our utilisation rate of our production lines, the production volume of our products will increase which thus reduce our products' unit production cost. Our utilisation rate of our production lines is affected by various factors, including (i) time required for setting up for production runs; (ii) time and frequency for repair and maintenance of the mechanical failures; (iii) overall industry conditions; (iv) the level of customer orders; and (v) other operational disruptions, such as disruption of power and water supply, natural disasters, etc. Please refer to “Business — Production process — Production capacity and utilisation rate” in this prospectus for further details of our designed production capacity, production volume and utilisation rate during the Track Record Period.

In addition, if we manage to expand our production capacity with our expected growth of the sales demand of our products to increase our production efficiency and achieve the optimal production scale in the future, our Directors believe that we will further benefit from economies of scale in the following ways, including (i) discounted purchase prices of materials due to bulk purchases; (ii) stronger bargaining power in pricing of our products; and (iii) lower unit production costs for our products.

Price of materials

The primary materials for our production consist of (i) plain weave and corduroy greige fabrics; and (ii) textile dyes and additives, such as colourants and dyeing auxiliaries. During the Track Record Period, our cost of materials represented the largest component of our cost of sales and amounted to approximately RMB466.1 million, RMB611.2 million, RMB596.8 million and RMB108.3 million, respectively, representing approximately 80.4%, 81.7%, 81.0% and 77.4% of our total cost of sales, respectively. The prices of materials that we use to produce our products are largely depending on market forces which are beyond our control. Please refer to “Business — Procurement — Raw materials and price fluctuations” in this prospectus for further details of our raw materials.

FINANCIAL INFORMATION

Thus, it is important for us to obtain from our suppliers sufficient supply of high-quality materials in a timely manner and at same time at competitive prices for our production. If there is a substantial increase in the purchase costs of our primary materials and we are not able to pass on any increases in material costs to our customers, our cost of sales will substantially increase and our business, gross profit margin, financial results and results may be materially and adversely affected.

Please refer to “Sensitivity and breakeven analysis — Sensitivity analysis” in this section for further details of our sensitivity analysis of our cost of materials.

Staff costs

Our business, financial condition and results of operations are influenced by our staff costs. During the Track Record Period, our staff costs amounted to approximately RMB38.8 million, RMB42.7 million, RMB49.9 million and RMB12.4 million, respectively, representing approximately 5.9%, 5.0%, 5.8% and 7.5% of our total revenue, respectively. Our staff costs are primarily affected by, among others, (i) the demand and supply of labour; (ii) economic factors including the inflation rate and standard of living; and (iii) the implementation of relevant labour rules and regulations in the PRC. There is no guarantee that our supply of labour will not be disrupted or that our staff costs will not increase. If we fail to recruit replacement staff in a timely manner after the resignation of our trained and skilled workers, we may not be able to accommodate any sudden increase in demand for our products or our expansion plans and this will probably reduce our competitiveness and will have a material and adverse effect on our business and operations. In addition, if we are not be able to pass the effect of increment of staff costs to our customers, our business, financial condition and results of operations will be materially and adversely affected.

Further, there may be labour disputes, work stoppages or strikes in the future which may result in a significant increase in our cost of labour or disruptions of our production and operations. As a result, our financial condition and results of operations may be materially and adversely affected.

Please refer to “Sensitivity and breakeven analysis — Sensitivity analysis” in this section for the sensitivity analysis of our staff costs.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified various accounting policies that are significant to the preparation of our Financial Information, including (i) revenue recognition; (ii) property, plant and equipment; (iii) financial assets and their impairment assessment; (iv) inventories; and (v) financial liabilities. These significant accounting policies are important for an understanding of our financial condition and results of operations which are disclosed in note 4 to the Accountants’ Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

In the application of our accounting policies, our Directors are required to make judgements, estimates and assumptions that affect our revenues, expenses, assets and liabilities, and their accompanying disclosures. Uncertainty about these assumptions and estimates can result in outcomes that require a material adjustment to our revenues, expenses, assets or liabilities in the future. The estimates and underlying assumptions are reviewed by our management on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty as at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of our assets and liabilities within the next financial year, are set out in note 5 to the Accountants' Report in Appendix I to this prospectus.

ADOPTION OF NEW AND REVISED HKFRS

Effect on the adoption of HKFRS 9 Financial Instruments

We had elected to apply for HKFRS 9 consistently since the beginning of, and throughout the Track Record Period when preparing our Financial Information. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities; and (ii) expected credit losses for financial assets.

All of our financial assets and liabilities continue to be measured at the same measurement basis under HKAS 39.

A key requirement of HKFRS 9 which is relevant to our Group is in relation to the impairment of financial assets, of which HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Please refer to note 4 to the Accountants' Report in Appendix I to this prospectus for further details of impairment loss of financial assets.

We have assessed that the adoption of these two different models would not result in significant difference between bad debt provision under HKAS 39 and allowance of expected credit loss under HKFRS 9. The adoption of HKFRS 9 therefore would not result in significant impact on our financial position and performance as compared with HKAS 39.

Effect on the adoption of HKFRS 15 Revenue from Contracts with Customers

We had elected to consistently apply HKFRS 15 throughout the Track Record Period when preparing our Financial Information. HKFRS 15 establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to

FINANCIAL INFORMATION

depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18, HKAS 11 and related interpretations.

Upon the adoption of HKFRS 15, our Group recognises revenue when (or as) performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to customers.

In relation to our revenue from processing services, under HKAS 18, it is recognised when the service is performed while under HKFRS 15, it is recognised over time throughout the processing period because our performance enhances an asset that our customers control as the asset is enhanced. As the processing time is short (i.e. only a few days), the adoption of HKFRS 15 would have no significant impact on our consolidated financial statements.

Under HKFRS 15, our Group recognises performance obligations that have not yet been satisfied but for which our Group has received consideration as contract liabilities. By applying HKFRS 15, our Group recognised contract liabilities of approximately RMB2.0 million, RMB1.8 million, RMB1.5 million and RMB1.7 million as at 31 December 2017, 2018 and 2019 and 30 April 2020, respectively.

We have assessed the effects of the early adoption of HKFRS 15 and concluded that there has been no significant impact on our financial position and financial performance as compared to that of HKAS 18.

Effect on the adoption of HKFRS 16 *Leases*

We had elected to consistently apply HKFRS 16 throughout the Track Record Period when preparing our Financial Information. We applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application of 1 January 2016. HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 and the related interpretations when it becomes effective. HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, our Group presented operating lease payments as operating cash flows

FINANCIAL INFORMATION

previously. Upon the application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows, respectively.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

We elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as lease applying HKAS 17 and HKFRIC 4 *Determining whether an arrangement contains a lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HKFRIC 4. Therefore, we will not reassess whether the contracts are, or contain a lease which already existed prior to the Track Record Period. The change in definition of a lease mainly relates to the concept of control. HKFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

We applied the definition of a lease and related guidance set out in HKFRS 16 to all lease contracts entered into or modified on or after the commencement of the Track Record Period. The new definition in HKFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for our Group.

When applying the modified retrospective approach under HKFRS 16 at transition, we applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease by lease basis, to the extent relevant to the respective lease contracts:

- elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- used hindsight based on facts and circumstances as at date of initial application in determining the lease term for our leases with extension and termination options.

In addition, we have reclassified our unamortised payments of land use right from “prepaid lease payments” to “right-of-use assets”.

By applying HKFRS 16, our assets and liabilities would have increased as compared to those under HKAS 17 as right-of-use assets and lease liabilities in respect of our leases of premises had been recognised in our consolidated statements of financial position. However, we concluded that there has been no significant impact on our overall net asset position. In addition, corresponding depreciation charges and finance costs (representing our effective rental expenses) would have been in our consolidated statements of profit or loss. We concluded that the adoption of HKFRS 16 has no significant impact on our overall financial position and financial performance as compared to HKAS 17.

FINANCIAL INFORMATION

OUR RESULTS OF OPERATIONS

The following table includes certain items selected from our consolidated statements of profit or loss and other comprehensive income for the Track Record Period, which has been extracted from, and should be read in conjunction with the Accountants' Report in Appendix I to this prospectus.

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(unaudited)</i>	
Revenue	661,726	861,477	866,674	220,387	166,306
Cost of sales	<u>(580,036)</u>	<u>(748,293)</u>	<u>(737,131)</u>	<u>(188,876)</u>	<u>(139,906)</u>
Gross profit	81,690	113,184	129,543	31,511	26,400
Other income	1,620	1,389	1,877	467	347
Selling and distribution expenses	(14,951)	(18,826)	(20,819)	(4,893)	(4,928)
Administrative expenses	(19,605)	(24,876)	(31,287)	(10,607)	(15,068)
Finance costs	<u>(5,916)</u>	<u>(5,767)</u>	<u>(5,405)</u>	<u>(1,792)</u>	<u>(1,421)</u>
Profit before tax	42,838	65,104	73,909	14,686	5,330
Income tax expenses	<u>(12,275)</u>	<u>(16,019)</u>	<u>(21,245)</u>	<u>(3,367)</u>	<u>(2,746)</u>
Profit for the year/period	<u>30,563</u>	<u>49,085</u>	<u>52,664</u>	<u>11,319</u>	<u>2,584</u>

DISCUSSION OF SELECTED PROFIT OR LOSS ITEMS

Revenue

Revenue by business stream

Our revenue includes (i) the net invoiced value of our textile fabric products sold, after deducting discounts and sales related taxes; and (ii) our processing service income, which are recognised when the performance obligation is satisfied, i.e. when “control” of our textile fabric products or processing services underlying the particular performance obligation is transferred.

During the Track Record Period, our revenue (i) increased from approximately RMB661.7 million in 2017 to approximately RMB861.5 million in 2018 and further to approximately RMB866.7 million in 2019, representing a CAGR of approximately 14.4%; and (ii) decreased by approximately 24.5% from approximately RMB220.4 million for the four months ended 30 April 2019 to approximately RMB166.3 million for the four months ended 30 April 2020.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our revenue by business stream for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Sale of textile fabric products:										
— Plain weave fabrics	485,450	73.4	708,684	82.3	625,430	72.2	158,025	71.7	124,076	74.6
— Corduroy fabrics	119,670	18.0	95,187	11.0	197,221	22.8	49,932	22.7	31,392	18.9
	605,120	91.4	803,871	93.3	822,651	95.0	207,957	94.4	155,468	93.5
Processing services	56,606	8.6	57,606	6.7	44,023	5.0	12,430	5.6	10,838	6.5
Total	661,726	100.0	861,477	100.0	866,674	100.0	220,387	100.0	166,306	100.0

We principally engage in the sale of our two broad types of textile fabric products, namely (i) plain weave fabrics; and (ii) corduroy fabrics, which feature a variety of different colours, patterns, textures and functionalities. Please refer to “Business — Our textile fabric products” in this prospectus for further details of our textile fabric products.

Our plain weave fabric products are our major line of textile fabric products. During the Track Record Period, our revenue from the sale of plain weave fabric products amounted to approximately RMB485.5 million, RMB708.7 million, RMB625.4 million and RMB124.1 million, respectively, representing approximately 73.4%, 82.3%, 72.2% and 74.6% of our total revenue, respectively.

During the Track Record Period, our revenue from the sale of our corduroy fabric products amounted to approximately RMB119.7 million, RMB95.2 million, RMB197.2 million and RMB31.4 million, respectively, representing approximately 18.0%, 11.0%, 22.8% and 18.9% of our total revenue, respectively.

Apart from the sales of our textile fabric products, we also engage in the provision of processing services for textile fabrics provided by our customers in accordance with their specifications. Please refer to “Business — Our operations — Provision of processing services” in this prospectus for further details of our processing services.

During the Track Record Period, our revenue generated from the provision for processing services amounted to approximately RMB56.6 million, RMB57.6 million, RMB44.0 million and RMB10.8 million, respectively, representing approximately 8.6%, 6.7%, 5.0% and 6.5% of our total revenue, respectively.

Please refer to “Period to period comparison of results of operations” in this section for further details of the discussion and analysis of fluctuations in our revenue for the Track Record Period.

FINANCIAL INFORMATION

Sales volume by product category and processed volume under our processing services

The following table sets forth the sales volume of our textile fabric products by product category and the processed volume under our processing services for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	'000 metres	%	'000 metres	%	'000 metres	%	'000 metres	%	'000 metres	%
Plain weave fabrics	29,759	58.6	38,944	67.1	33,965	62.6	8,568	61.8	6,656	65.3
Corduroy fabrics	5,324	10.5	4,518	7.8	9,349	17.2	2,330	16.8	1,398	13.7
Processing services	15,674	30.9	14,590	25.1	10,910	20.2	2,958	21.4	2,137	21.0
Total	50,757	100.0	58,052	100.0	54,224	100.0	13,856	100.0	10,191	100.0

Our plain weave fabric products contributed a majority of sales volume of our textile fabric products during the Track Record Period, which amounted to approximately 29.8 million metres, 38.9 million metres, 34.0 million metres and 6.7 million metres, respectively, while the sales volume of our corduroy fabric products amounted to approximately 5.3 million metres, 4.5 million metres, 9.3 million metres and 1.4 million metres during the Track Record Period, respectively.

During 2017 to 2019, owing to the fact that (i) according to the Ipsos Report, there was an increase in the market value of the textile dyeing and finishing industry in Jiangsu province and the PRC during the Track Record Period while experiencing the industry consolidation as evidenced by the decrease in number of textile dyeing and finishing service providers due to the tightening of environmental regulations in the PRC; (ii) since 2018, we have engaged Supplier F to supply the textile fabric products manufactured in Vietnam in accordance with our specifications (Please refer to “Business — Suppliers and outsourcing — Suppliers” in this prospectus for further details of Supplier F); and (iii) we were more capable of and experienced in customising our textile fabric products in accordance with our customers’, and local and international apparel brand operators’ specific requirements, both of which would help to enhance our brand and product awareness and to develop good business relationships with our key customers, and international and national apparel brand operators, the total sales volume of our textile fabric products increased from approximately 35.1 million metres in 2017 to approximately 43.5 million metres and 43.3 million metres in 2018 and 2019, respectively, representing a CAGR of approximately 11.1%.

The slight decrease in the total sales volume of our textile fabric products by approximately 0.1 million metres (or approximately 0.3%) from approximately 43.5 million metres in 2018 to approximately 43.3 million metres in 2019 was primarily attributable to the decrease in the sales volume of our plain weave fabric products by approximately 5.0 million metres, largely offset by the increase in the sales volume of our corduroy fabric products by approximately 4.8 million metres.

FINANCIAL INFORMATION

The decrease in the sales volume of our plain weave fabric products from approximately 38.9 million metres in 2018 to approximately 34.0 million metres in 2019 was primarily attributable to (i) the decrease in the sales of our plain weave fabric products to Customer F (our largest overseas customer who is located in Japan and primarily procured our plain weave fabric products) from approximately 6.3 million metres in 2018 to approximately 4.0 million metres in 2019 mainly due to the increase in the sales of our corduroy fabric products to our certain PRC customers, such as Customer A and Customer G, in response to the increase in the demand of corduroy textile products by UNIQLO in 2019 mainly as a result of a change of the fashion trend to corduroy textile products in the market in the winter season in 2019; and (ii) the change of product mix of our customers to purchase more corduroy fabric products in 2019. As confirmed by our Directors, during the Track Record Period we had not declined any orders from Customer F.

The increase in the sales volume of our corduroy fabric products from approximately 4.5 million metres in 2018 to approximately 9.3 million metres in 2019 was primarily attributable to (i) the increase in the sales orders for our corduroy fabric products from our customers which our Directors believe was mainly due to our ability to keep abreast of the market trend and our capability of customising our corduroy fabric products in accordance with customers' specific requirements and at the same time of high quality and timely delivery; (ii) the change of product mix of our customers to purchase more corduroy fabric products in 2019 (mainly including Customer A and Customer G in aggregate contributing to the increase in the sales volume of our corduroy fabric products from approximately 0.2 million metres in 2018 to approximately 2.0 million metres in 2019) mainly because of, among others, (a) the reduction of our selling price of corduroy fabric products from 2018 to enhance the competitiveness of our corduroy fabric products; and (b) a change of the fashion trend to corduroy textile products in the market in the winter season in 2019; and (iii) the increase in the number of our large corduroy fabric product customers (which we generated revenue of at least RMB5 million from the sale of our corduroy fabric products during the year) from three customers in 2018 to eight customers in 2019 which collectively contributed sales volume of our corduroy fabric products of approximately 5.2 million metres in 2019 as compared to that of approximately 2.4 million metres in 2018.

During 2017 to 2019, the processed volume of our processing services decreased from approximately 15.7 million metres in 2017 to approximately 14.6 million metres in 2018 and further to approximately 10.9 million metres in 2019, representing a negative CAGR of approximately 16.6%, which was primarily attributable to our commercial decision to reserve our production capacity for orders generating higher gross profit margins considering that we had gradually reached our maximum production capacity with the utilisation rate of our production of approximately 103.5% in 2019, and there had been a reduction of our subcontracting volume primarily attributable to the parties' failure to reach reasonable commercial terms due to the tight production capacity and schedule of our subcontractors as a result of the industry consolidation arising from the tightening of the environmental requirements, and thus leading to the increase in the level of production activities for the production of our textile fabric products (which generated a relatively higher gross profit margin) in our production facilities in 2019 and in turn constrained our production capacity for the provision of our processing services in our production facilities.

FINANCIAL INFORMATION

An outbreak of respiratory illness caused by a novel coronavirus (COVID-19) first emerged in January 2020 and continues to expand globally. Our production facilities are located in Changzhou city, Jiangsu province, the PRC, which is one of the areas in the PRC hit by the COVID-19 pandemic. Owing to the impacts of the COVID-19 pandemic resulting in (i) the temporary suspension of our production for approximately one week after the Lunar New Year break as a result of the mandatory suspension of operations imposed by the local PRC government in early February 2020; and (ii) the suspension of most non-essential businesses (including garment manufacturing businesses) in the PRC from February to mid-March 2020 in response to the COVID-19 outbreak (resulting in a delay of approximately one and a half month in the resumption of business of our regular customers) which had eventually delayed production and delivery of our certain orders from garment manufacturers or sourcing agents of UNIQLO contributing to the reduction of the sales volume of our textile fabric products sold to Customer A, Customer F and an overseas garment manufacturer customer located in Bangladesh, our Group recorded (i) an overall decrease in our sales and processed volume of textile fabric products by approximately 26.5% from approximately 13.9 million metres for the four months ended 30 April 2019 to approximately 10.2 million metres for the four months ended 30 April 2020; and (ii) a decrease in the sales volume of each category of our textile fabric products (i.e. our plain weave fabric products and corduroy fabric products) and the processed volume of our processing services for the four months ended 30 April 2020 as compared to those for the same period in 2019.

Please refer to “Business — Effects of the COVID-19 outbreak” in this prospectus for further details of the impacts of the COVID-19 pandemic on our business.

Average unit price by business stream

The following table sets forth the average unit price of our textile fabric products and our processing services for the periods indicated:

	<u>Year ended 31 December</u>			<u>Four months ended 30 April</u>	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2019</u>	<u>2020</u>
	RMB per metre	RMB per metre	RMB per metre	RMB per metre	RMB per metre
Plain weave fabrics	16.3	18.2	18.4	18.4	18.6
Corduroy fabrics	22.5	21.1	21.1	21.4	22.5
Processing services	3.6	3.9	4.0	4.2	5.1

During the Track Record Period, the average unit price of our plain weave fabric products was approximately RMB16.3 per metre, RMB18.2 per metre, RMB18.4 per metre and RMB18.6 per metre, respectively, which was lower than that of our corduroy fabric products of approximately RMB22.5 per metre, RMB21.1 per metre, RMB21.1 per metre and RMB22.5 per metre, respectively, which was primarily attributable to the unit material cost of our corduroy greige fabrics was generally more expensive because corduroy greige fabrics are usually heavier in weight than plain weave greige fabrics.

FINANCIAL INFORMATION

The increase in our average unit price of plain weave fabric products from approximately RMB16.3 per metre in 2017 to approximately RMB18.2 per metre and RMB18.4 per metre in 2018 and 2019, respectively, was primarily attributable to (i) the transfer of the increase in our unit cost of production of plain weave fabric products (mainly attributable to our subcontracting costs) to our customers; and (ii) a greater proportion of our sale of plain weave fabric products from our customers located in Japan in 2018 and 2019 as compared to that in 2017 who generally request plain weave fabric products of higher fabric specifications and processing complexity. We maintained relatively stable average unit price of plain weave fabric products of approximately RMB18.4 per metre and RMB18.6 per metre for the four months ended 30 April 2019 and 2020, respectively.

The decrease in our average unit price of corduroy fabric products from approximately RMB22.5 per metre in 2017 to approximately RMB21.1 per metre and RMB21.1 per metre in 2018 and 2019, respectively, was primarily attributable to our business strategy of reducing our selling price to maintain and enhance the competitiveness of our corduroy fabric products in the market. The increase in our average unit price of corduroy fabric products from approximately RMB21.4 per metre for the four months ended 30 April 2019 to approximately RMB22.5 per metre for the four months ended 30 April 2020 was primarily in line with the increase in the average unit cost of our corduroy fabric products by approximately 4.9%, which, as confirmed by our Directors, was mainly as a result of the increase in the purchases of thicker and heavier corduroy greige fabrics that are more expensive in general.

In 2017, 2018 and 2019, the average unit price of our processing services was approximately RMB3.6 per metre, RMB3.9 per metre and RMB4.0 per metre, respectively. We recorded an increase in the average unit price of our processing services from 2017 to 2019, which was primarily attributable to the fact that we increased our unit price and margin mainly as a result of the constraint on our production capacity in our production facilities. The increase in the average unit price of our processing services from approximately RMB4.2 per metre for the four months ended 30 April 2019 to approximately RMB5.1 per metre for the four months ended 30 April 2020 was primarily in line with the increase in the average unit cost of our processing services by approximately 20.4%, which, as confirmed by our Directors, was mainly due to the fact that we obtained certain orders of processing services of higher complexity from our customers during the four months ended 30 April 2020.

FINANCIAL INFORMATION

Revenue by customer category

The following table sets forth a breakdown of our revenue by customer category for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Garment manufacturers	454,739	68.7	615,314	71.4	681,920	78.7	169,306	76.8	128,756	77.4
Trading companies	206,987	31.3	246,163	28.6	184,754	21.3	51,081	23.2	37,550	22.6
Total	<u>661,726</u>	<u>100.0</u>	<u>861,477</u>	<u>100.0</u>	<u>866,674</u>	<u>100.0</u>	<u>220,387</u>	<u>100.0</u>	<u>166,306</u>	<u>100.0</u>

During the Track Record Period, we derived our revenue through the sale of our textile fabric products and the provision of processing services to our customers, which were classified as (i) garment manufacturers; and (ii) trading companies. Please refer to “Business — Sales and marketing — Sales and customers” in this prospectus for further details of our customers.

During the Track Record Period, our revenue generated from garment manufacturer customers amounted to RMB454.7 million, RMB615.3 million, RMB681.9 million and RMB128.8 million, respectively, representing approximately 68.7%, 71.4%, 78.7% and 77.4% of our total revenue, respectively.

The increase in our revenue from garment manufacturer customers from 2017 to 2019 was primarily attributable to (i) the increase in the market value of the textile dyeing and finishing industry in Jiangsu province and the PRC during the Track Record Period while experiencing the industry consolidation as evidenced by the decrease in the number of textile dyeing and finishing service providers due to the tightening of environmental regulations in the PRC according to the Ipsos Report; and (ii) our becoming more capable of and experienced in customising our textile fabric products in accordance with our garment manufacturer customers’ and UNIQLO’s specific requirements, leading to the enhancement of our brand and product awareness and further development of good business relationships with our major garment manufacturer customers and UNIQLO, as a result attributing to (i) the increase in our sales and processed volume of textile fabric products generated from garment manufacturer customers from approximately 35.1 million metres in 2017 to approximately 41.4 million metres and 41.1 million metres in 2018 and 2019, respectively; and (ii) the increase in sales to our major PRC garment manufacturer customers, including Customer A, Customer B, Customer G, Customer H and Customer I, in aggregate from approximately RMB170.2 million in 2017 to approximately RMB242.1 million in 2018 and further to approximately RMB266.4 million in 2019.

We experienced a decrease in our revenue generated from garment manufacturer customers from approximately RMB169.3 million for the four months ended 30 April 2019 to approximately RMB128.8 million for the four months ended 30 April 2020, which was primarily attributable to (i) the decrease in our sales and processed volume of textile fabric products generated from garment

FINANCIAL INFORMATION

manufacturer customers from approximately 10.5 million metres for the four months ended 30 April 2019 to approximately 7.3 million metres for the four months ended 30 April 2020; and (ii) the impacts of the COVID-19 pandemic causing the delay of our production and delivery of certain orders from garment manufacturers and/or sourcing agents of UNIQLO which contributed to the decrease in sales to a major PRC garment manufacturer customer, namely Customer A, and an overseas garment manufacturer customer located in Bangladesh in aggregate from approximately RMB36.4 million for the four months ended 30 April 2019 to approximately RMB5.2 million for the four months ended 30 April 2020.

During the Track Record Period, we also generated a significant amount of revenue from trading company customers, which amounted to approximately RMB207.0 million, RMB246.2 million, RMB184.8 million and RMB37.6 million, respectively, representing approximately 31.3%, 28.6%, 21.3% and 22.6% of our total revenue, respectively.

The increase in our revenue from trading company customers from 2017 to 2018 was primarily attributable to (i) the increase in our sales and processed volume of textile fabric products generated from trading company customers from approximately 15.6 million metres in 2017 to approximately 16.7 million metres in 2018; and (ii) the commencement of business with a major trading company customer from Japan, namely Customer F in 2018. The decrease in our revenue from trading company customers from 2018 to 2019 and from the four months ended 30 April 2019 to the four months ended 30 April 2020 was primarily in line with the decrease in our sales and processed volume (i) from approximately 16.7 million metres in 2018 to approximately 13.1 million metres in 2019 ; and (ii) from approximately 3.4 million metres for the four months ended 30 April 2019 to approximately 2.9 million metres for the four months ended 30 April 2020, which was mainly due to the decrease in the sales to certain major overseas trading company customers, mainly including Customer F.

Revenue by geographical location

The following table sets forth a breakdown of our revenue based on the location of our customers for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
The PRC	568,406	85.9	643,858	74.7	669,189	77.2	145,642	66.1	118,720	71.4
Japan	23,986	3.6	156,000	18.1	101,106	11.7	34,749	15.8	20,801	12.5
Other countries and regions (Note)	69,334	10.5	61,619	7.2	96,379	11.1	39,996	18.1	26,785	16.1
Total	<u>661,726</u>	<u>100.0</u>	<u>861,477</u>	<u>100.0</u>	<u>866,674</u>	<u>100.0</u>	<u>220,387</u>	<u>100.0</u>	<u>166,306</u>	<u>100.0</u>

Note: Other countries and regions mainly included Taiwan, Bangladesh, Vietnam and Indonesia.

FINANCIAL INFORMATION

During the Track Record Period, the PRC was our major market. There was a continuous growth of our revenue generated from our PRC customers during the Track Record Period, which amounted to approximately RMB568.4 million, RMB643.9 million, RMB669.2 million and RMB118.7 million, respectively, representing approximately 85.9%, 74.7%, 77.2% and 71.4% of our total revenue, respectively.

There was a continuous growth of our revenue generated from our PRC customers from 2017 to 2019, which was primarily attributable to (i) the increase in the sales of our plain weave fabric products to PRC customers in 2018 mainly attributable to Customer G (contributing the sales of our plain weave fabric products of approximately RMB56.4 million in 2018); and (ii) the increase in the sales of our corduroy fabric products to our PRC customers in 2019 mainly attributable to Customer A and Customer G (in aggregate contributing the revenue from the sale of our corduroy fabric products of approximately RMB4.7 million and RMB39.9 million in 2018 and 2019, respectively), partially offset by the decrease in the sales volume of our plain weave fabric products to PRC customers mainly due to the shift of purchasing more corduroy fabric products from our PRC customers in 2019 mainly as a result of a change of the fashion trend to corduroy textile products in the market in the winter season in 2019.

The decrease in the sales to our PRC customers from the four months ended 30 April 2019 to the four months ended 30 April 2020 was primarily attributable to the impacts of the COVID-19 pandemic causing the delay of our production and delivery of certain orders from garment manufacturers and/or sourcing agents of UNIQLO which contributed to the decrease in the sales to Customer A from approximately RMB22.2 million for the four months ended 30 April 2019 to approximately RMB2.7 million for the four months ended 30 April 2020.

The significant portion of our remaining revenue was generated from our customers located in Japan and certain other Asian countries and regions, such as Taiwan, Bangladesh, Vietnam and Indonesia. During the Track Record Period, the sales to our overseas customers amounted to approximately RMB93.3 million, RMB217.6 million, RMB197.5 million and RMB47.6 million, respectively, representing approximately 14.1%, 25.3%, 22.8% and 28.6% of our total revenue, respectively.

During the Track Record Period, Japan was our largest overseas market and the sales to our customers located in Japan amounted to approximately RMB24.0 million, RMB156.0 million, RMB101.1 million and RMB20.8 million, respectively, representing approximately 25.7%, 71.7%, 51.2% and 43.7% of our total sales from overseas customers, respectively. Since the commencement of the business with Customer F in 2018, Customer F (who is a designated sourcing agent of UNIQLO) has become our largest Japan customer. In 2018 and 2019 and for the four months ended 30 April 2020, our sales to Customer F amounted to approximately RMB124.9 million, RMB80.2 million and RMB18.0 million, respectively, representing approximately 80.1%, 79.4% and 86.5% of our total sales from customers located in Japan, respectively.

Owing to the fact that we (i) have been awarded by UNIQLO as one of their trusted business partners; and (ii) were included in the list of textile fabrics suppliers of UNIQLO as at the Latest Practicable Date, through the introduction by UNIQLO, we were approached by Customer F in

FINANCIAL INFORMATION

2017 to provide some textile fabric samples in accordance with Customer F and UNIQLO's specific requirements. Our Directors believe that in the view of (i) the satisfaction of the textile fabric samples provided to Customer F; (ii) our long-term business relationship with UNIQLO (which commenced since 2014); and (iii) Customer F, being a giant conglomerate in Japan which has established a solid business relationship with UNIQLO, including apparel manufacturing for and partnership with UNIQLO in the apparel retail business in certain countries, Customer F had placed significant sales orders of our textile fabric products from us in 2018 for further processing into finished garments for UNIQLO in 2018 and managed to become our largest customer in 2018.

The decrease in the sales to our customers located in Japan in 2019 was primarily attributable to the decrease in the sales to Customer F (who primarily procured our plain weave fabric products) from approximately RMB124.9 million in 2018 to approximately RMB80.2 million in 2019 mainly due to the increase in the sales of our corduroy fabric products to our certain PRC customers, such as Customer A and Customer G, in response to the increase in the demand of corduroy textile products by UNIQLO in 2019 mainly as a result of a change of the fashion trend to corduroy textile products in the market in the winter season in 2019. Therefore, UNIQLO reduced its purchases of our textile fabric products from Customer F (who primarily processed our plain weave fabric products) in 2019 based on its own business decisions and our supplies to Customer F in turn decreased as a result. The overall revenue contribution from garment manufacturers or sourcing agents of UNIQLO, however, remained relatively stable at approximately RMB316.3 million and RMB314.6 million in 2018 and 2019, respectively.

The decrease in the sales to our customers located in Japan from approximately RMB34.7 million for the four months ended 30 April 2019 to approximately RMB20.8 million for the four months ended 30 April 2020 was primarily attributable to the impacts of the COVID-19 pandemic causing the delay of our production and delivery of certain orders from garment manufacturers and/or sourcing agents of UNIQLO which contributed to the decrease in the sales to Customer F from approximately RMB26.1 million for the four months ended 30 April 2019 to approximately RMB18.0 million for the four months ended 30 April 2020. During the Track Record Period, as confirmed by our Directors, we had not declined any orders from Customer F.

Please refer to "Sensitivity and breakeven analysis — Sensitivity analysis" in this section for the sensitivity analysis of the average unit price of our textile fabric products.

FINANCIAL INFORMATION

Cost of sales

During the Track Record Period, our cost of sales represented approximately 87.7%, 86.9%, 85.1% and 84.1% of our total revenue, respectively. The following table sets forth a breakdown of our cost of sales by cost nature for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Cost of materials:	466,106	80.4	611,180	81.7	596,754	81.0	151,421	80.2	108,333	77.4
— Plain weave fabrics	349,520	60.3	501,426	67.0	416,135	56.5	107,518	56.9	79,276	56.7
— Corduroy greige fabrics	76,373	13.2	66,010	8.8	133,972	18.2	31,909	16.9	20,191	14.4
— Textile dyes and additives	40,213	6.9	43,744	5.9	46,647	6.3	11,994	6.4	8,866	6.3
Utility costs	47,142	8.1	50,589	6.8	55,220	7.5	16,488	8.7	14,359	10.3
Direct labour costs	27,710	4.8	29,606	4.0	33,041	4.5	9,342	4.9	8,128	5.8
Subcontracting costs	18,832	3.2	35,252	4.7	29,280	4.0	4,163	2.2	2,660	1.9
Depreciation	9,100	1.6	9,731	1.3	10,022	1.3	3,649	1.9	3,577	2.5
Other costs	11,146	1.9	11,935	1.5	12,814	1.7	3,813	2.1	2,849	2.1
Total	580,036	100.0	748,293	100.0	737,131	100.0	188,876	100.0	139,906	100.0

During the Track Record Period, our cost of sales primarily comprised (i) our cost of materials mainly including plain weave and corduroy greige fabrics, and textile dyes and additives, such as colourants and dyeing auxiliaries; (ii) our utility expenses mainly for electricity, water, gas, industrial steam, and sewage treatment; (iii) our direct labour costs for the production of our textile fabric products and the provision of our processing services; (iv) our subcontracting costs incurred to our third party subcontractors for the provision of textile processing services and textile dyeing services; (v) our depreciation mainly in respect of plant and equipment and right-of-use assets related to our production; and (vi) our other costs mainly including our costs of repair and maintenance, consumables and other production overhead.

Our cost of materials was the largest component of our cost of sales, which accounted for approximately 80.4%, 81.7%, 81.0% and 77.4% of our total cost of sales during the Track Record Period, respectively. Our cost of materials primarily comprised (i) our cost of plain weave fabrics (representing approximately 75.0%, 82.0%, 69.7% and 73.2% of our total cost of materials during the Track Record Period, respectively); (ii) our cost of corduroy greige fabrics (representing approximately 16.4%, 10.8%, 22.5% and 18.6% of our total cost of materials during the Track Record Period, respectively); and (iii) our cost of textile dyes and additives (representing approximately 8.6%, 7.2%, 7.8% and 8.2% of our total cost of materials during the Track Record Period, respectively). The fluctuation in our cost of materials (including the fluctuation in our cost of plain weave fabrics and corduroy greige fabrics) was generally in line with the fluctuation in the sales volume of our textile fabric products (including the fluctuation in the sales volume of our plain weave fabric products and corduroy fabric products) during the Track Record Period.

FINANCIAL INFORMATION

Our utility costs and direct labour costs were also our other major components of our cost of sales, which accounted for approximately 8.1%, 6.8%, 7.5% and 10.3%, and approximately 4.8%, 4.0%, 4.5% and 5.8% of our total cost of sales during the Track Record Period, respectively. The increase in our utility costs and direct labour costs during the Track Record Period was mainly due to the increase in the utility consumption and manpower required as a result of the increase in our production level in our production facilities.

The decrease in our subcontracting costs from approximately RMB35.3 million in 2018 to approximately RMB29.3 million in 2019 was primarily attributable to (i) the reduction of our subcontracting volume mainly due to (a) the parties' failure to reach reasonable commercial terms due to the tight production capacity and schedule of our subcontractors as a result of the industry consolidation arising from the tightening of the environmental requirements; and (b) the higher level of production activities having taken place for the production of our textile fabric products in our production facilities for better quality control of our textile fabric products; and (ii) the increase in our purchases from Supplier F for the textile fabric products manufactured in Vietnam in accordance with our specifications (which in turn reduced our need of subcontracting in the PRC in 2019).

Please refer to "Sensitivity and breakeven analysis — Sensitivity analysis" in this section for the sensitivity analysis of our cost of materials and utility costs and "Sensitivity and breakeven analysis — Breakeven analysis" in this section for the breakeven analysis of our cost of sales.

Gross profit and gross profit margin

Our gross profit represented our revenue less our cost of sales, and our gross profit margin represented our gross profit divided by our revenue, multiplied by 100%.

The following table sets forth a breakdown of our gross profit and gross profit margin by business stream for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							<i>(unaudited)</i>			
Sale of textile fabric products:										
— Plain weave fabrics	55,543	11.4	95,823	13.5	97,296	15.6	23,224	14.7	20,850	16.8
— Corduroy fabrics	21,336	17.8	12,357	13.0	27,152	13.8	6,845	13.7	4,273	13.6
	76,879	12.7	108,180	13.5	124,448	15.1	30,069	14.5	25,123	16.2
Processing services	4,811	8.5	5,004	8.7	5,095	11.6	1,442	11.6	1,277	11.8
Total/Overall	81,690	12.3	113,184	13.1	129,543	14.9	31,511	14.3	26,400	15.9

Our total gross profit increased from approximately RMB81.7 million in 2017 to approximately RMB113.2 million in 2018 and further to approximately RMB129.5 million in 2019, representing at a CAGR of approximately 25.9%, which was primarily attributable to the increase in our revenue. There was a decrease in our total gross profit by approximately 16.2% from

FINANCIAL INFORMATION

approximately RMB31.5 million for the four months ended 30 April 2019 to approximately RMB26.4 million for the four months ended 30 April 2020, which was primarily attributable to the decrease in our revenue mainly as a result of the impacts of the COVID-19 pandemic.

Since plain weave fabric products are our principal products, the gross profit generated from the sale of our plain weave fabric products accounted for approximately 68.0%, 84.7%, 75.1% and 79.0% of our total gross profit during the Track Record Period, respectively.

The gross profit generated from the sale of our corduroy fabric products and the provision for processing services accounted for approximately 26.1%, 10.9%, 21.0% and 16.2%, and approximately 5.9%, 4.4%, 3.9% and 4.8% of our total gross profit during the Track Record Period, respectively.

The increase in the gross profit margin for our plain weave fabric products from approximately 11.4% in 2017 to approximately 13.5% in 2018 was primarily attributable to the commencement of purchases of textile fabric products manufactured in Vietnam from Supplier F in 2018 which were at lower unit costs. The further increase in the gross profit margin for our plain weave fabric products (i) from approximately 13.5% in 2018 to approximately 15.6% in 2019 ; and (ii) from approximately 14.7% for the four months ended 30 April 2019 to approximately 16.8% for the four months ended 30 April 2020 was primarily attributable to (i) the slight increase in our average unit price by approximately 1.2% and 1.1% due to market condition in 2019 and the reduction of our sales to Supplier D (who primarily procured our plain weave fabric products of lower price for its domestic brand end customers) for the four months ended 30 April 2020, respectively; and (ii) the slight decrease in the average unit cost of our textile fabric products by approximately 1.2% and 1.4%, respectively, from approximately RMB15.7 per metre in 2018 and for the four months ended 30 April 2019 to approximately RMB15.5 per metre in 2019 and for the four months ended 30 April 2020 mainly due to the reduction of unit purchase costs of our plain weave greige fabrics.

The decrease in the gross profit margin for our corduroy fabric products from approximately 17.8% in 2017 to approximately 13.0% in 2018 was primarily attributable to the decrease in our average unit price of corduroy fabric products by approximately 6.3% to maintain our competitiveness of our corduroy fabric products in the market.

During the Track Record Period, we set the prices on a cost-plus basis by taking into account a variety of factors, including productions costs, quantity of purchase orders, product specifications, processing complexity and prevailing market prices. Our overall gross profit margin was approximately 12.3%, 13.1%, 14.9% and 15.9% during the Track Record Period, respectively.

The gross profit margin of our processing services (ranging from approximately 8.5% to 11.8% during the Track Record Period) was generally lower as compared to that of the sale of our textile fabric products (ranging from approximately 12.7% to 16.2% during the Track Record Period) mainly because of the complexity and material requirements of our own textile fabric products.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our gross profit and gross profit margin based on the location of our customers for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							<i>(unaudited)</i>			
The PRC	61,046	10.7	68,654	10.7	91,205	13.6	18,276	12.5	17,457	14.7
Japan	6,658	27.8	31,413	20.1	21,980	21.7	7,393	21.3	4,244	20.4
Other countries and regions <i>(Note)</i>	<u>13,986</u>	20.2	<u>13,117</u>	21.3	<u>16,358</u>	17.0	<u>5,842</u>	14.6	<u>4,699</u>	17.5
Total/Overall	<u>81,690</u>	12.3	<u>113,184</u>	13.1	<u>129,543</u>	14.9	<u>31,511</u>	14.3	<u>26,400</u>	15.9

Note: Other countries and regions mainly included Taiwan, Bangladesh, Vietnam and Indonesia.

According to the Ipsos Report, in the textile dyeing and finishing industry, it is not uncommon that products sold to Japan or other overseas markets maintain a higher gross profit margin because the customers from Japan and other overseas markets (mainly reputable garment manufacturers and trading companies) generally have higher requirements on production environments, production technology, reputation in the industry and product quality of the suppliers. In addition, garment manufacturers and trading companies of domestic brands are usually more sensitive to price, leading to lower gross profit margin of the products sold to domestic customers.

During the Track Record Period, we recorded a lower gross profit margin from the sales to our PRC customers as compared to that from the sales to our Japan and other overseas customers, which was primarily attributable to the fact that (i) our overseas customers (mainly including Customer F) generally procured our textile fabric products of higher fabric specifications and processing complexity; (ii) PRC customers were inclined to be more price sensitive and keen to negotiate down the prices with their suppliers in general; and (iii) we provided processing services to our PRC customers which generated a lower gross profit margin as compared to that from the sale of our textile fabric products.

The increase in the gross profit margin from the sales to our PRC customers from approximately 10.7% and 10.7% in 2017 and 2018, respectively, to approximately 13.6% in 2019 was primarily in line with the increase in the gross profit margin of textile fabric products and processing services in 2019. The increase in the gross profit margin from the sales to our PRC customers from approximately 12.5% for the four months ended 30 April 2019 to approximately 14.7% for the four months ended 30 April 2020 was primarily in line with the increase in the gross profit margin of plain weave fabric products for the four months ended 30 April 2020 as discussed above.

FINANCIAL INFORMATION

The decrease in the gross profit margin from the sales to our customers located in Japan from approximately 27.8% in 2017 to approximately 20.1% and 21.7% in 2018 and 2019, respectively, was primarily attributable to the fact that (i) higher margins were charged for the sales to two major customers in Japan in 2017 who primarily procured our textile fabric products of higher degree of customisation and specifications in 2017; and (ii) we offered a relatively lower margin to Customer F mainly due to their bulk sales orders placed in 2018 and 2019. The gross profit margin from the sales to our customers located in Japan remained relatively stable at approximately 21.3% and 20.4% for the four months ended 30 April 2019 and 2020, respectively.

The decrease in the gross profit margin from the sales to our other overseas customers from approximately 20.2% and 21.3% in 2017 and 2018, respectively, to approximately 17.0% in 2019 was primarily attributable to lower margins charged for relatively large sales orders placed by our major overseas customers in 2019. The increase in the gross profit margin from the sales to our other overseas customers from approximately 14.6% for the four months ended 30 April 2019 to approximately 17.5% for the four months ended 30 April 2020 was primarily attributable to lower margins charged for relatively large sales orders placed by our major overseas customers for the four months ended 30 April 2019.

Other income

During the Track Record Period, our other income amounted to approximately RMB1.6 million, RMB1.4 million, RMB1.9 million and RMB0.3 million, respectively. The following table sets forth a breakdown of our other income for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Bank interest income	92	5.7	211	15.2	158	8.4	49	10.5	22	6.3
Exchange gain, net	855	52.8	—	—	246	13.1	97	20.8	—	—
Government subsidies	325	20.1	394	28.4	347	18.5	208	44.5	233	67.1
Reversal of impairment loss on trade and bills receivables	—	—	—	—	290	15.5	—	—	63	18.2
Sundry income	348	21.4	784	56.4	836	44.5	113	24.2	29	8.4
Total	<u>1,620</u>	<u>100.0</u>	<u>1,389</u>	<u>100.0</u>	<u>1,877</u>	<u>100.0</u>	<u>467</u>	<u>100.0</u>	<u>347</u>	<u>100.0</u>

Our other income primarily consisted of (i) our bank interest income arising from our bank deposits; (ii) our exchange gain, net mainly arising from the favourable effect of the translation and settlement of foreign currency denominated financial assets and liabilities; (iii) our government subsidies mainly in relation to, among others, the enterprise development support, energy saving, innovation capabilities incentives and tax payments; (iv) our reversal of impairment loss on trade and bills receivables in respect of our impairment assessment in accordance with HKFRS 9; and (v) our sundry income mainly including our gains from the sale of scraps, and gains from the sale of textile dyes and additives to our subcontractors for our subcontracting processing and dyeing work.

FINANCIAL INFORMATION

Selling and distribution expenses

During the Track Record Period, our selling and distribution expenses represented approximately 2.3%, 2.2%, 2.4% and 3.0% of our total revenue, respectively. The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Staff costs	4,600	30.8	5,506	29.2	8,826	42.4	1,890	38.6	1,600	32.5
Transportation expenses	6,649	44.5	8,993	47.8	7,461	35.8	1,924	39.3	1,531	31.1
Samples and export fees	1,464	9.8	2,131	11.3	2,143	10.3	605	12.4	767	15.6
Marketing and promotion expenses	1,785	11.9	1,605	8.5	1,265	6.1	—	—	652	13.2
Others (<i>Note</i>)	453	3.0	591	3.2	1,124	5.4	474	9.7	378	7.6
Total	<u>14,951</u>	<u>100.0</u>	<u>18,826</u>	<u>100.0</u>	<u>20,819</u>	<u>100.0</u>	<u>4,893</u>	<u>100.0</u>	<u>4,928</u>	<u>100.0</u>

Note: Our others primarily included our office expenses and other sundry expenses incurred by our sales and marketing, and design and development staff.

Our selling and distribution expenses primarily consisted of (i) our staff costs mainly including the salaries and wages of our sales and marketing, and design and development staff; (ii) our transportation expenses mainly in relation to charges by our logistics companies for delivery of our textile fabric products from our warehouse to our customers' designated point; (iii) our samples and export fees primarily representing cost of samples provided to our customers and our export fees incurred for the delivery of our textile fabric products; and (iv) our marketing and promotion expenses incurred in relation to conducting marketing activities and soliciting new customers through various marketing channels and means.

FINANCIAL INFORMATION

Administrative expenses

During the Track Record Period, our administrative expenses represented approximately 3.0%, 2.9%, 3.6% and 9.1% of our total revenue, respectively. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Staff costs	6,458	32.9	7,548	30.3	8,045	25.7	2,131	20.1	2,684	17.8
Listing expenses	756	3.9	847	3.4	4,424	14.1	438	4.1	6,496	43.1
Entertainment and office expenses	3,472	17.7	4,059	16.3	3,761	12.0	1,112	10.5	1,151	7.6
Other taxes and levies	1,891	9.6	2,915	11.7	3,274	10.5	1,655	15.6	924	6.1
Transportation and accommodation	1,895	9.7	2,599	10.4	2,513	8.0	722	6.8	552	3.7
Legal and professional fees	1,591	8.1	1,570	6.3	2,098	6.7	1,949	18.4	371	2.5
Amortisation and depreciation	1,136	5.8	1,375	5.5	1,843	5.9	588	5.5	550	3.7
Bank charges	393	2.0	407	1.6	403	1.3	143	1.3	88	0.6
Insurance expenses	453	2.3	448	1.8	438	1.4	387	3.6	381	2.5
Exchange loss, net	—	—	248	1.1	—	—	—	—	546	3.6
Others (<i>Note</i>)	1,560	8.0	2,860	11.6	4,488	14.4	1,482	14.1	1,325	8.8
Total	19,605	100.0	24,876	100.0	31,287	100.0	10,607	100.0	15,068	100.0

Note: Our others primarily included our impairment loss on trade and bills receivables, loss on disposal of property, plant and equipment, penalty charges and other surcharges, cost of maintenance and testing expenses, and other sundry expenses.

Our administrative expenses primarily consisted of (i) our staff costs mainly including our Directors' emoluments, and the salaries and wages of our administrative and management staff; (ii) our listing expenses mainly representing the professional services fees incurred to professional parties by our Company in relation to the Listing as detailed in "Listing expenses" in this section; (iii) our entertainment and office expenses mainly for our accounting, office administration and business development; (iv) our other taxes and levies mainly including individual income tax, stamp duty and other levies in the PRC; (v) our transportation and accommodation expenses mainly incurred for our business trips; (vi) our legal and professional fees mainly in connection with our auditors' remuneration, corporate and secretarial fees, professional fees incurred in relation to our Group's restructuring and other professional fees; (vii) our amortisation and depreciation mainly of intangible asset, right-of-use assets, and property, plant and equipment for administrative purpose; (viii) our bank charges mainly in respect of our bank transaction costs for bank transfers; (ix) our insurance expenses mainly insurance premium payments for our production plant, production facilities and inventories; and (x) our exchange loss, net mainly arising from the unfavourable effect of the translation and settlement of foreign currency denominated financial assets and liabilities.

FINANCIAL INFORMATION

Finance costs

During the Track Record Period, our finance costs represented approximately 0.9%, 0.7%, 0.6% and 0.9% of our total revenue, respectively. The following table sets forth a breakdown of our finance costs for the periods indicated:

	Year ended 31 December						Four months ended 30 April			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Interests on borrowings	5,328	90.1	5,535	96.0	4,784	88.5	1,665	92.9	1,356	95.4
Interests on lease liabilities	218	3.7	12	0.2	381	7.0	127	7.1	65	4.6
Guarantee fees	370	6.2	220	3.8	240	4.5	—	—	—	—
Total	<u>5,916</u>	<u>100.0</u>	<u>5,767</u>	<u>100.0</u>	<u>5,405</u>	<u>100.0</u>	<u>1,792</u>	<u>100.0</u>	<u>1,421</u>	<u>100.0</u>

Our finance costs primarily consisted of (i) our interest on borrowings incurred for our short-term bank borrowings; (ii) our interests on lease liabilities mainly in respect of our land use right and the leases of our factory and warehouse premises; and (iii) our guarantee fees charged by a third party financial guarantee company for its financial guarantees provided for our borrowings.

Please refer to note 34(b) to the Accountants' Report in Appendix I to this prospectus for the sensitivity analysis of the change on the interest rate.

Income tax expenses

During the Track Record Period, our income tax expenses comprised our Hong Kong Profits Tax, EIT and deferred tax recognised for the year/period. We are subject to income tax calculated at the applicable tax rates in accordance with the relevant laws and regulations in each tax jurisdiction we operate or domicile.

FINANCIAL INFORMATION

The following table sets forth a breakdown of our income tax expenses and our effective income tax rate for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax:					
— Hong Kong Profits Tax	2,114	5,492	4,727	1,600	1,083
— EIT	8,091	8,397	13,236	1,403	1,297
	<u>10,205</u>	<u>13,889</u>	<u>17,963</u>	<u>3,003</u>	<u>2,380</u>
Deferred tax:					
— Current year	<u>2,070</u>	<u>2,130</u>	<u>3,282</u>	<u>364</u>	<u>366</u>
Total	<u>12,275</u>	<u>16,019</u>	<u>21,245</u>	<u>3,367</u>	<u>2,746</u>
Effective income tax rate	28.7%	24.6%	28.7%	22.9%	51.5%

Overseas income taxes

Under the rules and regulations of the Cayman Islands and the BVI, we are not subject to any income tax in the Cayman Islands and the BVI.

Hong Kong Profits Tax

Our Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profits of Yadong (Hong Kong) in 2017. The two-tiered profits tax regime (i.e. the first HK\$2.0 million of assessable profits will be taxed at 8.25%, and assessable profits above HK\$2.0 million will be taxed at 16.5%) is applicable to Yadong (Hong Kong) for the reporting period beginning on or after 1 January 2018.

EIT

EIT is calculated based on the statutory profits of Yadong (Changzhou) in accordance with the EIT Laws and regulations, after adjusting certain income and expense items, which are not taxable or deductible for income tax purposes. During the Track Record Period, under the EIT Law, the applicable EIT rate for Yadong (Changzhou) was 25%.

Our income tax payable of approximately RMB22.1 million, RMB19.5 million and RMB23.5 million as at 31 December 2017, 2018 and 2019, respectively, were significantly greater than our payment of income tax of approximately RMB5.4 million, RMB16.8 million and RMB14.1 million

FINANCIAL INFORMATION

during the Track Record Period, respectively, which was primarily attributable to (i) the late filings of Hong Kong Profits Tax by Yadong (Hong Kong) in Hong Kong as detailed in “Business — Legal and compliance matters — Regulatory non-compliance incidents — 5. Failure to file profits tax returns and settle profits payments on time” in this prospectus leading to the significant outstanding Hong Kong Profits Tax payables in respect of YOA 2013/14 to 2017/18 of approximately RMB12.7 million as at 31 December 2017; and (ii) the inaccurate PRC tax filings filed by Yadong (Changzhou) relating to the treatment of the estimated listing expenses as tax deductible items as detailed in “Business — Legal and compliance matters — Regulatory non-compliance incidents — 6. Failure to file accurate EIT returns” in this prospectus leading to the significant outstanding payables for the EIT shortfall of approximately RMB6.3 million, RMB13.3 million and RMB10.0 million as at 31 December 2017, 2018 and 2019, respectively.

For further details of the discussion of our income tax payable, please refer to “Discussion of selected items of consolidated statements of financial position — Income tax payable” in this section.

Deferred tax

Our deferred tax primarily represented the movement of our deferred tax liabilities during the year which was primarily attributable to the deferred tax effect of withholding tax on dividends in respect of undistributed profits of Yadong (Changzhou).

Transfer pricing

During the Track Record Period, most of our overseas sales were conducted by Yadong (Hong Kong) and involved intra-group sale and purchase transactions between Yadong (Changzhou) and Yadong (Hong Kong) which was subject to tax exposure in respect of transfer pricing. Based on the confirmation by the Tax Adviser and the transfer pricing analysis conducted by the Tax Adviser, our Directors take the view that the transfer pricing arrangement under the Intra-Group Transactions complies with the applicable transfer pricing rules and regulations in the PRC and Hong Kong, which require related party transactions to be carried out on an arm’s length basis. Please refer to “Business — Intra-group transactions” in this prospectus for further details of our transfer pricing arrangement and “Regulatory overview — Regulatory requirements in Hong Kong — D. Transfer pricing” in this prospectus for the details of the relevant transfer pricing laws and regulations.

Our Directors confirm that as at the Latest Practicable Date, (i) we made all required tax filings under the relevant tax laws and regulations in Hong Kong and the PRC and paid all outstanding tax liabilities due; and (ii) we were not subject to any material dispute or potential dispute with the tax authorities in Hong Kong and the PRC.

FINANCIAL INFORMATION

SENSITIVITY AND BREAKEVEN ANALYSIS

Sensitivity analysis

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of (i) 6% and 12% in the average unit price of our textile fabric products; (ii) 3.5% and 7% in our staff costs; (iii) 2% and 5% in our cost of materials; and (iv) 2% and 4% in our utility costs, with other variables remaining constant, on our profit before tax for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Average unit price of textile fabric products:					
+ 6%	36,307	48,232	49,359	12,477	9,328
+ 12%	72,614	96,465	98,718	24,955	18,656
– 6%	(36,307)	(48,232)	(49,359)	(12,477)	(9,328)
– 12%	(72,614)	(96,465)	(98,718)	(24,955)	(18,656)
Staff costs:					
+ 3.5%	(1,357)	(1,493)	(1,747)	(468)	(434)
+ 7%	(2,714)	(2,986)	(3,494)	(935)	(869)
– 3.5%	1,357	1,493	1,747	468	434
– 7%	2,714	2,986	3,494	935	869
Cost of materials:					
+ 2%	(9,322)	(12,224)	(11,935)	(3,028)	(2,167)
+ 4%	(18,644)	(24,447)	(23,870)	(6,057)	(4,333)
– 2%	9,322	12,224	11,935	3,028	2,167
– 4%	18,644	24,447	23,870	6,057	4,333
Utility costs:					
+ 2%	(943)	(1,012)	(1,104)	(330)	(287)
+ 4%	(1,886)	(2,024)	(2,209)	(660)	(574)
– 2%	943	1,012	1,104	330	287
– 4%	1,886	2,024	2,209	660	574

The hypothetical fluctuation rates for the average unit price of our textile fabric products are set at 6% and 12%, which correspond to the maximum fluctuation in the average unit price of (i) our plain weave fabric products of approximately 11.6% (representing the percentage of increase from 2017 to 2018); and (ii) our corduroy fabric products of approximately 6.3% (representing the percentage of increase from 2017 to 2018) during the Track Record Period.

FINANCIAL INFORMATION

The hypothetical fluctuation rates for our staff costs are set at 3.5% and 7%, which correspond to the CAGR of major cities in Jiangsu province of approximately 6.8% from 2016 to 2018 according to the Ipsos Report.

The hypothetical fluctuation rates for our cost of raw materials are set at 2% and 4%, which correspond to the CAGR of the price of (i) greige fabric of approximately (3.1)%; and (ii) textile dye of approximately 4.0%, from 2014 to 2019 as stated in “Industry overview — Final product and raw material price analysis — Price trend of major raw materials” in this prospectus.

The hypothetical fluctuation rates for our utility costs are set at 2% and 4%, which correspond to the CAGR of industrial steam of approximately 3.3% from 2014 to 2019 as stated in “Industry overview — Final product and raw material price analysis — Price trend of major raw materials” in this prospectus.

Breakeven analysis

If our cost of sales increased by approximately 7.4%, 8.7%, 10.0% and 3.8% during the Track Record Period, respectively, with other variables remaining constant, we would record breakeven of profit before tax for the respective year/period.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Four months ended 30 April 2020 compared to four months ended 30 April 2019

Revenue

Our total revenue decreased by approximately 24.5% from approximately RMB220.4 million for the four months ended 30 April 2019 to approximately RMB166.3 million for the four months ended 30 April 2020, which was primarily attributable to the impacts of the COVID-19 pandemic resulting (i) the temporary suspension in our production for approximately one week after the Lunar New Year break as a result of the mandatory suspension of operations imposed by the local PRC government in early February 2020; and (ii) the suspension of most non-essential businesses (including garment manufacturing businesses) in the PRC from February to mid-March 2020 in response to the COVID-19 outbreak (resulting in a delay of approximately one and a half month in the resumption of business of our regular customers) which had eventually delayed our production and delivery of certain orders from garment manufacturers and/or sourcing agents of UNIQLO contributing to the decrease in our sales to Customer A, Customer F and an overseas garment manufacturer customer located in Bangladesh. As such, we recorded a decrease in our revenue derived from the sale of our textile fabric products from approximately RMB208.0 million for the four months ended 30 April 2019 to approximately RMB155.5 million for the four months ended 30 April 2020, which was primarily attributable to:

- (i) the decrease in our revenue from the sale of our plain weave fabric products from approximately RMB158.0 million for the four months ended 30 April 2019 to approximately RMB124.1 million for the four months ended 30 April 2020 mainly in line with the decrease in the sales volume of our corduroy fabric products from

FINANCIAL INFORMATION

approximately 8.6 million metres for the four months ended 30 April 2019 to approximately 6.7 million metres for the four months ended 30 April 2020, which was mainly as a result of the decrease in our revenue and sales volume from the sale of plain weave fabric products to two of our major customers, namely Customer A and Customer F, and the aforesaid overseas garment manufacturer customer located in Bangladesh from approximately RMB48.9 million and 2.5 million metres, respectively, for the four months ended 30 April 2019 to approximately RMB20.7 million and 1.0 million metres, respectively, for the four months ended 30 April 2020; and

- (ii) the decrease in our revenue from the sale of our corduroy fabric products from approximately RMB49.9 million for the four months ended 30 April 2019 to approximately RMB31.4 million for the four months ended 30 April 2020 mainly in line with the decrease in the sales volume of our corduroy fabric products from approximately 2.3 million metres for the four months ended 30 April 2019 to approximately 1.4 million metres for the four months ended 30 April 2020, which was mainly as a result of the decrease in our revenue and sales volume from the sale of corduroy fabric products to Customer A and the aforesaid overseas garment manufacturer customer located in Bangladesh from approximately RMB13.6 million and 0.6 million metres, respectively, for the four months ended 30 April 2019 to approximately RMB2.4 million and 84,000 metres, respectively, for the four months ended 30 April 2020.

Cost of sales

Our cost of sales decreased by approximately 25.9% from approximately RMB188.9 million for the four months ended 30 April 2019 to approximately RMB139.9 million for the four months ended 30 April 2020, which was mainly due to (i) the decrease in our cost of materials from approximately RMB151.4 million for the four months ended 30 April 2019 to approximately RMB108.3 million for the four months ended 30 April 2020 mainly in line with the decrease in the total sales and processing volume by approximately 26.5%; (ii) the decrease in our subcontracting costs from approximately RMB4.2 million for the four months ended 30 April 2019 to approximately RMB2.7 million for the four months ended 30 April 2020 mainly due to a lower demand of subcontracting mainly as a result of the reduction of sales; and (iii) the decrease in our utility costs from approximately RMB16.5 million for the four months ended 30 April 2019 to approximately RMB14.4 million for the four months ended 30 April 2020; (iv) the decrease in our direct labour costs from approximately RMB9.3 million for the four months ended 30 April 2019 to approximately RMB8.1 million for the four months ended 30 April 2020, all mainly due to the lower level of production activities having taken place for the production of our textile fabric products.

Gross profit and gross profit margin

Our gross profit decreased by approximately 16.2% from approximately RMB31.5 million for the four months ended 30 April 2019 to approximately RMB26.4 million for the four months ended 30 April 2020, which was primarily attributable to the decrease in our revenue and our cost of sales as discussed above.

FINANCIAL INFORMATION

Our overall gross profit margin increased from approximately 14.3% for the four months ended 30 April 2019 to approximately 15.9% for the four months ended 30 April 2020, which was primarily attributable to the increase in the gross profit margin for our plain weave fabric products from approximately 14.7% for the four months ended 30 April 2019 to approximately 16.8% for the four months ended 30 April 2020 mainly due to (i) the slight increase in our average unit price by approximately 1.1% due to our market condition mainly in respect of the reduction of our sales to an overlapping customer, namely Supplier D, from approximately RMB1.7 million for the four months ended 30 April 2019 to approximately RMB0.4 million for the four months ended 30 April 2020 (who primarily procured our plain weave fabric products of lower average unit price of around RMB11 per metre during such periods for its domestic brand end customers); and (ii) the slight decrease in the average unit cost of our textile fabric products by approximately 1.4% from approximately RMB15.7 per metre for the four months ended 30 April 2019 to approximately RMB15.5 per metre for the four months ended 30 April 2020 mainly due to the reduction of unit purchase costs of our plain weave greige fabrics.

Other income

Our other income decreased from approximately RMB0.5 million for the four months ended 30 April 2019 to approximately RMB0.3 million for the four months ended 30 April 2020, which was primarily attributable to the change from exchange gain of approximately RMB97,000 for the four months ended 30 April 2019 to exchange loss of approximately RMB0.5 million (which was included in our administrative expenses) for the four months ended 30 April 2020 mainly due to the unfavourable effect on the appreciation of US\$ against RMB in relation to the US\$-denominated intra-group balance of Yadong (Changzhou) due to Yadong (Hong Kong) for the four months ended 30 April 2020.

Selling and distribution expenses

Our selling and distribution expenses remained stable at approximately RMB4.9 million and RMB4.9 million for the four months ended 30 April 2019 and 2020, respectively.

Administrative expenses

Our administrative expenses increased from approximately RMB10.6 million for the four months ended 30 April 2019 to approximately RMB15.1 million for the four months ended 30 April 2020, which was primarily attributable to the increase in our listing expenses from approximately RMB0.4 million for the four months ended 30 April 2019 to approximately RMB6.5 million for the four months ended 30 April 2020.

Finance costs

Our finance costs decreased from approximately RMB1.8 million for the four months ended 30 April 2019 to approximately RMB1.4 million for the four months ended 30 April 2020, which was primarily attributable to the decrease in our average bank borrowings for the four months ended 30 April 2020 while the additional bank borrowing of RMB25.0 million was drawn down in April 2020.

FINANCIAL INFORMATION

Income tax expenses

Our income tax expenses decreased from approximately RMB3.4 million for the four months ended 30 April 2019 to approximately RMB2.7 million for the four months ended 30 April 2020, which was primarily attributable to the decrease in our current tax from approximately RMB3.0 million for the four months ended 30 April 2019 to approximately RMB2.4 million for the four months ended 30 April 2020 mainly due to the decrease in our profit before tax leading to the decrease in our taxable profit.

Our effective income tax rate increased from approximately 22.9% for the four months ended 30 April 2019 to approximately 51.5% for the four months ended 30 April 2020, which was primarily attributable to the increase in our non-tax deductible listing expenses from approximately RMB0.4 million for the four months ended 30 April 2019 to approximately RMB6.5 million for the four months ended 30 April 2020.

Profit for the period

Our profit for the period decreased from approximately RMB11.3 million for the four months ended 30 April 2019 to approximately RMB2.6 million for the four months ended 30 April 2020, which was primarily attributable to the foregoing reasons as discussed above.

Year ended 31 December 2019 compared to year ended 31 December 2018

Revenue

Our total revenue slightly increased by approximately 0.6% from approximately RMB861.5 million in 2018 to approximately RMB866.7 million in 2019, which was primarily attributable to:

- (i) the increase in our revenue derived from the sale of our textile fabric products from approximately RMB803.9 million in 2018 to approximately RMB822.7 million in 2019 primarily attributable to:
 - (a) the increase in our revenue from the sale of our corduroy fabric products from approximately RMB95.2 million in 2018 to approximately RMB197.2 million in 2019 mainly due to the increase in the sales volume of our corduroy fabric products from approximately 4.5 million metres in 2018 to approximately 9.3 million metres in 2019 mainly as a result of (1) the increase in the sales orders for our corduroy fabric products from our customers which our Directors believe was mainly due to our ability to keep abreast of the market trend and our capability of customising our corduroy fabric products in accordance with customers' specific requirements and at the same time of high quality and timely delivery; (2) the change of product mix purchased for our certain customers to increase their purchases of corduroy fabric products in 2019 (mainly including Customer A and Customer G in aggregate contributing to the increase in the revenue and the sales volume of our corduroy fabric products from approximately RMB4.7 million and 0.2 million metres in 2018, respectively, to approximately RMB39.9 million and 2.0 million metres in 2019, respectively) mainly because of, among others, (a) the reduction of our

FINANCIAL INFORMATION

selling price of corduroy fabric products from 2018 to enhance the competitiveness of our corduroy fabric products; and (b) a change of the fashion trend to corduroy textile products in the market in the winter season in 2019; and (3) the increase in the number of our large corduroy fabric product customers (which we generated revenue of at least RMB5 million from the sale of our corduroy fabric products during the year) from three customers in 2018 to eight customers in 2019 which collectively contributed revenue and sales volume of approximately RMB104.4 million and 5.2 million metres, respectively, from the sale of our corduroy fabric products in 2019 as compared to that of approximately RMB45.3 million and 2.4 million metres, respectively, in 2018; and

- (b) the decrease in our revenue from the sale of our plain weave fabric products from approximately RMB708.7 million in 2018 to approximately RMB625.4 million in 2019 mainly due to the decrease in the sales volume of our plain weave fabric products from approximately 38.9 million metres in 2018 to approximately 34.0 million metres in 2019 mainly as a result of the shift of part of our production capacity to manufacture our corduroy fabric products mainly due to (1) the significant increase in the sales orders for our corduroy fabric products from our customers in 2019; (2) the change of product mix purchased for our certain customers to increase their purchases of corduroy fabric products in 2019; and (3) the decrease in our revenue and sales volume from the sale of plain weave fabric products to two of our major customers, namely Customer F and Customer H from approximately RMB153.7 million and 8.0 million metres, respectively, in 2018 to approximately RMB96.4 million and 4.8 million metres, respectively, in 2019.
- (ii) the decrease in our revenue generated from our processing services from approximately RMB57.6 million in 2018 to approximately RMB44.0 million in 2019, which was primarily attributable to the constraint of our production capacity.

Cost of sales

Our cost of sales slightly decreased by approximately 1.5% from approximately RMB748.3 million in 2018 to approximately RMB737.1 million in 2019, which was mainly due to (i) the slight decrease in our cost of materials from approximately RMB611.2 million in 2018 to approximately RMB596.8 million in 2019 mainly in line with the slight decrease in the total sales and processing volume by approximately 6.6%; and (ii) the decrease in our subcontracting costs from approximately RMB35.3 million in 2018 to approximately RMB29.3 million in 2019 mainly due to (a) the reduction of our subcontracting volume mainly due to (1) the parties' failure to reach reasonable commercial terms due to the tight production capacity and schedule of our subcontractors as a result of the industry consolidation arising from the tightening of the environmental requirements; and (2) the higher level of production activities having taken place for the production of our textile fabric products in our production facilities for better quality control of our textile fabric products; and (b) the increase in our purchases from Supplier F for the textile fabric products manufactured in Vietnam in accordance with our specifications (which in turn reduced our need of subcontracting in the PRC in 2019), largely offset by (i) the increase in our utility costs from approximately RMB50.6 million in 2018 to approximately RMB55.2 million in

FINANCIAL INFORMATION

2019; and (ii) the increase in our direct labour costs from approximately RMB29.6 million in 2018 to approximately RMB33.0 million in 2019, both mainly due to the higher level of production activities having taken place for the production of our textile fabric products.

Gross profit and gross profit margin

Our gross profit increased by approximately 14.5% from approximately RMB113.2 million in 2018 to approximately RMB129.5 million in 2019, which was primarily attributable to the slight increase in our revenue together with the slight decrease in our cost of sales as discussed above.

Our overall gross profit margin increased from approximately 13.1% in 2018 to approximately 14.9% in 2019, which was primarily attributable to (i) the increase in the gross profit margin for our plain weave fabric products from approximately 13.5% in 2018 to approximately 15.6% in 2019 mainly due to (a) the slight increase in our average unit price by approximately 1.2% due to market condition; and (b) the slight decrease in the average unit cost of our textile fabric products by approximately 1.2% from approximately RMB15.7 per metre in 2018 to approximately RMB15.5 per metre in 2019 mainly due to the reduction of unit purchase costs of our plain weave greige fabrics; and (ii) the increase in the gross profit margin for our processing services from approximately 8.7% in 2018 to approximately 11.6% in 2019 mainly due to the fact that we slightly increased our unit price by an average of approximately 2.2% mainly as a result of the constraint of our production capacity in our production facilities.

Other income

Our other income increased from approximately RMB1.4 million in 2018 to approximately RMB1.9 million in 2019, which was primarily attributable to (i) the recognition of our reversal of impairment loss on trade and bills receivables of approximately RMB0.3 million in 2019; and (ii) the change from exchange loss of approximately RMB0.2 million (which was included in our administrative expenses) in 2018 to exchange gain of approximately RMB0.2 million in 2019 mainly due to the favourable effect on the appreciation of US\$ against RMB in relation to our overseas sales denominated in US\$.

Selling and distribution expenses

Our selling and distribution expenses increased from approximately RMB18.8 million in 2018 to approximately RMB20.8 million in 2019, which was primarily attributable to the increase in our staff costs from approximately RMB5.5 million in 2018 to approximately RMB8.8 million in 2019 mainly due to the accrual of our staff bonus of approximately RMB3.1 million in 2019 for our sales and marketing, and design and development staff in achieving higher margin of our textile fabric products and better financial performance in 2019, partially offset by the decrease in our transportation expenses from approximately RMB9.0 million in 2018 to approximately RMB7.5 million in 2019 mainly due to the increase in our purchases from Supplier F who directly delivered the textile fabric products from its Vietnam production plant to our customers' designated garment manufacturers in Vietnam.

FINANCIAL INFORMATION

Administrative expenses

Our administrative expenses increased from approximately RMB24.9 million in 2018 to approximately RMB31.3 million in 2019, which was primarily attributable to (i) the increase in our listing expenses from approximately RMB0.8 million in 2018 to approximately RMB4.4 million in 2019; and (ii) the increase in our others from approximately RMB2.9 million in 2018 to approximately RMB4.5 million in 2019 mainly due to the payment of surcharges of approximately RMB2.0 million in 2019 in relation to the voluntary rectification of annual EIT filings for 2017 and 2018.

Finance costs

Our finance costs decreased from approximately RMB5.8 million in 2018 to approximately RMB5.4 million in 2019, which was primarily attributable to the reduction of our average borrowings.

Income tax expenses

Our income tax expenses increased from approximately RMB16.0 million in 2018 to approximately RMB21.2 million in 2019, which was primarily attributable to (i) the increase in our current tax from approximately RMB13.9 million in 2018 to approximately RMB18.0 million in 2019 mainly due to the increase in our profit before tax leading to the increase in our taxable profit; and (ii) the increase in our deferred tax expense primarily in relation to withholding tax on dividends in respect of the undistributable profits of Yadong (Changzhou) from approximately RMB2.1 million in 2018 to approximately RMB3.3 million in 2019.

Our effective income tax rate increased from approximately 24.6% in 2018 to approximately 28.7% in 2019, which was primarily attributable to (i) the increase in our deferred tax expense as discussed above; and (ii) the increase in our non-tax deductible listing expenses from approximately RMB0.8 million in 2018 to approximately RMB4.4 million in 2019.

Profit for the year

Our profit for the year increased from approximately RMB49.1 million in 2018 to approximately RMB52.7 million in 2019, which was primarily attributable to the foregoing reasons as discussed above.

Year ended 31 December 2017 compared to year ended 31 December 2018

Revenue

Our total revenue increased by approximately 30.2% from approximately RMB661.7 million in 2017 to approximately RMB861.5 million in 2018, which was primarily attributable to:

- (i) the increase in our revenue derived from the sale of our textile fabric products from approximately RMB605.1 million in 2017 to approximately RMB803.9 million in 2018 primarily attributable to:

FINANCIAL INFORMATION

- (a) the increase in our revenue from the sale of our plain weave fabric products from approximately RMB485.5 million in 2017 to approximately RMB708.7 million in 2018 mainly due to the increase in the sales volume of our plain weave fabric products from approximately 29.8 million metres in 2017 to approximately 38.9 million metres in 2018 mainly as a result of (1) the increase in the sales orders for our plain weave fabric products from our customers which our Directors believe was mainly due to our ability to keep abreast of the market trend and our capability of customising our plain weave fabric products in accordance with customers' specific requirements and at the same time of high quality and timely delivery; (2) the commencement of the business with Customer F (who is a designated sourcing agent of UNIQLO) in 2018 (contributing the sales and sales volume of our plain weave fabric products of approximately RMB123.4 million and 6.3 million metres in 2018, respectively); and (3) the increase in the number of other large plain weave fabric product customers (which we generated revenue of at least RMB10 million from the sale of our plain weave fabric products during the year) from 12 customers in 2017 to 16 customers in 2018 which collectively contributed revenue and sales volume of approximately RMB416.8 million and 24.2 million metres, respectively, from the sale of our plain weave fabric products in 2018 as compared to that of approximately RMB354.8 million and 22.1 million metres, respectively, in 2017; and
- (b) the decrease in our revenue from the sale of our corduroy fabric products from approximately RMB119.7 million in 2017 to approximately RMB95.2 million in 2018 mainly due to the decrease in the sales volume of our corduroy fabric products from approximately 5.3 million metres in 2017 to approximately 4.5 million metres in 2018 mainly as a result of the decrease in the sales and sales volume of our corduroy fabric products to Customer C, who is also a designated sourcing agent of UNIQLO, from approximately RMB27.2 million and 1.0 million metres, respectively, in 2017 to approximately RMB1.9 million and 57,000 metres, respectively, in 2018; and
- (ii) the stable revenue generated from our processing services of approximately RMB56.6 million and RMB57.6 million in 2017 and 2018, respectively.

Cost of sales

Our cost of sales increased by approximately 29.0% from approximately RMB580.0 million in 2017 to approximately RMB748.3 million in 2018, which was primarily in line with the increase in our revenue as discussed above.

The increase in our cost of sales was mainly due to (i) the increase in our cost of plain weave and corduroy greige fabrics from approximately RMB425.9 million in 2017 to approximately RMB567.4 million in 2018 which was mainly attributable to the increase in the use of raw materials mainly in line with the increase in the sales and sales volume of our textile fabric products demanded from our customers; and (ii) the increase in our subcontracting costs from

FINANCIAL INFORMATION

approximately RMB18.8 million in 2017 to approximately RMB35.3 million in 2018 mainly due to the increase in the level of subcontracting of processing and dyeing works in 2018 due to the constraint of our production capacity.

Gross profit and gross profit margin

Our gross profit increased by approximately 38.6% from approximately RMB81.7 million in 2017 to approximately RMB113.2 million in 2018, which was primarily in line with the increase in our revenue as discussed above.

Our overall gross profit margin slightly increased from approximately 12.3% in 2017 to approximately 13.1% in 2018, which was primarily attributable to the increase in the gross profit margin for our plain weave fabric products from approximately 11.4% in 2017 to approximately 13.5% in 2018 mainly due to the commencement of purchases of textile fabric products manufactured in Vietnam from Supplier F in 2018 which were at lower unit costs, partially offset by the decrease in the gross profit margin for our corduroy fabric products from approximately 17.8% in 2017 to approximately 13.0% in 2018 mainly due to the decrease in our average unit price of corduroy fabric products by approximately 6.3% to maintain our competitiveness of our corduroy fabric products.

Other income

Our other income decreased from approximately RMB1.6 million in 2017 to approximately RMB1.4 million in 2018, which was primarily attributable to the change from exchange gain of approximately RMB0.9 million in 2017 to exchange loss of approximately RMB0.2 million (which was included in our administrative expenses) in 2018 mainly due to the favourable effect on the depreciation of US\$ against RMB in relation to the US\$-denominated intra-group balance of Yadong (Changzhou) due to Yadong (Hong Kong) in 2017, partially offset by (i) the increase in our bank interest income from approximately RMB92,000 in 2017 to approximately RMB0.2 million in 2018 mainly due to the increase in our bank balances; and (ii) the increase in our sundry income from approximately RMB0.3 million in 2017 to approximately RMB0.8 million in 2018 mainly due to the increase in our gain from the sale of textile dyes and additives to our subcontractors mainly as a result of more subcontracting services performed for our Group due to our production capacity constraint.

Selling and distribution expenses

Our selling and distribution expenses increased from approximately RMB15.0 million in 2017 to approximately RMB18.8 million in 2018, which was primarily attributable to (i) the increase in our transportation expenses from approximately RMB6.6 million in 2017 to approximately RMB9.0 million in 2018 mainly due to the increase in the sales of our textile fabric products; and (ii) the increase in our staff costs from approximately RMB4.6 million in 2017 to approximately RMB5.5 million in 2018 mainly due to the increase in our average headcount of our sales and marketing, and design and development staff due to our business expansion.

FINANCIAL INFORMATION

Administrative expenses

Our administrative expenses increased from approximately RMB19.6 million in 2017 to approximately RMB24.9 million in 2018, which was primarily attributable to (i) the increase in our staff costs from approximately RMB6.5 million in 2017 to approximately RMB7.5 million in 2018 mainly due to the increase in our average headcount of our administrative staff due to our business expansion; and (ii) the expansion of our business scale leading to the increase in our other taxes and levies, entertainment and office expenses, and transportation and accommodation.

Finance costs

Our finance costs remained stable at approximately RMB5.9 million and RMB5.8 million in 2017 and 2018, respectively.

Income tax expenses

Our income tax expenses increased from approximately RMB12.3 million in 2017 to approximately RMB16.0 million in 2018, which was primarily attributable to the increase in our current tax from approximately RMB10.2 million in 2017 to approximately RMB13.9 million in 2018 mainly due to the increase in our profit before tax leading to the increase in our taxable profit.

Our effective income tax rate decreased from approximately 28.7% in 2017 to approximately 24.6% in 2018, which was primarily attributable to (i) the increase in our profit before income tax generated in Hong Kong from approximately RMB12.8 million in 2017 to approximately RMB34.0 million in 2018 mainly in relation to the increase in our overseas sales mainly due to the commencement of the business with Customer F in 2018 as detailed in “Discussion of selected profit or loss items — Revenue — Revenue by geographical location” in this section; and (ii) the statutory tax rate of Hong Kong is lower than that of the PRC.

Profit for the year

Our profit for the year increased from approximately RMB30.6 million in 2017 to approximately RMB49.1 million in 2018, which was primarily attributable to the foregoing reasons as discussed above.

FINANCIAL INFORMATION

DISCUSSION OF SELECTED ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table includes items from our consolidated statements of financial position as at 31 December 2017, 2018 and 2019, which has been extracted from, and should be read in conjunction with the Accountants' Report in Appendix I to this prospectus.

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	52,721	55,314	70,239	72,332
Right-of-use assets	10,152	17,017	13,208	14,093
Intangible asset	149	137	313	404
Deposits paid for acquisition of property, plant and equipment	2,460	3,493	1,149	2,336
Deferred tax assets	184	192	164	148
	<u>65,666</u>	<u>76,153</u>	<u>85,073</u>	<u>89,313</u>
Current assets				
Inventories	68,696	54,580	65,618	109,437
Trade and bills receivables	165,846	162,926	172,130	133,600
Prepayments and other receivables	11,037	11,128	9,569	14,385
Amount due from a Controlling Shareholder	16,854	16,719	—	—
Amounts due from Directors	873	—	—	30
Amounts due from related companies	39,920	40,416	1,321	27
Bank balances and cash	<u>25,830</u>	<u>50,063</u>	<u>62,124</u>	<u>24,140</u>
	<u>329,056</u>	<u>335,832</u>	<u>310,762</u>	<u>281,619</u>
Current liabilities				
Trade and bills payables	148,668	127,174	162,519	155,125
Accruals and other payables	25,630	21,756	25,924	12,419
Contract liabilities	1,959	1,840	1,533	1,693
Income tax payable	22,121	19,451	23,476	4,207
Amount due to a Controlling Shareholder	—	—	4,263	1,978
Lease liabilities	120	3,339	3,153	3,933
Borrowings	<u>75,790</u>	<u>74,800</u>	<u>70,590</u>	<u>95,590</u>
	<u>274,288</u>	<u>248,360</u>	<u>291,458</u>	<u>274,945</u>
Net current assets	<u>54,768</u>	<u>87,472</u>	<u>19,304</u>	<u>6,674</u>

FINANCIAL INFORMATION

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets less current liabilities	<u>120,434</u>	<u>163,625</u>	<u>104,377</u>	<u>95,987</u>
Non-current liabilities				
Lease liabilities	108	3,019	119	1,604
Deferred tax liabilities	<u>3,941</u>	<u>6,079</u>	<u>9,333</u>	<u>9,683</u>
	<u>4,049</u>	<u>9,098</u>	<u>9,452</u>	<u>11,287</u>
Net assets	<u><u>116,385</u></u>	<u><u>154,527</u></u>	<u><u>94,925</u></u>	<u><u>84,700</u></u>
Capital and reserves				
Share capital	1	1	1	1
Reserves	<u>116,384</u>	<u>154,526</u>	<u>94,924</u>	<u>84,699</u>
Total equity	<u><u>116,385</u></u>	<u><u>154,527</u></u>	<u><u>94,925</u></u>	<u><u>84,700</u></u>

Net current assets

The following table sets forth a breakdown of our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at	As at
	2017	2018	2019	30 April	31 August
	RMB'000	RMB'000	RMB'000	2020	2020
				RMB'000	RMB'000
					(unaudited)
Current assets					
Inventories	68,696	54,580	65,618	109,437	67,757
Trade and bills receivables	165,846	162,926	172,130	133,600	169,566
Prepayments and other					
receivables	11,037	11,128	9,569	14,385	16,087
Amount due from a					
Controlling Shareholder	16,854	16,719	—	—	—
Amounts due from Directors	873	—	—	30	—
Amounts due from related					
companies	39,920	40,416	1,321	27	—
Bank balances and cash	<u>25,830</u>	<u>50,063</u>	<u>62,124</u>	<u>24,140</u>	<u>31,904</u>
	<u><u>329,056</u></u>	<u><u>335,832</u></u>	<u><u>310,762</u></u>	<u><u>281,619</u></u>	<u><u>285,314</u></u>

FINANCIAL INFORMATION

	As at 31 December			As at 30 April	As at 31 August
	2017	2018	2019	2020	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current liabilities					
Trade and bills payables	148,668	127,174	162,519	155,125	129,269
Accruals and other payables	25,630	21,756	25,924	12,419	12,967
Contract liabilities	1,959	1,840	1,533	1,693	—
Income tax payable	22,121	19,451	23,476	4,207	10,569
Amount due to a Controlling Shareholder	—	—	4,263	1,978	2,969
Lease liabilities	120	3,339	3,153	3,933	3,983
Borrowings	<u>75,790</u>	<u>74,800</u>	<u>70,590</u>	<u>95,590</u>	<u>95,590</u>
	<u>274,288</u>	<u>248,360</u>	<u>291,458</u>	<u>274,945</u>	<u>255,347</u>
Net current assets	<u>54,768</u>	<u>87,472</u>	<u>19,304</u>	<u>6,674</u>	<u>29,967</u>

Our net current assets increased from approximately RMB54.8 million as at 31 December 2017 to approximately RMB87.5 million as at 31 December 2018, which was primarily attributable to our net profit of approximately RMB49.1 million generated in 2018, partially offset by the declaration of dividend of approximately RMB13.2 million in 2018.

Our net current assets decreased to approximately RMB19.3 million as at 31 December 2019, which was primarily attributable to the declaration of dividend of approximately RMB113.5 million in 2019, partially offset by our net profit of approximately RMB52.7 million generated in 2019.

Our net current assets decreased to approximately RMB6.7 million as at 30 April 2020, which was primarily attributable to the declaration of dividend of RMB12.0 million for the four months ended 30 April 2020, partially offset by our net profit of approximately RMB2.6 million generated for the four months ended 30 April 2020.

Please refer to the below for further details of and analysis of our current assets and current liabilities during the Track Record Period.

Our net current assets increased to approximately RMB30.0 million as at 31 August 2020, which was primarily attributable to our net profit for the four months ended 31 August 2020.

FINANCIAL INFORMATION

Property, plant and equipment

The following table sets forth a breakdown of our property, plant and equipment as at the dates indicated:

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Leasehold improvement	229	1,536	1,345	1,114
Plant and machineries	50,878	48,908	49,731	48,271
Furniture and fixture	459	414	312	277
Motor vehicle	671	799	242	226
Office equipment	484	684	794	728
Construction in progress	—	2,973	17,815	21,716
Total	52,721	55,314	70,239	72,332

Our property, plant and equipment mainly included (i) our plant and machineries mainly for the manufacturing and production of our textile fabric products and the provision of processing services (representing approximately 96.5%, 88.4%, 70.8% and 66.7% of our total property, plant and equipment as at 31 December 2017, 2018 and 2019 and 30 April 2020, respectively); and (ii) our construction in progress mainly in relation to the development of our own design and development centre (representing nil, approximately 5.4%, 25.4% and 30.0% of our total property, plant and equipment as at 31 December 2017, 2018 and 2019 and 30 April 2020, respectively).

Our property, plant and equipment increased from approximately RMB52.7 million as at 31 December 2017 to approximately RMB55.3 million as at 31 December 2018 and further to approximately RMB70.2 million as at 31 December 2019, which was primarily attributable to the additions of our property, plant and equipment of approximately RMB10.8 million and RMB23.0 million in 2018 and 2019, respectively, mainly in relation to (i) construction in progress of our design and development centre; (ii) the continuous improvement to our certain individual machineries forming our production line which focused on cost reduction (lower waste water discharge and (i.e. lower energy consumption), quality improvement and extending the useful lives of the production facilities due to the increased compatibility among the machineries, which had no direct effect on our production capacity; and (iii) leasehold improvement mainly for our production site, partially offset by our depreciation of approximately RMB7.7 million and RMB7.8 million in 2018 and 2019, respectively.

FINANCIAL INFORMATION

Our property, plant and equipment increased to approximately RMB72.3 million as at 30 April 2020, which was primarily attributable to the additions of our property, plant and equipment of approximately RMB4.7 million for the four months ended 30 April 2020 mainly in relation to construction in progress of our design and development centre, partially offset by our depreciation of approximately RMB2.7 million for the four months ended 30 April 2020.

Right-of-use assets

Our right-of-use assets of approximately RMB10.2 million, RMB17.0 million, RMB13.2 million and RMB14.1 million as at 31 December 2017, 2018 and 2019 and 30 April 2020, respectively, represented our right to use our leased assets mainly in relation to our land use right and our factory and warehouse premises with lease terms of over one year, which was initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses under HKFRS 16. Please refer to “Business — Land and property interests” in this prospectus for further details of our land and leased properties.

The increase in our right-of-use assets from approximately RMB10.2 million as at 31 December 2017 to approximately RMB17.0 million as at 31 December 2018 was primarily attributable to the addition of our right-of-use assets of approximately RMB10.2 million in 2018 mainly in respect of the new leases of PRC Leased Property One and PRC Leased Property Two from Changzhou Dongxia, partially offset by our depreciation of right-of-use assets of approximately RMB3.4 million in 2018.

The decrease in our right-of-use assets to approximately RMB13.2 million as at 31 December 2019 was primarily attributable to our depreciation of right-of-use assets of approximately RMB3.9 million in 2019.

The increase in our right-of-use assets to approximately RMB14.1 million as at 30 April 2020 was primarily attributable to the addition of our right-of-use assets of approximately RMB2.3 million for the four months ended 30 April 2020 mainly in respect of the renewal of lease of PRC Leased Property Two, partially offset by our depreciation of right-of-use assets of approximately RMB1.4 million for the four months ended 30 April 2020.

For further details of the effect on the adoption of HKFRS 16, please refer to “Adoption of new and revised HKFRS — Effect on the adoption of HKFRS 16 *Leases*” in this section.

Deposits paid for acquisition of property, plant and equipment

Our deposits paid for acquisition of property, plant and equipment of approximately RMB2.5 million, RMB3.5 million, RMB1.1 million and RMB2.3 million as at 31 December 2017, 2018 and 2019 and 30 April 2020, respectively, primarily represented our deposits paid to (i) our suppliers for the acquisition of our plant and machineries; and (ii) our contractors for the development of our design and development centre.

FINANCIAL INFORMATION

Inventories

The following tables set forth a breakdown of our inventories as at the dates indicated and our average inventory turnover days for the periods indicated:

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	11,767	13,345	14,482	14,407
Work in progress	32,761	17,449	19,878	35,895
Finished goods	24,168	23,786	31,258	59,135
Total	68,696	54,580	65,618	109,437

	Year ended 31 December			Four months ended 30 April
	2017	2018	2019	2020
	Days	Days	Days	Days
Average inventory turnover days (<i>Note</i>)	41.1	30.1	29.8	75.7

Note: Average inventory turnover days equals to the average of the opening and closing balances of our inventories divided by our cost of sales and multiplied by 365, 365, 365 and 121 days for the Track Record Period, respectively.

Our inventories comprised (i) our raw materials primarily including greige fabrics, and textile dyes and additives used for the production of our textile fabric products and the provision of our processing services; (ii) our work in progress mainly representing semi-finished products under manufacturing and production in our own production facilities and under processing in our subcontractors' factory premises; and (iii) our finished goods primarily representing our final products, including plain weave fabric products and corduroy fabric products that are ready to be sold and delivered to our customers.

Our inventories decreased from approximately RMB68.7 million as at 31 December 2017 to approximately RMB54.6 million as at 31 December 2018, which was primarily attributable to the decrease in our work in progress from approximately RMB32.8 million as at 31 December 2017 to approximately RMB17.4 million as at 31 December 2018 mainly due to the improvement of our production process.

Our inventories increased to approximately RMB65.6 million as at 31 December 2019, which was primarily attributable to the increase in our finished goods from approximately RMB23.8 million as at 31 December 2018 to approximately RMB31.3 million as at 31 December 2019 mainly to satisfy the sales orders to be delivered to our customers in January 2020.

FINANCIAL INFORMATION

Our inventories further increased to approximately RMB109.4 million as at 30 April 2020, which was primarily attributable to (i) the increase in our work in process from approximately RMB19.9 million as at 31 December 2019 to approximately RMB35.9 million as at 30 April 2020; and (ii) the increase in our finished goods to approximately RMB59.1 million as at 30 April 2020 mainly due to the impacts of the COVID-19 pandemic leading to the delay of our production and delivery of our textile fabric products to our customers during the four months ended 30 April 2020.

The following table sets forth an ageing analysis of our inventories as at the dates indicated:

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	49,965	35,916	38,501	66,342
31 to 60 days	2,254	1,770	7,497	15,097
61 to 90 days	1,078	2,653	5,416	1,571
91 to 180 days	4,091	3,486	7,786	13,818
181 to 365 days	7,158	6,799	6,373	12,564
Over 365 days	4,150	3,956	45	45
Total	<u>68,696</u>	<u>54,580</u>	<u>65,618</u>	<u>109,437</u>

We record specific inventory provision when the estimate of the net realisable value of our inventories is below its corresponding cost, as a result of, among other things, being obsolete. During the Track Record Period, we did not record any inventory provision. Please refer to “Business — Inventory control and management” in this prospectus for further details of our inventory control and management policies.

The decrease in our average inventory turnover days from approximately 41.1 days in 2017 to approximately 30.1 days and 29.8 days in 2018 and 2019, respectively, was mainly due to (i) a relatively larger closing balance of inventories of approximately RMB68.7 million as at 31 December 2017 mainly due to the expected increase in the sales demand in 2018; and (ii) the improvement of our production process.

The significant increase in our average inventory turnover days to approximately 75.7 days for the four months ended 30 April 2020 was mainly due to the significant increase in our inventories as at 30 April 2020 mainly as a result of the impacts of the COVID-19 pandemic leading to the delay of our production and delivery of our textile fabric products to our customers during the four months ended 30 April 2020.

As at the Latest Practicable Date, approximately RMB104.5 million (or approximately 95.5%) of our inventories as at 30 April 2020 was subsequently consumed or sold.

FINANCIAL INFORMATION

Trade and bills receivables

Our trade receivables principally represented the outstanding sales amounts to be received from our customers in relation to the sale of our textile fabric products and the provision of our processing services. Our bills receivables mainly represented bank acceptance bills received from our customers for the settlement of our trade receivables.

The following tables set forth a breakdown of our trade and bills receivables as at the dates indicated and our average trade and bills receivables turnover days for the periods indicated:

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	161,806	160,400	167,848	127,771
Bills receivables	4,255	3,285	4,751	6,235
Less: Impairment loss	(215)	(759)	(469)	(406)
Total	<u>165,846</u>	<u>162,926</u>	<u>172,130</u>	<u>133,600</u>

	Year ended 31 December			Four months ended 30 April
	2017	2018	2019	2020
	Days	Days	Days	Days
Average trade and bills receivables turnover days				
(Note)	70.1	69.6	70.6	111.2

Note: Average trade and bills receivables turnover days equals to the average of the opening and closing balances of our trade and bills receivables divided by our revenue and multiplied by 365, 365, 365 and 121 days for the Track Record Period, respectively.

Our trade and bills receivables increased from approximately RMB165.8 million and RMB162.9 million as at 31 December 2017 and 2018, respectively, to approximately RMB172.1 million as at 31 December 2019, which was primarily in line with the increase in our revenue and mainly attributable to the increase in our trade and bills receivables aged within 30 days from approximately RMB121.5 million as at 31 December 2018 to approximately RMB145.2 million as at 31 December 2019 mainly due to the increase in our revenue generated from the sale of our textile fabric products in December 2019.

Our trade and bills receivables decreased to approximately RMB133.6 million as at 30 April 2020, which was primarily attributable to the decrease in our gross trade receivables from approximately RMB167.8 million as at 31 December 2019 to approximately RMB127.8 million as at 30 April 2020 mainly in line with the decrease in our revenue generated from the sale of our textile fabric products during the four months ended 30 April 2020.

FINANCIAL INFORMATION

During the Track Record Period, we generally granted our customers credit periods of up to 90 days.

In 2017, 2018 and 2019, our average trade and bills receivables turnover days remained stable at approximately 70.1 days, 69.6 days and 70.6 days, respectively.

The significant increase in our average trade and bills receivables turnover days to approximately 111.2 days for the four months ended 30 April 2020 was primarily attributable to (i) the relatively large opening balance of trade and bills receivables of approximately RMB172.1 million; and (ii) the decrease in our revenue mainly due to the impacts of the COVID-19 pandemic for the four months ended 30 April 2020.

The following table sets forth an ageing analysis of our trade and bills receivables, net based on invoice dates and the subsequent settlement of our trade and bills receivables as at 30 April 2020 until the Latest Practicable Date as at the dates indicated:

	<u>As at 31 December</u>			<u>As at 30 April</u>	<u>Subsequent settlement until the Latest Practicable Date</u>	
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>		
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>%</u>
Within 30 days	135,194	121,545	145,244	108,313	106,032	97.9
31 to 60 days	19,261	20,113	19,174	19,504	19,504	100.0
61 to 90 days	8,663	1,412	5,355	863	863	100.0
91 to 180 days	1,418	10,868	1,765	4,475	4,475	100.0
181 to 365 days	1,310	2,233	465	352	352	100.0
Over 365 days	—	6,755	127	93	93	100.0
Total/Overall	<u>165,846</u>	<u>162,926</u>	<u>172,130</u>	<u>133,600</u>	<u>131,319</u>	98.3

The increase in our trade and bill receivables aged over 90 days from approximately RMB2.7 million as at 31 December 2017 to approximately RMB19.9 million as at 31 December 2018 was primarily attributable to the delay of the settlement of trade receivables by a PRC trading company customer leading to the recognition of the outstanding trade receivables aged over 90 days from such a PRC trading company customer of approximately RMB17.8 million as at 31 December 2018 (which had been fully settled in 2019).

FINANCIAL INFORMATION

The following table sets forth an ageing analysis of our trade and bills receivables, net based on due dates as at the dates indicated:

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Not yet past due	163,299	143,287	170,200	129,316
Past due:				
— Within 30 days	823	989	1,623	1,542
— 31 to 60 days	600	5,097	31	2,973
— 61 to 90 days	1	4,858	131	7
— 91 to 180 days	814	2,190	408	58
— 181 to 365 days	524	7,264	195	—
— Over 365 days	—	—	11	110
	166,061	163,685	172,599	134,006
Less: Impairment loss	(215)	(759)	(469)	(406)
Total	<u>165,846</u>	<u>162,926</u>	<u>172,130</u>	<u>133,600</u>

We review the impairment loss of our trade and bills receivables based on the evaluation of collectability and ageing analysis and on our management's judgement including the current creditworthiness and the past collection history of our each customer. We apply simplified approach to provide for expected credit loss prescribed for trade and bills receivables in accordance with HKFRS 9. We measure the loss allowance for trade and bills receivables at an amount equal to lifetime expected credit loss. The expected credit losses on trade and bills receivables are estimated using a provision matrix with appropriate grouping based on shared credit risk characteristic with reference to past default experience of our customer and an analysis of our customer's current financial position, adjusted for factors that are specific to our each customer, general economic conditions of the industry in which our customers operate and an assessment of both the current as well as the forecast direction of conditions as at the reporting dates.

As a result of the impairment review as discussed above, we recorded allowance for expected credit loss on our trade and bills receivables of approximately RMB0.2 million, RMB0.8 million, RMB0.5 million and RMB0.4 million as at 31 December 2017, 2018 and 2019 and 30 April 2020, respectively, on our consolidated statements of financial position. We did not hold any collateral over our trade and bills receivables.

Please refer to note 20 of Part A of the Accountants' Report in Appendix I to this prospectus for further details of impairment review of expected credit loss and expected credit loss rate on our trade and bills receivables.

FINANCIAL INFORMATION

During the Track Record Period and up to the Latest Practicable Date, our Group has implemented certain credit control policies to reduce our credit risk in relation to the collectability of our trade and bills receivables, including (i) setting trade credit period based on our assessment of the customers' financial background, creditworthiness and the past payment history of our customers; (ii) continuous and regular monitoring of the progress of customers' payments by the use of, among others, the ageing analysis of our trade and bills receivables; (iii) follow-up actions of our overdue trade and bills receivables, including issuing payment reminders, actively liaising with customers, and, if necessary, taking legal actions; and (iv) performing expected credit loss assessment of our trade and bills receivables in accordance with HKFRS 9 to recognise expected credit loss of our trade and bills receivables in our profit or loss, if necessary.

Please refer to note 34(b) of Part A of the Accountants' Report in Appendix I to this prospectus for further details of the credit risk of our trade and bills receivables.

As at the Latest Practicable Date, approximately RMB125.5 million (or approximately 98.2%) of our gross trade receivables as at 30 April 2020 and all of our gross bills receivables as at 30 April 2020 were subsequently settled after the Track Record Period.

Prepayments and other receivables

The following table sets forth a breakdown of our prepayments and other receivables as at the dates indicated:

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments (<i>Note 1</i>)	9,089	9,000	7,772	10,450
Other tax recoverables (<i>Note 2</i>)	—	—	—	2,313
Others (<i>Note 3</i>)	1,948	2,128	1,797	1,622
Total	<u>11,037</u>	<u>11,128</u>	<u>9,569</u>	<u>14,385</u>

Notes:

- Our prepayments primarily represented (i) the advanced payments to our suppliers for the purchases of our raw materials; (ii) the advanced payments to our subcontractors for the provision of subcontracting services; (iii) our prepaid listing expenses; and (iv) our other prepaid expenses.
- Our other tax recoverables primarily represented our VAT recoverable.
- Our others primarily comprised (i) our staff advances; and (ii) our performance deposit paid to a financial guarantee company for our corporate guarantee provided for our bank borrowings.

FINANCIAL INFORMATION

Our prepayments and other receivables decreased from approximately RMB11.0 million and RMB11.1 million as at 31 December 2017 and 2018, respectively, to approximately RMB9.6 million as at 31 December 2019, which was primarily attributable to the decrease in our prepayments from approximately RMB9.1 million and RMB9.0 million as at 31 December 2017 and 2018, respectively, to approximately RMB7.8 million as at 31 December 2019 mainly due to the utilisation of our advanced payments to a subcontractor as at 31 December 2018 for the subcontracting services provided by such subcontractor in 2019.

Our prepayments and other receivables increased to approximately RMB14.4 million as at 30 April 2020, which was primarily attributable to the increase in our prepayments to approximately RMB10.5 million as at 30 April 2020 mainly due to (i) the increase in our prepaid listing expenses from approximately RMB2.5 million as at 31 December 2019 to approximately RMB4.5 million as at 30 April 2020; and (ii) the recognition of our other tax recoverable of approximately RMB2.3 million as at 30 April 2020 mainly in respect of our VAT recoverable.

Amounts due from/(to) a Controlling Shareholder, Directors and related companies

The following table sets forth a breakdown of our amounts due from related parties as at the dates indicated:

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Controlling Shareholder:				
— Mr. Xue	16,854	16,719	—	—
Directors:				
— Mr. Qiu Jianyu (邱建宇)	130	—	—	30
— Ms. Zhang Yeping (張葉萍)	743	—	—	—
	873	—	—	30
Related companies:				
— Changzhou Dongxia	15,000	40,416	1,321	27
— Changzhou Wujin Dongyu Corduroy Limited* (常州武進東宇燈芯絨有限公司)	24,920	—	—	—
	39,920	40,416	1,321	27
Total	57,647	57,135	1,321	57

FINANCIAL INFORMATION

The following table sets forth a breakdown of our amount due to a Controlling Shareholder as at the dates indicated:

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Controlling Shareholder:				
— Mr. Xue	—	—	4,263	1,978

Our amounts due from/(to) a Controlling Shareholder, Directors and related companies were non-trade in nature, unsecured, interest-free and repayable on demand as at 31 December 2017, 2018 and 2019 and 30 April 2020, which mainly represented fund transfers between our Group and our related parties.

Our amount due from a Controlling Shareholder of approximately RMB16.9 million and RMB16.7 million as at 31 December 2017 and 2018, respectively, was primarily attributable to the net advances from Yadong (Hong Kong) to Mr. Xue, partially offset by the dividends of approximately RMB13.2 million declared by our Company by offsetting our amount due from a Controlling Shareholder in 2018. The change to our amount due to a Controlling Shareholder of approximately RMB4.3 million and RMB2.0 million as at 31 December 2019 and 30 April 2020, respectively, was primarily attributable to the dividends of approximately RMB19.6 million declared by our Company by offsetting our amount due from a Controlling Shareholder in 2019.

Up to 30 April 2020, we made net advances in an aggregate amount of approximately RMB30.8 million to Mr. Xue directly, among which our net advances of approximately RMB13.2 million and RMB17.6 million were made before the Track Record Period and during the Track Record Period, respectively. Our net advances of approximately RMB30.8 million were used by Mr. Xue for his personal purposes mainly in relation to his family spending and entertainment expenses.

We recorded significant balances of our amount due from Changzhou Dongxia of approximately RMB15.0 million and RMB40.4 million as at 31 December 2017 and 2018, respectively, which was primarily attributable to net advances to Changzhou Dongxia which were primarily used by Changzhou Dongxia for its payment of construction costs in relation to its construction in progress and Mr. Xue's personal use. The significant decrease in our amount due from Changzhou Dongxia to approximately RMB1.3 million and RMB27,000 as at 31 December 2019 and 30 April 2020, respectively, was primarily attributable to the dividends of approximately RMB93.9 million and RMB12.0 million declared by our Company by offsetting our amount due from Changzhou Dongxia in 2019 and for the four months ended 30 April 2020, respectively.

During the Track Record Period, we made advances of approximately RMB131.6 million in aggregate to Changzhou Dongxia, among which Changzhou Dongxia made repayments of approximately RMB33.6 million in aggregate to us.

FINANCIAL INFORMATION

Our net advances of approximately RMB98.1 million (representing our advances to Changzhou Dongxia after deduction of the repayments from Changzhou Dongxia to us) to Changzhou Dongxia during the Track Record Period were primarily used by:

- (i) Changzhou Dongxia in relation to (a) its settlement of construction costs (inclusive of costs of purchasing construction-related materials) of approximately RMB15.4 million and RMB8.0 million associated with a warehouse and landscape gardening, respectively, on the PRC Leased Property One to three independent contractors; and (b) its payment of daily administrative and miscellaneous expenses of approximately RMB4.9 million mainly associated with the PRC Leased Property One; and
- (ii) Mr. Xue for his personal purposes in an aggregate amount of approximately RMB69.8 million, which were mainly in relation to (a) the repayment of his personal borrowings; (b) the payment of his personal expenses, mainly including car and furniture purchases, equity investments, personal loans to his friends and relatives, and his family events and other family spending; and (c) his family's bank deposits.

Changzhou Wujin Dongyu Corduroy Limited* (常州武進東宇燈芯絨有限公司) (“**Changzhou Dongyu**”) was engaged in the production and sale of greige fabrics and had demolished its factory premises in late 2018 owing to government's urban planning.

Our amount due from Changzhou Dongyu of approximately RMB24.9 million as at the beginning of the Track Record Period was advanced to Changzhou Dongyu before the Track Record Period in 2015 and 2016, which was fully utilised by Changzhou Dongyu prior to the Track Record Period for Changzhou Dongyu's (1) payments of construction costs in relation to its staff dormitory of approximately RMB4.9 million; and (2) repayments of its bank loans of approximately RMB20.0 million which were obtained prior to the Track Record Period. In 2017, there was no movement in the amount due from Changzhou Dongyu. In early 2018, in view of the demolition of its factory premises scheduled in 2019 as part of the government's urban planning, Changzhou Dongyu borrowed another RMB5.0 million from us for the payment of severance payment to almost half of its then employees as part of its progressive downsizing of the operations. In addition, in May 2018, Changzhou Dongyu further borrowed RMB20.0 million from us mainly for the bidding for local factory premises as its new production site through an online judicial auction. However, Changzhou Dongyu did not proceed with the bid and then returned all of the advances in an aggregate sum of RMB20.0 million to the Group by the end of July 2018, as the then target factory premises were identified to be subject to a number of unresolved problems, including defects in the legal title and outstanding debts and obligations, which might prejudice the future operations of the target factory premises. By the end of 2018, Changzhou Dongyu then repaid all of the amount due to Yadong (Changzhou) of approximately RMB30.0 million to us by utilising part of the compensation for the demolition of its factory premises from the local government.

In view of the above uses of the funds transferred, and as confirmed by our Directors that no interest had been charged in the above fund transfers, our PRC Legal Advisers are of the view that the above fund transfers between Yadong (Changzhou) and the above related parties were not in violation of PRC laws and administrative regulations.

FINANCIAL INFORMATION

Our Directors confirm that our outstanding amounts due from related companies and Directors, and amount due to a Controlling Shareholder as at 30 April 2020 will be settled before the Listing.

Trade and bills payables

Our trade payables principally represented the payables to our suppliers for the purchases of our raw materials and our subcontractors for the provision of their subcontracting services, while our bills payables mainly represented our issued bills to our suppliers and/or subcontractors for the settlement of our trade payables.

The following tables set forth a breakdown of our trade and bills payables as at the dates indicated and our average trade and bills payables turnover days for the periods indicated:

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	129,318	119,474	157,269	147,525
Bills payables	19,350	7,700	5,250	7,600
Total	<u>148,668</u>	<u>127,174</u>	<u>162,519</u>	<u>155,125</u>

	Year ended 31 December			Four months ended
	2017	2018	2019	30 April
	Days	Days	Days	Days
Average trade and bills payables turnover days				
(Note)	72.4	67.3	71.7	137.4

Note: Average trade and bills payables turnover days equals to the average of the opening and closing balances of our trade payables divided by our cost of sales and multiplied by 365, 365, 365 and 121 days for the Track Record Period, respectively.

Our trade and bills payables decreased from approximately RMB148.7 million as at 31 December 2017 to approximately RMB127.2 million as at 31 December 2018, which was primarily attributable to the increase in the efficiency of our settlement process to ensure prompt settlement to our trade creditors.

Our trade and bills payables increased to approximately RMB162.5 million as at 31 December 2019, which was primarily attributable to the increase in our trade and bills payables aged within 30 days from approximately RMB79.1 million as at 31 December 2018 to approximately RMB114.8 million as at 31 December 2019 mainly due to the increase in our purchases of raw materials in December 2019.

FINANCIAL INFORMATION

Our trade and bills payables decreased to approximately RMB155.1 million as at 30 April 2020, which was primarily attributable to the decrease in our trade payables from approximately RMB157.3 million as at 31 December 2019 to approximately RMB147.5 million as at 30 April 2020 mainly due to the decrease in our purchases of raw materials for the four months ended 30 April 2020.

During the Track Record Period, our suppliers and subcontractors generally granted us credit periods up to 90 days.

The decrease in our average trade and bills payables turnover days from approximately 72.4 days in 2017 to approximately 67.3 days in 2018 was primarily attributable to the increase in the efficiency of our settlement process to ensure prompt settlement to our trade creditors.

The increase in our average trade and bills payables turnover days to approximately 71.7 days in 2019 was primarily attributable to the increase in our trade and bills payables aged within 30 days from approximately RMB79.1 million as at 31 December 2018 to approximately RMB114.8 million as at 31 December 2019 mainly due to the increase in our purchases of raw materials in December 2019.

The significant increase in our average trade and bills payables turnover days to approximately 137.4 days for the four months ended 30 April 2020 was primarily attributable to (i) the relatively large opening balance of trade and bills payables of approximately RMB162.5 million; and (ii) the decrease in our cost of sales mainly due to the impacts of the COVID-19 pandemic for the four months ended 30 April 2020.

The following table sets forth an ageing analysis of our trade and bills payables based on invoice date as at the dates indicated:

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	78,000	79,082	114,819	116,252
31 to 60 days	20,101	25,525	28,812	21,640
61 to 90 days	24,522	7,204	11,147	2,766
91 to 180 days	24,450	9,149	6,975	13,334
181 to 365 days	1,595	6,043	719	1,103
More than 365 days	—	171	47	30
Total	<u>148,668</u>	<u>127,174</u>	<u>162,519</u>	<u>155,125</u>

Our Directors confirm that there had been no material defaults in payment of our trade and bills payables during the Track Record Period.

FINANCIAL INFORMATION

As at the Latest Practicable Date, approximately RMB141.9 million (or approximately 96.2%) of our trade payables as at 30 April 2020 and approximately RMB4.9 million (or approximately 63.8%) of our bills payables as at 30 April 2020 were subsequently paid after the Track Record Period.

Accruals and other payables

The following table sets forth a breakdown of our accruals and other payables as at the dates indicated:

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued salaries	3,563	3,735	8,498	3,177
Accrued expenses (<i>Note 1</i>)	13,608	9,175	12,207	8,082
Interest payables	154	154	132	—
Other tax payables (<i>Note 2</i>)	5,617	7,159	3,532	—
Others	2,688	1,533	1,555	1,160
Total	25,630	21,756	25,924	12,419

Notes:

- Our accrued expenses primarily represented (i) our accrued utility costs; (ii) our accrued rental expenses of PRC Leased Property One and PRC Leased Property Two; (iii) our payables due to suppliers for the acquisition of plant and machineries; (iv) our accrued listing expenses; and (v) our accruals for professional fees and other expenses.
- Our other tax payables primarily comprised our payables of PRC government levies or taxes, including VAT, individual income tax, land use tax and stamp duty.

Our accruals and other payables decreased from approximately RMB25.6 million as at 31 December 2017 to approximately RMB21.8 million as at 31 December 2018, which was primarily attributable to the decrease in our accrued expenses from approximately RMB13.6 million as at 31 December 2017 to approximately RMB9.2 million as at 31 December 2018 mainly due to the settlement of our outstanding payables to utility companies as at 31 December 2017 during 2018, partially offset by the increase in our other tax payables from approximately RMB5.6 million as at 31 December 2017 to approximately RMB7.2 million as at 31 December 2018 mainly due to the increase in our VAT payable mainly in respect of the sale of our textile fabric products which had not been settled as at 31 December 2018.

Our accruals and other payables increased to approximately RMB25.9 million as at 31 December 2019, which was primarily attributable to (i) the increase in our accrued salaries from approximately RMB3.7 million as at 31 December 2018 to approximately RMB8.5 million as at 31 December 2019 mainly due to the accrual for staff bonus of approximately RMB5.0 million in 2019 which was not yet paid as at 31 December 2019; and (ii) the increase in our accrued expenses to

FINANCIAL INFORMATION

approximately RMB12.2 million as at 31 December 2019 mainly due to (a) the increase in our outstanding payables to utility companies mainly in line with the increase in our utility costs; and (b) the increase in our payables to suppliers mainly in relation to the development of our design and development centre and purchases of our plant and machineries, partially offset by the decrease in our other tax payables to approximately RMB3.5 million as at 31 December 2019 mainly due to the settlement of our VAT payable as at 31 December 2018 during 2019.

Our accruals and other payables decreased to approximately RMB12.4 million as at 30 April 2020, which was primarily attributable to (i) the decrease in our accrued salaries to approximately RMB3.2 million as at 30 April 2020 mainly due to the payment of accrual for staff bonus of approximately RMB5.0 million as at 31 December 2019 during the four months ended 30 April 2020; and (ii) the decrease in our accrued expenses to approximately RMB8.1 million as at 30 April 2020 mainly due to (a) the decrease in our accrued rental expenses of PRC Leased Property One and PRC Leased Property Two; and (b) the decrease in our payables to suppliers mainly in relation to the development of our design and development centre and purchases of our plant and machineries, both mainly as a result of our settlement during the four months ended 30 April 2020; and (iii) the decrease in our other tax payables from approximately RMB3.5 million as at 31 December 2019 to nil as at 30 April 2020 mainly due to the payment of VAT and other taxes and levies during the four months ended 30 April 2020.

Income tax payable

Our income tax payable represented our tax payables in respect of Hong Kong Profits Tax of Yadong (Hong Kong) and EIT of Yadong (Changzhou). The following table sets forth a breakdown of our income tax payables as at the dates indicated:

	As at 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax payable in respect of:				
— Hong Kong Profits Tax	12,701	3,729	8,746	309
— EIT	<u>9,420</u>	<u>15,722</u>	<u>14,730</u>	<u>3,898</u>
Total	<u>22,121</u>	<u>19,451</u>	<u>23,476</u>	<u>4,207</u>

Our income tax payable of approximately RMB22.1 million, RMB19.5 million and RMB23.5 million as at 31 December 2017, 2018 and 2019, respectively, were significantly greater than our payment of income tax of approximately RMB5.4 million, RMB16.8 million and RMB14.1 million during the Track Record Period, respectively, which was primarily attributable to (i) the late filings of Hong Kong Profits Tax by Yadong (Hong Kong) in Hong Kong leading to the significant outstanding Hong Kong Profits Tax payables in respect of YOA 2013/14 to 2017/18 of approximately RMB12.7 million as at 31 December 2017; and (ii) the inaccurate PRC tax filings filed by Yadong (Changzhou) relating to the treatment of the estimated listing expenses as tax

FINANCIAL INFORMATION

deductible items leading to the significant outstanding payables for the EIT shortfall of approximately RMB6.3 million, RMB13.3 million and RMB10.0 million as at 31 December 2017, 2018 and 2019, respectively.

Our income tax payable decreased to approximately RMB4.2 million as at 30 April 2020, which was primarily attributable to the payments of income tax of approximately RMB21.8 million during the four months ended 30 April 2020, mainly including (i) the settlement of the aforesaid EIT shortfall of approximately RMB10.0 million as at 31 December 2019 during the four months ended 30 April 2020; and (ii) the payment of outstanding Hong Kong Profits Tax payables in respect of YOA 2018/19 and the provisional tax in respect of YOA 2019/20 of approximately RMB9.7 million during the four months ended 30 April 2020.

Please refer to “Business — Legal and compliance matters — Regulatory non-compliance incidents” in this prospectus for further details of (i) failure to file profits tax returns and settle profits tax and payments on time in breach of the IRO; and (ii) failure to file accurate EIT returns.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed our operations primarily through a combination of capital contribution, cash generated from our operating activities and borrowings. Our working capital requirements mainly comprised payments for our cost of materials, labour and staff costs, selling and administrative expenses and capital investments mainly in relation to the acquisition of our land use right, and property, plant and equipment. During the Track Record Period, we were able to repay our borrowings when they became due and to manage our liquidity risks by maintaining adequate reserves, banking facilities, continuously monitoring our forecasted and actual cash flows and matching the maturity profiles of our assets and liabilities. We did not experience any liquidity shortage during the Track Record Period.

In the future, we expect that our working capital and other liquidity requirements will be satisfied through a combination of cash generated from our operating activities, banking facilities made available to us and the proceeds from the Share Offer. Our ability to fund our working capital needs, repay our indebtedness and finance other obligations depends on our future operating performance and cash flow, which are in turn subject to the prevailing economic conditions, the level of spending by our customers and other factors, many of which are beyond our control.

We may need additional cash resources in the future if we experience changing business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, and collaborations of other similar actions. If our existing cash resources are insufficient to meet our requirements, we may seek to obtain extra credit facilities, or sell or issue equity securities, which might result in dilution to the Shareholders.

FINANCIAL INFORMATION

Cash flows

Our cash and cash equivalents amounted to approximately RMB25.8 million, RMB50.1 million, RMB62.1 million and RMB24.1 million as at 31 December 2017, 2018 and 2019 and 30 April 2020, respectively. The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Operating cash flows before working capital changes	58,649	82,122	90,419	20,891	10,560
Changes in working capital	(6,689)	(7,551)	20,811	3,712	(30,628)
Income taxes paid	(5,401)	(16,841)	(14,083)	—	(21,837)
Net cash generated from/ (used in) operating activities	46,559	57,730	97,147	24,603	(41,905)
Net cash used in investing activities	(25,621)	(23,998)	(73,294)	(36,558)	(16,782)
Net cash (used in)/generated from financing activities	(9,761)	(10,477)	(12,515)	(4,556)	21,345
Net increase/(decrease) in cash and cash equivalents	11,177	23,255	11,338	(16,511)	(37,342)
Cash and cash equivalents at beginning of the year/period	14,931	25,830	50,063	50,063	62,124
Effect of foreign exchange rate changes	(278)	978	723	(978)	(642)
Cash and cash equivalents at end of the year/period	<u>25,830</u>	<u>50,063</u>	<u>62,124</u>	<u>32,574</u>	<u>24,140</u>

We consider that our position of significant operating cash outflow is temporary and expect that our cash flow position for the year ending 31 December 2020 will be improved, which was primarily attributable to the fact that (i) the significant inventory turnover days of approximately 75.7 days for the four months ended 30 April 2020 (mainly as a result of the significant increase in our inventories remaining unsold as at 30 April 2020 due to the impacts of the COVID-19 pandemic causing the delay of our production and delivery of our textile fabric products to our customers) will be improved given the fact that as at the Latest Practicable Date, a substantial portion (i.e. approximately 95.5%) of our inventories as at 30 April 2020 was subsequently

FINANCIAL INFORMATION

consumed or sold; and (ii) the settlement of the EIT shortfall of approximately RMB10.0 million during the four months ended 30 April 2020 due to the inaccurate EIT filing in 2019 was one-off in nature.

In addition, as at 31 August 2020, we had unutilised available credit facilities of approximately RMB27.2 million. We will continue to carefully assess and ensure that we will have sufficient available resources (including our bank balances and cash, working capital and operating cash flow forecasts) to fund our business operations. If necessary, we can further improve our cash flow position by utilising our available credit facilities or extending our borrowings upon maturity through roll-over or renewal because of our good credit standing and relationships with our principal lending banks.

Net cash generated from operating activities

During the Track Record Period, we derived our cash from operating activities principally from the receipt of payments from our customers for the sale of our textile fabric products and the provision of our processing services, while our cash used in operating activities was mainly related to the payments for purchase costs of our raw materials, expenses relating to operating activities and income tax.

Net cash from operating activities reflects our profit before taxation adjusted for: (i) non-cash items, which primarily comprised depreciation and amortisation of our property, plant and equipment, right-of-use assets and intangible asset; (ii) the effects of changes in working capital, which mainly comprised our inventories, trade and bills receivables, prepayments and other receivables, trade and bills payables, accruals and other payables and contract liabilities; and (iii) items not related to operating activities, principally including our finance costs, loss on disposal of property, plant and equipment.

The increase in our net cash generated from operating activities from approximately RMB46.6 million in 2017 to approximately RMB57.7 million in 2018 was primarily attributable to the increase in our profit before tax from approximately RMB42.8 million in 2017 to approximately RMB65.1 million in 2018, partially offset by the increase in income tax paid from approximately RMB5.4 million in 2017 to approximately RMB16.8 million in 2018.

The further increase in our net cash generated from operating activities to approximately RMB97.1 million in 2019 was primarily attributable to (i) the further increase in our profit before tax to approximately RMB73.9 million in 2019; and (ii) the change from a decrease in trade and bills payables of approximately RMB22.4 million in 2018 to an increase in trade and bills payables of approximately RMB35.1 million in 2019. For the details of the fluctuations in our trade and bills payables, please refer to “Discussion of selected items of consolidated statements of financial position — Trade and bills payables” in this section.

We recorded significant net cash used in operating activities of approximately RMB41.9 million for the four months ended 30 April 2020 as compared to net cash generated from operating activities of approximately RMB24.6 million for the four months ended 30 April 2019, which was

FINANCIAL INFORMATION

primarily attributable to (i) the decrease in our profit before tax from approximately RMB14.7 million for the four months ended 30 April 2019 to approximately RMB5.3 million for the four months ended 30 April 2020 mainly due to the decrease in our revenue mainly as a result of the impacts of the COVID-19 pandemic; (ii) the change from an increase in trade and bills payables of approximately RMB33.5 million for the four months ended 30 April 2019 to a decrease in trade and bills payables of approximately RMB7.6 million for the four months ended 30 April 2020; and (iii) the income tax payments of approximately RMB21.8 million for the four months ended 30 April 2020. For the details of the fluctuations in our trade and bills payables, please refer to “Description of selected items of consolidated statements of financial position — Trade and bills payables” in this section.

In 2017, our net cash generated from operating activities was approximately RMB46.6 million, comprising cash generated from operations of approximately RMB52.0 million, subtracted by income taxes paid of approximately RMB5.4 million. Our net cash generated from operations comprised operating cash flows before movements in working capital of approximately RMB58.6 million and adjustments for changes in working capital, primarily including (i) an increase in inventories of approximately RMB6.8 million; (ii) an increase in trade and bills receivables of approximately RMB79.7 million; (iii) an increase in prepayments and other receivables of approximately RMB0.6 million; (iv) an increase in trade and bills payables of approximately RMB67.2 million; and (v) an increase in accruals and other payables of approximately RMB12.1 million.

In 2018, our net cash generated from operating activities was approximately RMB57.7 million, comprising cash generated from operations of approximately RMB74.6 million, subtracted by income taxes paid of approximately RMB16.8 million. Our net cash generated from operations comprised operating cash flows before movements in working capital of approximately RMB82.1 million and adjustments for changes in working capital, primarily including (i) a decrease in inventories of approximately RMB14.1 million; (ii) a decrease in trade and bills receivables of approximately RMB4.8 million; (iii) a decrease in trade and bills payables of approximately RMB22.4 million; and (iv) a decrease in accruals and other payables of approximately RMB4.0 million.

In 2019, our net cash generated from operating activities was approximately RMB97.1 million, comprising cash generated from operations of approximately RMB111.2 million, subtracted by income taxes paid of approximately RMB14.1 million. Our net cash generated from operations comprised operating cash flows before movements in working capital of approximately RMB90.4 million and adjustments for changes in working capital, primarily including (i) an increase in inventories of approximately RMB11.0 million; (ii) an increase in trade and bills receivables of approximately RMB8.7 million; (iii) a decrease in prepayments and other receivables of approximately RMB1.6 million; (iv) an increase in trade and bills payables of approximately RMB35.1 million; and (v) an increase in accruals and other payables of approximately RMB4.2 million.

FINANCIAL INFORMATION

For the four months ended 30 April 2019, our net cash generated from operating activities was approximately RMB24.6 million, comprising cash generated from operations of approximately RMB24.6 million. Our net cash generated from operations comprised operating cash flows before movements in working capital of approximately RMB20.9 million and adjustments for changes in working capital, primarily including (i) an increase in inventories of approximately RMB39.2 million; (ii) a decrease in trade and bills receivables of approximately RMB23.1 million; (iii) an increase in prepayments and other receivables of approximately RMB6.2 million; (iv) an increase in trade and bills payables of approximately RMB33.5 million; and (v) a decrease in accruals and other payables of approximately RMB8.3 million.

For the four months ended 30 April 2020, our net cash used in operating activities was approximately RMB41.9 million, comprising cash used in operations of approximately RMB20.1 million, subtracted by income taxes paid of approximately RMB21.8 million. Our net cash used in operations comprised operating cash flows before movements in working capital of approximately RMB10.6 million and adjustments for changes in working capital, primarily including (i) an increase in inventories of approximately RMB43.8 million; (ii) a decrease in trade and bills receivables of approximately RMB38.8 million; (iii) an increase in prepayments and other receivables of approximately RMB4.8 million; (iv) a decrease in trade and bills payables of approximately RMB7.6 million; and (v) a decrease in accruals and other payables of approximately RMB13.4 million.

Please refer to “Discussion of selected items of consolidated statements of financial position” in this section for further details of and analysis of our working capital.

Net cash used in investing activities

During the Track Record Period, our cash used in investing activities mainly consisted of payments for purchases of and deposits paid for property, plant and equipment, and advances to related parties, while our cash from investing activities mainly comprised repayments from related parties.

In 2017, our net cash used in investing activities was approximately RMB25.6 million, which was mainly contributed by (i) payments for purchases of and deposits paid for property, plant and equipment of approximately RMB12.9 million; (ii) advances to Mr. Xue of approximately RMB5.2 million; and (iii) advances to related companies of approximately RMB15.3 million, partially offset by repayments from related companies of approximately RMB8.2 million.

In 2018, our net cash used in investing activities was approximately RMB24.0 million, which was mainly contributed by (i) payments for purchases of and deposits paid for property, plant and equipment of approximately RMB11.8 million; (ii) advances to Mr. Xue of approximately RMB13.0 million; and (iii) advances to related companies to approximately RMB95.1 million, partially offset by repayments from related companies of approximately RMB94.6 million.

FINANCIAL INFORMATION

In 2019, our net cash used in investing activities was approximately RMB73.3 million, which was mainly contributed by (i) payments for purchases of and deposits paid for property, plant and equipment of approximately RMB20.6 million; (ii) advances to Mr. Xue of approximately RMB6.2 million; and (iii) advances to related companies of approximately RMB71.2 million, partially offset by repayments from related companies of approximately RMB16.4 million.

For the four months ended 30 April 2019, our net cash used in investing activities was approximately RMB36.6 million, which was mainly contributed by (i) payments for purchases of and deposits paid for property, plant and equipment of approximately RMB6.2 million; (ii) advances to Mr. Xue of approximately RMB1.8 million; and (iii) advances to related companies of approximately RMB31.3 million, partially offset by repayments from related companies of approximately RMB2.8 million.

For the four months ended 30 April 2020, our net cash used in investing activities was approximately RMB16.8 million, which was mainly contributed by (i) payments for purchases of and deposits paid for property, plant and equipment of approximately RMB5.9 million; and (ii) advances to related companies of approximately RMB11.0 million.

Net cash generated used in financing activities

During the Track Record Period, our cash from financing activities mainly consisted of new borrowings raised, while our cash used in financing activities mainly consisted of repayments of borrowings, repayments to Mr. Xue and payments of interest and lease liabilities.

In 2017, our net cash used in financing activities was approximately RMB9.8 million, which was mainly contributed by (i) interest payments of approximately RMB5.9 million; and (ii) repayments of borrowings of approximately RMB253.9 million, partially offset by new borrowings raised of approximately RMB253.3 million.

In 2018, our net cash used in financing activities was approximately RMB10.5 million, which was mainly contributed by (i) interest payments of approximately RMB5.8 million; (ii) repayments of borrowings of approximately RMB98.6 million; and (iii) payments of lease liabilities of approximately RMB4.1 million, partially offset by new borrowings raised of approximately RMB97.6 million.

In 2019, our net cash used in financing activities was approximately RMB12.5 million, which was mainly contributed by (i) interest payments of approximately RMB5.4 million; (ii) repayments of borrowings of approximately RMB74.8 million; and (iii) payments of lease liabilities of approximately RMB3.2 million, partially offset by new borrowings raised of approximately RMB70.6 million.

For the four months ended 30 April 2019, our net cash used in financing activities was approximately RMB4.6 million, which was mainly contributed by (i) interest payments of approximately RMB1.8 million; and (ii) repayments of borrowings of approximately RMB2.8 million.

FINANCIAL INFORMATION

For the four months ended 30 April 2020, our net cash generated from financing activities was approximately RMB21.3 million, which was mainly contributed by new borrowings raised of approximately RMB85.6 million, partially offset by (i) interest payments of approximately RMB1.6 million; (ii) repayments of borrowings of approximately RMB60.6 million; and (iii) repayments to Mr. Xue of approximately RMB2.6 million.

Sufficiency of working capital

Taking into account the financial resources available to us, including our available banking facilities, cash and cash equivalents on hand, cash flows generated from our operations and the estimated proceeds from the Share Offer, and in the absence of unforeseen circumstances, our Directors are of the opinion that we have available sufficient working capital for our present requirements and for at least 12 months from the date of this prospectus.

INDEBTEDNESS

Borrowings

The following table sets forth a breakdown of our borrowings and range of our effective interest rates as at the dates indicated:

	As at 31 December			As at	As at
	2017	2018	2019	30 April	31 August
	RMB'000	RMB'000	RMB'000	2020	2020
				RMB'000	RMB'000
					(unaudited)
Current liabilities:					
Bank borrowings,					
secured	<u>75,790</u>	<u>74,800</u>	<u>70,590</u>	<u>95,590</u>	<u>95,590</u>

As at 31 December 2017, 2018 and 2019, 30 April 2020 and 31 August 2020 (being the most recent practicable date for the purpose of this indebtedness), our borrowings (i) were repayable within one year; (ii) carried variable interest rates ranging from 6.5% to 6.8% per annum, 6.6% to 7.0% per annum, 6.0% to 6.5% per annum, 5.2% to 6.5% per annum and 5.2% to 6.5% per annum, respectively; (iii) were guaranteed by our related parties (including Mr. Xue, Ms. Hu Beixia, Mr. Xue Liang (薛梁), who is the son of Mr. Xue, Changzhou Dongxia and Changzhou Wujin Dongyu Corduroy Limited* (常州武进东宇灯芯绒有限公司)); (iv) were guaranteed by a third party financial guarantee company; (v) were guaranteed by one, one, one, two and two third party supplier(s), respectively; and (vi) were secured by our right-of-use assets and machineries, and certain assets of Changzhou Dongxia. The financial guarantees provided by (i) Changzhou Wujin Dongyu Corduroy Limited* (常州武进东宇灯芯绒有限公司); and (ii) Mr. Xue Liang (薛梁) and Ms. Hu Beixia were released upon the expiration of the relevant facilities during the year ended 31 December 2017 and 2018, respectively.

FINANCIAL INFORMATION

The increase in our bank borrowings from approximately RMB70.6 million as at 31 December 2019 to approximately RMB95.6 million as at 30 April 2020 and 31 August 2020 was primarily attributable to the fact that our Group would like to increase our cash flow position for our working capital purpose mainly in respect of the payments to our suppliers if, in case, our customers delay the settlement of our trade receivables due to the impact of the COVID-19 pandemic during 2020.

The third party suppliers have provided financial guarantees to our Group in order to maintain good business relationships with our Group. We have not paid any consideration to the third party suppliers for the provision of financial guarantees to us.

The following table sets forth our pledged assets of our borrowings as at the dates indicated:

	As at 31 December			As at 30 April	As at 31 August
	2017	2018	2019	2020	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Right-of-use assets	6,810	6,664	6,518	6,470	6,422
Machineries	14,984	22,418	20,814	19,738	18,737
Total	21,794	29,082	27,332	26,208	25,159

Our Directors confirm that the guarantees and securities provided by our related parties, the third party financial guarantee company and the third party suppliers will be released upon the Listing.

Lease liabilities

Our lease liabilities of approximately RMB0.2 million, RMB6.4 million, RMB3.3 million, RMB5.5 million and RMB4.8 million as at 31 December 2017, 2018 and 2019, 30 April 2020 and 31 August 2020 (being the most recent practicable date for the purpose of this indebtedness statement), respectively, primarily represented our outstanding lease payments mainly in respect of our land use right and the leases of our factory and warehouse premises, which would be primarily adjusted for interest and lease payments, and the impact of lease modifications.

FINANCIAL INFORMATION

The following table sets forth the maturity profile of our lease liabilities as at the dates indicated:

	As at 31 December			As at 30 April	As at 31 August
	2017	2018	2019	2020	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Within one year	120	3,339	3,153	3,933	3,983
More than one year but less than two years	<u>108</u>	<u>3,019</u>	<u>119</u>	<u>1,604</u>	<u>780</u>
Total	<u><u>228</u></u>	<u><u>6,358</u></u>	<u><u>3,272</u></u>	<u><u>5,537</u></u>	<u><u>4,763</u></u>

Save as disclosed in “Indebtedness” in this section, as at 31 August 2020 (being the most recent practicable date for the purpose of this indebtedness statement), we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, loans from government, debt securities or other similar indebtedness, finance lease on hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees on other material contingent liabilities outstanding.

Amount due to a Controlling Shareholder

As at 31 December 2019, 30 April 2020 and 31 August 2020 (being the most recent practicable date for the purpose of this indebtedness statement), our amount due to a Controlling Shareholder was approximately RMB4.2 million, RMB2.0 million and RMB3.0 million, respectively, which was unsecured, interest-free and repayable on demand.

Our Directors confirm that our outstanding amount due to a Controlling Shareholder will be settled before the Listing.

Banking facilities

As at 31 December 2017, 2018 and 2019 and 30 April 2020, the total credit facilities granted to our Group amounted to approximately RMB159.1 million, RMB128.3 million, RMB94.2 million and RMB113.8 million, respectively, of which approximately RMB83.3 million, RMB53.5 million, RMB23.7 million and RMB18.2 million were not utilised, respectively.

As at 31 August 2020, being the most recent practicable date for the purpose of this indebtedness statement, the total credit facilities granted to our Group amounted to approximately RMB122.8 million, of which approximately RMB27.2 million was not utilised, which were committed, unrestricted and could be drawn down at any time.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, (i) our banking facilities were subject to the standard banking conditions and covenants, and there were no material covenants that impose a substantial limitation on our ability to obtain further

FINANCIAL INFORMATION

banking facilities; (ii) we had no material default in repayments of our borrowings and with regard to covenants and/or breaches of the covenants under our banking facilities; (iii) we did not receive any notice from any bank indicating that it might withdraw or downsize our facilities; (iv) we did not experience any difficulty in obtaining credit facilities and request for early repayments of our borrowings; and (v) we did not have any material external debt financing plans.

Our Directors further confirm that there had not been any material change in our indebtedness since 31 August 2020 (being the most recent practicable date for the purpose of this indebtedness statement) and up to the Latest Practicable Date.

Debt securities

As at 31 August 2020, being the most recent practicable date for the purpose of this indebtedness statement, we had no debt securities issued outstanding or authorised, or otherwise created but unissued.

Contingent liabilities

As at 31 December 2017, 2018 and 2019 and 30 April 2020, we did not have any significant contingent liabilities. We are currently not a party to any litigation that is likely to have a material adverse effect on our business, results of operations or financial condition.

OFF-BALANCE SHEET TRANSACTIONS

We have not entered into any material off-balance sheet transactions or arrangements during the Track Record Period and up to the Latest Practicable Date.

CAPITAL EXPENDITURES

During the Track Record Period, we paid an aggregate amount of (i) approximately RMB12.9 million, RMB11.8 million, RMB20.6 million and RMB5.9 million, respectively, for capital expenditures on our property, plant and equipment; and (ii) nil, approximately RMB52,000, RMB0.3 million and RMB0.1 million, respectively, for capital expenditures on our intangible asset.

We intend to fund our capital expenditures through a combination of the net proceeds receivable by us from the Share Offer and the cash flows generated from our operating activities. Save as disclosed in “Future plans and use of proceeds” in this prospectus, we have no other material planned capital expenditures in 2020.

COMMITMENTS

As at 31 December 2017, 2018 and 2019 and 30 April 2020, we had capital commitments of approximately RMB2.5 million, RMB41.2 million, RMB26.4 million and RMB22.5 million, respectively, which were mainly related to the acquisition of our plant and machineries, and the development of our design and research centre.

FINANCIAL INFORMATION

PROPERTY INTERESTS

Please refer to “Business — Land and property interests” in this prospectus for the further details of our owned and leased land and property interests.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in this prospectus, our Directors are of the opinion that these related party transactions were conducted on normal commercial terms.

Please refer to the note 35 to the Accountants’ Report in Appendix I to this prospectus for further details of our related party transactions.

LISTING EXPENSES

Our total estimated listing expenses, primarily consisting of fees paid or payable to professional parties and underwriting fees and commission, are estimated to be approximately RMB43.2 million (based on the mid-point of the indicative Offer Price range of HK\$0.96 per Offer Share and assuming the Over-allotment Option is not exercised). Among the estimated aggregate amount of our listing expenses, approximately RMB16.1 million is expected to be accounted for as a deduction from equity upon the Listing. The remaining amount of approximately RMB27.1 million is expected to be charged to our profit or loss, of which approximately RMB0.8 million, RMB0.8 million, RMB4.4 million and RMB6.5 million have been recognised by our Group during the Track Record Period, respectively.

Our Directors are of the view that our financial results in 2020 is expected to be adversely affected by, among others, our listing expenses, the nature of which is non-recurring. Our Directors would also like to emphasise that the amount of our listing expenses is a current estimate for reference only and the final amount to be recognised in our consolidated financial statements is subject to adjustment based on audit and the then changes in variables and assumptions.

Potential investors should note that our financial performance in 2020 is expected to be adversely affected by our estimated non-recurring listing expenses mentioned above, and may or may not be comparable to our financial performance in the past. Please also refer to “Risk factors — Risks relating to our business and operations — Our financial results for the year ending 31 December 2020 may be materially and adversely affected by the one-off listing expenses” in this prospectus for further details.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

The table below sets forth our certain key financial ratios as at the dates/for the periods indicated:

		Year ended/As at 31 December			Four months ended/ As at 30 April
	Notes	2017	2018	2019	2020
Net profit margin	1	4.6%	5.7%	6.1%	1.6%
Current ratio	2	1.2	1.4	1.1	1.0
Quick ratio	3	0.9	1.1	0.8	0.6
Gearing ratio	4	65.3%	52.5%	77.8%	119.4%
Debt-to-equity ratio	5	43.1%	20.1%	12.4%	90.9%
Return on assets	6	7.7%	11.9%	13.3%	N/A
Return on equity	7	26.3%	31.8%	55.5%	N/A
Interest coverage ratio	8	8.2	12.3	14.7	4.8

Notes:

1. Net profit margin equals to our profit for the year/period divided by our revenue for the year/period, multiplied by 100%.
2. Current ratio equals to our total current assets divided by our total current liabilities as at the reporting date.
3. Quick ratio equals to our total current assets less inventories divided by our total current liabilities as at the reporting date.
4. Gearing ratio equals to our total debts (which are our borrowings and lease liabilities) divided by our total equity as at the reporting date, multiplied by 100%.
5. Debt-to-equity equals to our net debts (being our total debts net of our bank balances and cash) divided by our total equity as at the reporting date, multiplied by 100%.
6. Return on assets equals to our profit for the year divided by the closing balance of our total assets, multiplied by 100%.
7. Return on equity equals to our profit for the year divided by the closing balance of our total equity, multiplied by 100%.
8. Interest coverage ratio equals to our profit for the year/period netting off our finance costs and income tax expenses divided by our finance costs.

Net profit margin

Our net profit margin increased from approximately 4.6% in 2017 to approximately 5.7% in 2018 and further to approximately 6.1% in 2019, which was primarily attributable to the increase in our gross profit margin from approximately 12.3% in 2017 to approximately 13.1% in 2018, and further to approximately 14.9% in 2019.

FINANCIAL INFORMATION

Our net profit margin decreased to approximately 1.6% for the four months ended 30 April 2020, which was primarily attributable to the increase in our administrative expenses in proportion to our revenue from approximately 3.6% in 2019 to approximately 9.1% for the four months ended 30 April 2020 mainly due to (i) the increase in our listing expenses from approximately RMB4.4 million in 2019 to approximately RMB6.5 million for the four months ended 30 April 2020; and (ii) the decrease in our annualised revenue mainly due to the impacts of the COVID-19 pandemic for the four months ended 30 April 2020.

Current ratio and quick ratio

Our current ratio and quick ratio increased from approximately 1.2 and 0.9, respectively, as at 31 December 2017 to approximately 1.4 and 1.1, respectively, as at 31 December 2018, which was primarily attributable to the decrease in our current liabilities from approximately RMB274.3 million as at 31 December 2017 to approximately RMB248.4 million as at 31 December 2018 mainly due to the decrease in our trade and bills payables from approximately RMB148.7 million as at 31 December 2017 to approximately RMB127.2 million as at 31 December 2018.

Our current ratio and quick ratio decreased to approximately 1.1 and 0.8, respectively, as at 31 December 2019, which was primarily attributable to the decrease in our net current assets from approximately RMB87.5 million as at 31 December 2018 to approximately RMB19.3 million as at 31 December 2019 mainly due to the declaration of dividend of approximately RMB113.5 million in 2019, partially offset by our net profit of approximately RMB52.7 million generated in 2019.

Our current ratio and quick ratio further decreased to approximately 1.0 and 0.6, respectively, as at 30 April 2020, which was primarily attributable to the further decrease in our net current assets to approximately RMB6.7 million as at 30 April 2020 mainly due to the declaration of dividend of RMB12.0 million for the four months ended 30 April 2020, partially offset by our net profit of approximately RMB2.6 million generated for the four months ended 30 April 2020.

Gearing ratio and debt-to-equity ratio

Our gearing ratio and debt-to-equity ratio decreased from approximately 65.3% and 43.1%, respectively, as at 31 December 2017 to approximately 52.5% and 20.1%, respectively, as at 31 December 2018, which was primarily attributable to the increase in our total equity from approximately RMB116.4 million as at 31 December 2017 to approximately RMB154.5 million as at 31 December 2018 mainly due to our net profit of approximately RMB49.1 million generated in 2018.

Our gearing ratio increased to approximately 77.8% as at 31 December 2019, which was primarily attributable to the decrease in our total equity to approximately RMB94.9 million as at 31 December 2019 mainly due to the declaration of dividend of approximately RMB113.5 million in 2019, partially offset by our net profit of approximately RMB52.7 million generated in 2019, while our debt-to-equity ratio decreased to approximately 12.4% as at 31 December 2019, which was primarily attributable to the increase in our bank balances and cash from approximately RMB50.1 million as at 31 December 2018 to approximately RMB62.1 million as at 31 December 2019.

FINANCIAL INFORMATION

Our gearing ratio and debt-to-equity ratio increased to approximately 119.4% and 90.9%, respectively, as at 30 April 2020, which was primarily attributable to (i) the increase in our bank borrowings from approximately RMB70.6 million as at 31 December 2019 to approximately RMB95.6 million as at 30 April 2020; and (ii) the further decrease in our total equity to approximately RMB84.7 million as at 30 April 2020 mainly due to the declaration of dividend of RMB12.0 million for the four months ended 30 April 2020, partially offset by our net profit of approximately RMB2.6 million generated for the four months ended 30 April 2020.

Return on assets and return on equity

Our return on assets and return on equity increased from approximately 7.7% and 26.3%, respectively, in 2017 to approximately 11.9% and 31.8%, respectively, in 2018, which was primarily attributable to the increase in our net profit from approximately RMB30.6 million in 2017 to approximately RMB49.1 million in 2018 mainly due to the increase in our gross profit.

Our return on assets and return on equity further increased to approximately 13.3% and 55.5%, respectively, in 2019, which was primarily attributable to (i) the increase in our net profit to approximately RMB52.7 million in 2019; (ii) the decrease in our total assets from approximately RMB412.0 million as at 31 December 2018 to approximately RMB395.8 million as at 31 December 2019 mainly due to the decrease in amounts due from a Controlling Shareholder and related companies from approximately RMB57.1 million as at 31 December 2018 to approximately RMB1.3 million as at 31 December 2019 mainly as a result of the settlement by way of the dividend declaration in 2019; and (iii) the decrease in our total equity from approximately RMB154.5 million as at 31 December 2018 to approximately RMB94.9 million as at 31 December 2019.

Interest coverage ratio

Our interest coverage ratio increased from approximately 8.2 in 2017 to approximately 12.3 in 2018 and further to approximately 14.7 in 2019, which was primarily attributable to the increase in our net profit from approximately RMB30.6 million in 2017 to approximately RMB49.1 million in 2018 and further to approximately RMB52.7 million in 2019 mainly due to the increase in our gross profit.

Our interest coverage ratio decreased to approximately 4.8 for the four months ended 30 April 2020, which was primarily attributable to the decrease in our annualised profit for the four months ended 30 April 2020 mainly due to (i) the increase in our listing expenses from approximately RMB4.4 million in 2019 to approximately RMB6.5 million for the four months ended 30 April 2020; and (ii) the decrease in our annualised revenue mainly due to the impacts of the COVID-19 pandemic for the four months ended 30 April 2020.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please refer to the unaudited pro forma financial information in Appendix II to this prospectus for the details of our unaudited pro forma adjusted consolidated net tangible assets.

MARKET RISKS

During the Track Record Period, we are principally subject to the currency risk, interest rate risk, credit risk and liquidity risk. Please refer to note 34(b) to the Accountants' Report in Appendix I to this prospectus for further details of our market risks.

DIVIDENDS AND DISTRIBUTABLE RESERVE

We declared and settled dividend of nil, approximately RMB13.2 million, RMB113.5 million and RMB12.0 million during the Track Record Period, respectively. After the Track Record Period and up to the Latest Practicable Date, we did not propose and declare any dividend to our Shareholders. Our Company currently does not have any predetermined dividend payout ratio. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our operations. Our historical dividend distribution record may not be used as a reference or basis to determine the level of dividends that may be declared or paid in the future. We cannot assure that dividends will be paid in the future or as to the timing of any dividends that may be paid in the future. Pursuant to the EIT Law, 10% withholding income tax will be levied on dividends distribution from our PRC subsidiaries to our Hong Kong incorporated intermediate holding companies. If these Hong Kong incorporated intermediate holding companies fall within qualified investors as defined by the EIT Law, a treaty rate of 5% will apply. Please refer to “Regulatory overview — Regulatory requirements in the PRC — Laws and regulations in relation to dividend distribution” in this prospectus for further details.

The payment and the amount of any dividends of our Company, if paid, would depend on our results of operations, cash flows, financial position, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. Our shareholders will be entitled to receive such dividends pro rata according to the amount paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to our Directors' discretion. Dividends may be paid only out of our distributable profits as permitted under the relevant laws.

Our Company was incorporated in the Cayman Islands and is an investment holding company. In accordance with the Articles, dividends may be declared and paid out of the profits of our Company, realised or unrealised, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law. As at 30 April 2020, our Company had distributable reserve of approximately RMB76,000 available for distribution to our Shareholders.

FINANCIAL INFORMATION

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2020

Forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020 ⁽¹⁾	not less than RMB32 million (approximately HK\$35 million) ⁽³⁾

Unaudited pro forma forecast earnings per Share ⁽²⁾	not less than RMB5.33 cents (approximately HK5.86 cents) ⁽³⁾

Notes:

1. The forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020 is extracted from “Financial information — Profit forecast for the year ending 31 December 2020” in this prospectus. The bases and assumptions on which the above profit forecast for the year ending 31 December 2020 has been prepared are summarised in part A of Appendix III to this prospectus. Our Directors have prepared the forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020 based on the audited consolidated results of our Group for the four months ended 30 April 2020, the unaudited consolidated results of our Group for the four months ended 31 August 2020 and a forecast of the consolidated results of our Group for the remaining four months ending 31 December 2020. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in note 4 of the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.
2. The calculation of the unaudited pro forma forecast earnings per Share for the year ending 31 December 2020 is based on the forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020, assuming 600,000,000 shares are in issue throughout the year ending 31 December 2020 (including shares in issue as at the date of this prospectus and those shares expected to be issued pursuant to the Share Offer and the Capitalisation Issue but not taking into account any shares which may be issued upon the exercise of the Over-allotment Option or any options granted under the Share Option Scheme).
3. The forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020 and unaudited pro forma forecast earnings per Share in RMB are converted to HK\$ at an exchange rate of HK\$1.00 to RMB0.91. No representation is made that the RMB amounts have been, could have been or may be converted to HK\$ at that rate or at any other rate.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that since 30 April 2020 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects. Our Directors also confirm that there have been no events since 30 April 2020 which would materially affect the information shown in the Accountants’ Report in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVES AND BUSINESS STRATEGIES

Please refer to “Business — Business strategies” in this prospectus for further details of our business objectives and strategies.

USE OF PROCEEDS

Assuming an Offer Price of HK\$0.96 per Offer Share (being the mid-point of the indicative Offer Price range) and that the Over-allotment Option is not exercised, we estimate that the net proceeds receivable by us from the Share Offer (after deducting underwriting fees and commission and estimated expenses in connection with the Share Offer) will be approximately HK\$96.0 million. We intend to apply such net proceeds in the following manner:

(a) implementation of the Expansion Plans by means of acquisition of new machineries and a company with a production plant, details as follows:

(i) acquisition of new machineries

Approximately HK\$60.6 million (representing approximately 63.1% of the net proceeds from the Share Offer) will be used for expansion of our production capacity and product coverage by means of upgrading and improving our existing production lines and technical capabilities. To achieve this, we plan to acquire the following machineries of the latest and/or the updated models:

<u>Machinery</u>	<u>Quantity</u>	<u>Usage</u>	<u>Approximate unit price RMB'000</u>	<u>Approximate total amount RMB'000</u>
Dyeing machine (染色機)	1	Spray dyeing fabrics	7,720	7,720
Tentering machine (定型機)	1	Shaping fabrics with a hot air circulation system, suitable for sensitive fabrics such as knitted fabrics, coated fabrics, microfibres, plush fabrics and silks	5,710	5,710
Pad dry and pad steam dyeing machine (還原皂洗機)	1	Pad steam dyeing of fabrics after pad dry	12,746	12,746
Desizing machine (退煮機)	1	Removing size materials from the fabrics by steaming them through the crawler box, achieving the desired texture effect	13,976	13,976
Mercerising machine (絲光機)	1	Mercerising fabrics by using concentrated caustic soda solution, mainly applied in cotton, polyester cotton and hemp textiles	23,000	23,000
Total				<u>63,152</u>

FUTURE PLANS AND USE OF PROCEEDS

We intend to finance the remaining purchase price of the machineries with our internal resources and/or by bank financings.

We plan to use all of our existing machineries concurrently with the new machineries. The machineries currently used by us for our textile fabric product production lack the capability to handle all the production steps of knitted fabrics. We expect that the new machineries, which can be interchangeably used for the production/processing of different textile fabrics (including knitted fabrics) with improved functions, can in turn expand our production capabilities to capture also the knitted fabrics market, improve and enhance the quality of services and products solutions to meet the rising expectations of the apparel brand operators, and increase production capacity and efficiency in a more economically feasible scale.

In 2017, 2018 and 2019, the utilisation rate of our production was approximately 98.4%, 98.6% and 103.5%, respectively. In response to the increasing demand from existing and potential customers, our Directors believe that increasing our production capacity is crucial to our business expansion plan.

It is contemplated that such production and technological upgrade and improvement will attribute to an increase of our production efficiency and hence our annual production capacity by not less than 10 million metres. Given the production process of knitted fabrics is substantially the same as that of the production of plain weave fabrics and corduroy fabrics, such upgrade of and improvement on our existing lines and technical capabilities will enable us to expand our production to cover knitted fabrics, in addition to plain weave fabrics and corduroy fabrics, while simultaneously reducing the number of staff needed due to an increase of automation in our manufacturing process. It is expected that the upgrade of and improvement on our production lines will be completed by the second quarter of 2021;

(ii) acquisition of a company with production plant

Approximately HK\$25.8 million (representing approximately 26.9% of the net proceeds from the Share Offer) will be used for the expansion of our production capacity by means of acquisition of a controlling interest, if not the entire interest, of a company with existing production plant with an annual production capacity of approximately 10 million metres to 15 million metres in Jiangsu province, the PRC. It is expected that our potential target will be engaging in a principal business similar to that of ours. Our Directors estimate that the acquisition costs for a suitable target, based on (i) the value of its machineries and equipment; (ii) the value and area of its land and building; and (iii) its scale of operations, to be not more than RMB50.0 million. We intend to utilise approximately HK\$25.8 million of the net proceeds from the Share Offer to finance the acquisition costs, and the remainder through our internal resources and/or by bank financings. Our Directors expect that the consideration for the acquisition would be paid by instalments.

FUTURE PLANS AND USE OF PROCEEDS

Our Directors estimate that the investment payback period would be approximately five years, on the assumptions that (i) the average unit price of textile fabric products maintains at approximately RMB15.0 per metre, which is similar to that of our Group's textile fabric products during the Track Record Period; (ii) the production plant acquired would achieve a breakeven for the first year of investment due to the production plant's possible existing orders and inventories, and from the second year onwards the gross profit margin for the sale of textile fabric products would be approximately 10% with the production capacity fully utilised; and (iii) the production capacity of the target production plant would maintain at approximately 10 million metres per annum.

Our key criterion for evaluating our potential acquisition targets include (i) the location of the target company; (ii) the scale and the level of technological advancements of the production facility and its designed production capacity; (iii) the compatibility of such production facility with our current and expected productions; (iv) the historical performance of the target company; (v) the availability and types of potential customers originated from the target company; and (vi) key financial indicators and profitability of the target company. We intend to complete the said acquisition by the end of 2021. As at the Latest Practicable Date, we had not identified any target for acquisition. Our Directors are of the view, and Ipsos concurs, that the number of companies with production facilities which are potentially able to meet the aforesaid key criterion is considerable in Jiangsu province, the PRC; and

(b) as general corporate purposes and working capital

Approximately HK\$9.6 million (representing approximately 10.0% of the net proceeds from the Share Offer) will be used for our general corporate purposes and working capital.

Our Directors consider that there is sufficient market demand and constraint of our existing scale of operations to support the implementation of the Expansion Plans for expanding our production capabilities and increasing our production capacity in view of (i) the positive outlook of the dyeing and finishing industry in China and the continual growing potential in the market in the long run despite the impact of the COVID-19 pandemic which is gradually easing off; (ii) the potential in the knitted fabrics market given the evolving market trend, the diversity in the product categories of apparel brand operators and the positive indications from our Group's major customers; (iii) the constraint on our actual production activities during the Track Record Period due the lack of production capacity of our production facilities given that we had already reached the utilisation rate of approximately 103.5% in 2019, and we had declined orders at least approximately 11.1 million metres in 2019 primarily for production of textile fabric products; (iv) the revival and long-term stability of the market for essential and affordable clothing consumables, which is the market our end-customers are engaging in; (v) our expectation of continual expansion of our end-customer base, particularly the internationally/nationally renowned apparel brand

FUTURE PLANS AND USE OF PROCEEDS

operators; and (vi) the strengthening of our competitiveness following the potential consolidation of the textile and dyeing industry in China as a result of the stringent environmental regulations, which may also translate to a growing need for us to increase our own production activities in the future and place less reliance on subcontractors.

Assuming that the Over-allotment Option is not exercised at all, if the final Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds from the Share Offer will increase or decrease by approximately HK\$16.7 million, respectively.

Assuming that: (i) the Over-allotment Option is exercised in full; and (ii) the Offer Price is HK\$0.96 per Offer Share, being the mid-point of the indicative Offer Price range, the estimated net proceeds receivable by us (after deducting underwriting fees and commission and estimated expenses in connection with the Share Offer) will be approximately HK\$117.6 million.

Assuming that: (i) the Over-allotment Option is exercised in full; and (ii) the Offer Price is HK\$1.08 per Offer Share, being the highest point of the indicative Offer Price range, the estimated net proceeds receivable by us (after deducting underwriting fees and commission and estimated expenses in connection with the Share Offer) will be approximately HK\$137.1 million.

Assuming that: (i) the Over-allotment Option is exercised in full; and (ii) the Offer Price is HK\$0.84 per Offer Share, being the lowest point of the indicative Offer Price range, the estimated net proceeds receivable by us (after deducting underwriting fees and commission and estimated expenses in connection with the Share Offer) will be approximately HK\$98.2 million.

The net proceeds from the Share Offer will be used in the same proportions as disclosed above irrespective of (i) whether the Offer Price is determined at the highest or lowest point of the indicative Offer Price range; and (ii) whether the Over-allotment Option is exercised. Any increase in the net proceeds from the Share Offer will be used for the purpose of repayment of existing bank loans.

If there is any material change to the use of proceeds as disclosed above after the listing, we will make the appropriate announcement(s) in due course.

To the extent that the net proceeds from the Share Offer are not immediately required for the above purposes or if we are unable to implement any part of our future plans as intended, our Directors will place such net proceeds as short-term interest-bearing deposits with authorised financial institutions in Hong Kong.

REASONS AND BENEFITS FOR THE LISTING

Our Directors consider that the Listing will provide the following benefits to our Group:

- (i) the Listing will broaden our Group's shareholder base, strengthen our capital base and provide a sustainable fund raising platform for us to raise further capital by issuing equity or debt securities in the future;

FUTURE PLANS AND USE OF PROCEEDS

- (ii) the proceeds from the Share Offer will facilitate the implementation of our business strategies and strengthen our cash flow position which in turn will enable us to expand our production capacity and enhance our operational efficiency;
- (iii) the Listing will help to elevate the profile of our Group, increase our recognition and raise our visibility within the textile industry in the PRC, which would help to generate more business opportunities, as well as provide our suppliers and customers with greater security when engaging in business with us, as a listed company is subject to stringent regulatory compliance, announcements, financial disclosure and corporate governance;
- (iv) the Listing will increase the level of transparency of our Group, which our Directors believe will improve our credit position and help us in obtaining credit lines with banks and on more favourable terms;
- (v) the listing status will help our Group raise staff morale and confidence in our Group, which would improve our ability to attract, recruit, retain and motivate experienced and qualified staff; and
- (vi) the Listing will enable our Group to offer equity-based incentive programmes involving publicly tradable shares (such as a share option scheme) to our staff that provides a more direct correlation between their performance and our business results, and better position our staff to increase the intrinsic value of our Shares, which is closely aligned with the objective of creating value for our Shareholders.

UNDERWRITING

PUBLIC OFFER UNDERWRITERS

Fortune (HK) Securities Limited
China Everbright Securities (HK) Limited
Shenwan Hongyuan Securities (H.K.) Limited
Fulbright Securities Limited
Guosen Securities (HK) Capital Company Limited
Aristo Securities Limited
Wilson Securities Limited

PLACING UNDERWRITERS

Fortune (HK) Securities Limited
China Everbright Securities (HK) Limited
Shenwan Hongyuan Securities (H.K.) Limited
Fulbright Securities Limited
Guosen Securities (HK) Capital Company Limited
Aristo Securities Limited
Wilson Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer, our Company is offering the Public Offer Shares for subscription by the public in Hong Kong at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares to be offered as mentioned herein (including the additional Shares to be issued pursuant to the exercise of the Over-allotment Option) and to certain other conditions set out in the Public Offer Underwriting Agreement having been duly executed and delivered and having become unconditional in accordance with its terms, the Public Offer Underwriters have agreed, severally, to subscribe or procure subscribers for, their respective applicable proportions of the Public Offer Shares which are being offered but are not taken up under the Public Offer on the terms and subject to the conditions in this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

The Public Offer Underwriting Agreement is conditional upon and subject to, among other things, the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its own terms or otherwise, prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

UNDERWRITING

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe for, or procure subscribers for, the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination by Fortune (HK) Securities (for itself and on behalf of the Public Offer Underwriters) with immediate effect by notice, if at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any new law, statute, ordinance, rule, guidelines, regulation, opinion, notice, circular, order, judgement, decree or ruling (“**Laws**”) or any change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority of or affecting the Cayman Islands, the BVI, Hong Kong, the PRC or any other relevant jurisdiction relevant to any member of our Group (collectively, the “**Relevant Jurisdictions**” and individually, a “**Relevant Jurisdiction**”);
 - (ii) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in any or representing any change or development involving a prospective change in, local, national or international financial, political, military, industrial, legal, economic, currency exchange rates, exchange control, currency market, fiscal or regulatory or market matters or conditions or any monetary or trading settlement system (including but not limited to conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting any Relevant Jurisdiction;
 - (iii) the imposition or declaration of any moratorium, suspension, restriction or limitation on trading in shares or securities generally on the New York Stock Exchange, the Nasdaq National Market, the Stock Exchange, the SGX-ST, Tokyo Stock Exchange, the London Stock Exchange, the Shenzhen Stock Exchange or the Shanghai Stock Exchange or any minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or governmental authority, or a disruption has occurred in securities settlement, payment or clearance services or procedures in or affecting any Relevant Jurisdiction;
 - (iv) any change or development or event occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations or currency exchange rates in any Relevant Jurisdiction;
 - (v) any change or development or event occurs involving a prospective change in the condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of any member of our Group, or customer confidence,

UNDERWRITING

including but not limited to any action, suit, proceeding, litigation or claim of any third party being threatened or instigated against any member of our Group, or any investigation of any member of our Group or an order for suspension of business by any government department or authority;

- (vi) any change or prospective change, or a materialisation of, any of the risks set out in “Risk factors” in this prospectus;
- (vii) any moratorium on or disruption in banking activities or foreign exchange trading or settlement or clearance services in or affecting any Relevant Jurisdiction;
- (viii) any outbreak or escalation of hostilities (whether or not war is or has been declared) or act of terrorism or other state of emergency or calamity or wide-spread epidemic or political or social crisis involving directly or indirectly any Relevant Jurisdiction, or the declaration by any Relevant Jurisdiction of a national emergency or war;
- (ix) any event of force majeure or beyond the control of the Public Offer Underwriters, including without limitation, any act of God, war, riot, public disorder, civil commotion, fire, flood, earthquake, tsunami, volcanic eruption, ice-storm, explosion, outbreak of disease or epidemic or pandemic, acts of government, labour dispute, strike or lock-out involving directly or indirectly any Relevant Jurisdiction;
- (x) any imposition of any economic sanctions, in whatever form, directly or indirectly, by any Relevant Jurisdiction, or on any Relevant Jurisdiction, or against any member of our Group;
- (xi) an executive Director being charged or indicted or retained with an indictable offence or prohibited by operation of law or otherwise disqualified from directorship or taking part in the management of a company, or the commencement by any governmental authority of any investigation or other action against any Director in his or her capacity as such or an announcement by any governmental authority that it intends to take any such actions;
- (xii) the chairman of our Board vacating his office in circumstances where the operations of our Group will be materially and may, in the sole and absolute opinion of Fortune (HK) Securities (for itself and on behalf of the Public Offer Underwriters), be adversely affected;
- (xiii) any non-compliance of this prospectus (or any other documents used in connection with the Share Offer) or any aspect of the Share Offer with the Listing Rules, the Articles of Association, the Companies (WUMP) Ordinance, the Listing Rules, the SFO or any other applicable Laws by any of our Company, our Controlling Shareholders, or our executive Directors;

UNDERWRITING

(xiv) the commencement by any judicial, political, governmental or regulatory body or organisation of any investigation, claim, proceeding or other action, or announcing an intention to investigate or take such action, against any executive Director, any Controlling Shareholder or any member of our Group;

(xv) any litigation, or claim, or investigation, or action, being announced, threatened, or instigated against any member of our Group, any Controlling Shareholder or any executive Director; or

(xvi) any contravention by any member of our Group of the Companies Ordinance, the Companies (WUMP) Ordinance, the Listing Rules or applicable Laws,

which, in each case or in the aggregate, in the sole and absolute opinion of Fortune (HK) Securities (for itself and on behalf of the Public Offer Underwriters):

(A) is or will be or is likely to be materially adverse to, or materially or prejudicially affect, the business, financial or other condition or prospects of our Company or our Group, taken as a whole, or, to any present or prospective shareholder of our Company in his/her/its capacity as such;

(B) has or will have or is likely to have a material adverse effect on the success of the Public Offer, the Placing or the Share Offer or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or

(C) makes or will or is likely to make it inadvisable, inexpedient, impracticable or not commercially viable to proceed with or to market the Public Offer, the Placing or the Share Offer, or a material part of the Public Offer Underwriting Agreement, the Placing Underwriting Agreement, the Public Offer, the Placing or the Share Offer to be performed or implemented in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof; or

(b) there has come to the notice of Fortune (HK) Securities :

(i) any breach of any of the warranties, representations, obligations or undertakings given by or imposed upon our Company, our Controlling Shareholders and our executive Directors in the Public Offer Underwriting Agreement and the Placing Underwriting Agreement or any matter or event showing any of such warranties, representations, obligations or undertakings to be untrue, inaccurate or misleading or having been breached in any respect when given or repeated;

(ii) any breach on the part of our Company, any of our Controlling Shareholders or any of our executive Directors of any of the provisions of the Public Offer Underwriting Agreement or the Placing Underwriting Agreement;

UNDERWRITING

- (iii) that 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 an omission therefrom;
- (iv) that any statement contained in this prospectus, the Application Forms, the formal notice, other offering documents or any announcements (including any supplement or amendment thereto) considered by Fortune (HK) Securities (for itself and on behalf of the Public Offer Underwriters) in its sole and absolute opinion to be material in the context of the Share Offer was, when it was issued, or has become untrue, incorrect in any material respect or misleading, or that any estimates, forecasts, expressions of opinion, intention or expectation expressed in this prospectus, the Application Forms, the formal notice, other offering documents or any announcements (including any supplement or amendment thereto) considered by Fortune (HK) Securities (for itself and on behalf of the Public Offer Underwriters) in its sole and absolute opinion to be material in the context of the Share Offer is not, in all respects, fair and honest and based on reasonable assumptions;
- (v) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of a material nature of our Company or any of our Controlling Shareholders or our executive Directors pursuant to the indemnities referred to in the Public Offer Underwriting Agreement or the Placing Underwriting Agreement;
- (vi) any valid demand by any creditor for repayment or payment of any indebtedness of our Company or any member of our Group or in respect of which our Company or any member of our Group is liable prior to its stated maturity which demand has or could reasonably be expected to have a material adverse effect on our Group taken as a whole;
- (vii) that an order is made or a petition is presented for the winding-up or liquidation of our Company or any member of our Group or our Company or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any member of our Group or anything analogous thereto occurs in respect of our Company or any member of our Group (for the purposes of this provision only, Group Company shall mean any Group Company where the value of its total assets, profits or revenue represents 5% or more under any of the percentage ratios defined under Rule 14.09 of the Listing Rules);
- (viii) that approval by the Listing Committee of the listing of, and permission to deal in, our Shares (including any additional Shares that may be issued pursuant to the exercise of Over-allotment Option) to be issued or sold under the Share Offer is

UNDERWRITING

refused or not granted on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) revoked or withheld;

- (ix) that our Company withdraws any of the offering documents issued in connection with the Share Offer (and/or any other documents used in connection with the contemplated subscription of the Offer Shares), collectively, the (“**Offer Documents**”) or the Share Offer;
- (x) that any person (other than the Public Offer 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;
- (xi) other than with the approval of the Sole Sponsor and the Joint Bookrunners, the issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated subscription of our Shares) pursuant to the Companies (WUMP) Ordinance, the Listing Rules, the SFO or any other applicable laws, or any requirement or request of the Stock Exchange and/or the SFC; or
- (xii) any prohibition on our Company by any governmental authority for whatever reasons from offering, allotting, issuing or selling our Shares (including any additional Shares that may be issued pursuant to the exercise of Over-allotment Option) pursuant to the terms of the Share Offer,

then Fortune (HK) Securities (for itself and on behalf of the Public Offer Underwriters) may, and upon giving notice in writing to our Company, terminate the Public Offer Underwriting Agreement with immediate effect.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that except pursuant to: (i) the Share Offer (including the Over-allotment Option); (ii) the Share Option Scheme; (iii) any capitalisation issue, capital reduction or consolidation or sub-division of Shares; and (iv) the circumstances permitted pursuant to Rule 10.08 of the Listing Rules, we will not, within six months from the Listing Date, issue any further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) or enter into any agreement to such issue (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

UNDERWRITING

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has jointly and severally undertaken to the Stock Exchange that except pursuant to: (i) the Share Offer (including the Over-allotment Option); and (ii) the Share Option Scheme, he/it will not and shall procure that the relevant registered holder(s) of our Shares, any associates or companies controlled by him/it, any nominees or trustees holding our Shares in trust for him/it (as the case may be), will not without the prior written consent of the Stock Exchange or unless otherwise in compliance with the applicable requirements of the Listing Rules:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “**First Lock-up 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 the securities of our Company (except pursuant to any security (including a charge or a pledge) in favour of an authorised institution for a bona fide commercial loan) in respect of which he/it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules); or
- (b) in the period of a further six months commencing on the date on which the First Six-Month Period expires (“**Second Lock-up 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 the securities mentioned in paragraph (a) above, if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a Controlling Shareholder.

In addition, pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to our Company that during the First Lock-up Period and Second Lock-up Period, he/it shall:

- (a) when he/it pledges or charges any securities of our Company beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong), immediately inform our Company in writing of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities of our Company will be disposed of, immediately inform our Company in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

UNDERWRITING

Undertakings pursuant to the Public Offer Underwriting Agreement

Undertakings by our Company

Pursuant to the Public Offer Underwriting Agreement, our Company has undertaken to, among others, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters that, except pursuant to the Capitalisation Issue, the Share Offer (including the Over-allotment Option) or grant of options or issue of our Shares upon exercise of such options pursuant to the Share Option Scheme, we will not at any time during the period commencing on the date of the Public Offer Underwriting Agreement and ending on the date which is six months from the Listing Date (“**First Six-month Period**”) without the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or 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, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of our share capital, debt capital or other securities, or any shares or other securities of such other member of our Group, or any interest therein;
- (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 of our share capital or other securities, or any of the share capital or other securities of any other member of our Group, or any interest therein, or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution;
- (c) enter into any of the above transactions with the same economic effect; or
- (d) agree or contract to, or publicly announce any intention to enter into any of the above transactions,

in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise.

Undertakings by our Controlling Shareholders

Pursuant to the Public Offer Underwriting Agreement, each of our Controlling Shareholders has undertaken to the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Public Offer Underwriters and our Company that, except pursuant to the Capitalisation Issue, the Share Offer (including the Over-allotment Option) or grant of options or issue of our Shares upon exercise of such options pursuant to the Share Option Scheme, he/it will not, without the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules:

UNDERWRITING

(a) at any time during the First Six-Month Period:

- (i) offer, accept subscription for, pledge, mortgage, charge (other than any pledge, mortgage or charge of the issued share capital of our Company 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, lend, assign, contract to 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, make any short sale, assign or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, cause our Company to repurchase, any of our Shares, share or debt capital or other securities of our Company or any interest therein including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, or any warrants or other rights to purchase, any such Shares, share or debt capital or other securities or any interest therein whether now owned or hereinafter acquired, owned directly by our Controlling Shareholders (including holding as a custodian) or with respect to which our Controlling Shareholders have beneficial ownership (collectively the “**Lock-up Securities**”), or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distributions;
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of any such Lock-up Securities or any interest therein, or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distributions;
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraph (i) or (ii) or (iii) above,

whether any such transaction described above is to be settled by delivery of the Lock-up Securities, in cash or otherwise;

- (b) at any time in the six month period commencing from the expiry of the First Six-month Period (“**Second Six-month Period**”), he/it shall not, and shall procure that the relevant registered holder(s) and his/its close associates and companies controlled by him/it and any nominee or trustee holding in trust for him/it shall not enter into any of the foregoing transactions in paragraphs (a)(i) or (a)(ii) or (a)(iii) above or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately

UNDERWRITING

following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, any Controlling Shareholder will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company;

- (c) until the expiry of the Second Six-Month Period, in the event that he/it or the relevant registered holder(s) or his/its associates or companies controlled by him/it or any nominee or trustee holding in trust for him/it enters into any such transactions or agrees or contracts to, or publicly announces an intention to enter into any such transactions, he/it will take all reasonable steps to ensure that he/it or the relevant registered holder(s) or his/its associates or companies controlled by him/it or any nominee or trustee holding in trust for him/it will not create a disorderly or false market in the securities of our Company;
- (d) at any time during the First Six-Month Period or the Second Six-Month Period (where applicable):
 - (i) when he/it pledges or charges any Shares, share capital or other securities of our Company including but not limited to rights as to voting, dividend or distribution in the securities of our Company, in respect of which he/it is the beneficial owner, immediately inform the Sole Sponsor, the Joint Bookrunners and our Company, if required under the Listing Rules, the Stock Exchange in writing of such pledge or charge and the number of Shares or other securities of our Company, and the nature of interest, so pledged or charged; and
 - (ii) if and when he/it receives any indication, either verbal or written, from any pledgee or chargee of Shares or other securities of our Company that such Shares or other securities of our Company or interests in or rights attaching to the securities of our Company, will be sold, transferred or disposed of, immediately inform us, the Sole Sponsor, the Joint Bookrunners and, if required under the Listing Rules, the Stock Exchange of any such indication.

Indemnity

Our Company, our Controlling Shareholders and our executive Directors have agreed to indemnify the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach of the Public Offer Underwriting Agreement by us, our Controlling Shareholders or our executive Directors.

UNDERWRITING

The Placing

In connection with the Placing, it is expected that our Company, our executive Directors and our Controlling Shareholders, will enter into the Placing Underwriting Agreement with, among others, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters.

Under the Placing Underwriting Agreement, subject to the conditions set out therein, the Placing Underwriters are expected to severally agree to purchase or procure purchasers for the Placing Shares initially being offered pursuant to the Placing. It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed.

We expect to grant to the Placing Underwriters the Over-allotment Option exercisable by the Stabilising Manager (on behalf of the Placing Underwriters) at any time from the date of the Placing Underwriting Agreement until the 30th day after the last date for lodging of applications under the Public Offer, to require us to allot and issue up to an aggregate of 22,500,000 additional Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share under the Placing to solely cover over-allocations, if any, in the Placing.

Our Company, our Controlling Shareholders and our executive Directors will agree to indemnify the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Placing Underwriting Agreement and any breach of the Placing Underwriting Agreement by us, our Controlling Shareholders or our executive Directors.

Underwriting commission and expenses

The Public Offer Underwriters will receive an underwriting commission of 7.0% on the aggregate Offer Price of the Public Offer Shares initially offered under the Public Offer, out of which they will pay any sub-underwriting commission. In addition, our Company will pay the Underwriters a discretionary incentive fee of up to 2.4% of the aggregate Offer Price in respect of all the Offer Shares. For unsubscribed Public Offer Shares reallocated to the Placing, we will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the relevant Placing Underwriters (but not the Public Offer Underwriters). It is expected that the Placing Underwriters will receive an underwriting commission of 7.0% of the aggregate Offer Price in respect of all the Placing Shares, out of which the Placing Underwriters will pay all sub-underwriting commission, if any.

The aggregate commissions and fees, together with the listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Share Offer are estimated to amount to approximately HK\$48.0 million in total (based on the Offer Price of HK\$0.96, being the mid-point of the indicative Offer Price range between HK\$0.84 and HK\$1.08, and assuming the Over-allotment Option is not exercised) and will be payable by us.

UNDERWRITING

Sole Sponsor's and Underwriters' interests in our Company

The Underwriters will receive an underwriting commission and a discretionary incentive fee of up to 9.4% in aggregate of the aggregate Offer Price payable for the Offer Shares. Particulars of these commissions and expenses are set out under “Underwriting commissions and expenses” in this section.

Save as disclosed above, none of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters are legally or beneficially interested in any shares of our subsidiaries or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members in the Share Offer.

Independence of the Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

RESTRICTIONS ON THE OFFER SHARES

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

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

This prospectus is published in connection with the Public Offer which forms part of the Share Offer. Fortune Financial is the Sole Sponsor for the listing of the Shares on the Stock Exchange. Fortune (HK) Securities, EBSI, Shenwan Hongyuan Securities, Fulbright Securities and Guosen Securities (HK) are the Joint Bookrunners and; Fortune (HK) Securities, EBSI, Shenwan Hongyuan Securities, Fulbright Securities, Guosen Securities (HK), Aristo Securities and Wilson Securities are the Joint Lead Managers of the Share Offer.

The Share Offer initially comprises:

- (a) the Public Offer of 15,000,000 Offer Shares (subject to reallocation on the bases set out in “Public Offer — Reallocation and clawback” in this section below) in Hong Kong as described in “Public Offer” in this section below; and
- (b) the Placing of 135,000,000 Offer Shares (subject to reallocation on the bases set out in “Public Offer — Reallocation and clawback” in this section below and the Over-allotment Option as set out in “Over-allotment Option and Stock Borrowing Agreement” in this section below) outside the United States in reliance on Regulation S.

Investors may either: (a) apply for Offer Shares under the Public Offer; or (b) apply for or indicate an interest, if qualified to do so, for the Offer Shares under the Placing, but may not do both.

Reasonable steps will be taken to identify and reject: (a) applications in the Public Offer from investors who have applied for Offer Shares under the Placing; and (b) applications or indications of interest in the Placing from investors who have applied for Public Offer Shares under the Public Offer.

The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The Placing will involve selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States, in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The number of Offer Shares to be offered under the Public Offer and Placing may be subject to reallocation and, in the case of the Placing only, the Over-allotment Option as set out in “Over-allotment Option and Stock Borrowing Agreement” in this section below.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares pursuant to the Share Offer will be conditional on, among other things:

- (a) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Share Offer and the Capitalisation Issue and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options granted under the Share Option Scheme, and such listing and permission not subsequently having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange;
- (b) the Offer Price having been fixed on or around the Price Determination Date;
- (c) the execution and delivery of the Underwriting Agreements in accordance with their respective terms; and
- (d) the obligations of the Underwriters under each of the Public Offer Underwriting Agreement and the Placing Underwriting Agreement becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Fortune (HK) Securities (for itself and on behalf of the Underwriters)) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless to the extent such conditions are validly waived on or before such dates and times) and in any event no later than the date which is 30 days after the date of this prospectus.

The Offer Shares are being offered at the Offer Price which is expected to be fixed between Fortune (HK) Securities (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Friday, 6 November 2020 and in any event not later than Friday, 6 November 2020.

If, for any reason, the Offer Price is not agreed between Fortune (HK) Securities (for itself and on behalf of the Underwriters) and our Company by Friday, 6 November 2020, the Share Offer will not proceed and will lapse.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Public Offer on the next business day following such lapse on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.yadongtextile.com. In the event of such lapse, all application monies will be returned, without interest, on the terms set out in "How to apply for Public Offer Shares" in this prospectus. In the meantime, all application

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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, supplemented or otherwise modified from time to time).

Share certificates for the Offer Shares are expected to be issued on Tuesday, 17 November 2020 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 18 November 2020 provided that: (a) the Share Offer has become unconditional in all respects; and (b) the right of termination as described in “Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of shares certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

PUBLIC OFFER

The Public Offer is fully underwritten by the Public Offer Underwriters on a several basis under the terms of the Public Offer Underwriting Agreement and is subject to our Company and Fortune (HK) Securities (for itself and on behalf of the Underwriters) agreeing on the Offer Price. The Public Offer and the Placing are subject to the conditions set out in “Conditions of the Share Offer” in this section. The Public Offer Underwriting Agreement and the Placing Underwriting Agreement shall be conditional upon each other.

Number of Offer Shares initially offered

Our Company is initially offering 15,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Share Offer (subject to reallocation and assuming that the Over-allotment Option is not exercised). Subject to any reallocation of Offer Shares between the Public Offer and the Placing, the number of Public Offer Shares will represent 2.5% of our Company’s enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue. Completion of the Public Offer is subject to the conditions set out in “Conditions of the Share Offer” in this section above. The Public Offer is open to members of the public in Hong Kong as well as to professional, institutional and individual investors.

Allocation

Allocation of Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation 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 Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Assuming that the Over-allotment Option is not exercised, the total number of Shares available under the Public Offer will represent approximately 2.5% of our Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue, and is to be divided into two pools (subject to adjustment of odd lot size) for allocation purposes: pool A and pool B.

The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate subscription price of HK\$5 million (excluding the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable) or less. The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Public Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application (without regard to the Offer Price as finally determined). Applicants can only apply for Public Offer Shares from either pool A or pool B but not from both pools and can only receive Public Offer Shares from either pool A or pool B. Multiple or suspected multiple applications within either pool or between pools and any application for more than 7,500,000 Public Offer Shares are liable to be rejected.

Reallocation and clawback

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

- (a) Where the Placing Shares are fully subscribed or oversubscribed and:
 - (i) if the Public Offer Shares are undersubscribed, Fortune (HK) Securities has the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as Fortune (HK) Securities deems appropriate;
 - (ii) if the Public Offer Shares are not undersubscribed but the number of Offer Shares validly applied for under the Public Offer represents less than 15 times the number of the Offer Shares initially available for subscription under the Public Offer, then up to 15,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 30,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Share Offer;
 - (iii) if the number of Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Public Offer, then 30,000,000 Shares will be

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 45,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Share Offer;

- (iv) if the number of Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Public Offer, then 45,000,000 Shares will be reallocated to the Public Offer from the Placing, so that the number of the Offer Shares available under the Public Offer will be increased to 60,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Share Offer; and
- (v) if the number of Offer Shares validly applied for under the Public Offer represents 100 times or more the number of the Offer Shares initially available for subscription under the Public Offer, then 60,000,000 Shares will be reallocated to the Public Offer from the Placing, so that the number of the Offer Shares available under the Public Offer will be increased to 75,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Share Offer.

(b) Where the Placing Shares are undersubscribed:

- (i) if the Public Offer Shares are undersubscribed, the Share Offer will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
- (ii) if the Public Offer Shares are oversubscribed, irrespective of the number of times the number of Offer Shares initially available for subscription under the Public Offer, then up to 15,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 30,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Share Offer.

In the event of reallocation of Offer Shares from the Placing to the Public Offer in the circumstances described in paragraph (a)(ii) or (b)(ii) above, the final Offer Price shall be fixed at the bottom end of the Offer Price range (i.e. HK\$0.84 per Offer Share) according to HKEX Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

In the event of a reallocation of Offer Shares from the Placing to the Public Offer in circumstances under paragraph (a)(ii), (a)(iii), (a)(iv), (a)(v) and (b)(ii) above, the number of Offer Shares allocated to the Placing will be correspondingly reduced.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Applications

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) 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 Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the Placing.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Public Offer are required to pay, on application, the maximum price of HK\$1.08 per Offer Share in addition to any brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable on each Offer Share, amounting to a total of HK\$3,272.65 for one board lot of 3,000 Shares. If the Offer Price, as finally determined in the manner described in "Price determination of the Share Offer" in this section below, is less than the maximum price of HK\$1.08 per Share, appropriate refund payments (including the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Please refer to "How to apply for Public Offer Shares" in this prospectus for further details.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Public Offer.

PLACING

The Placing is expected to be fully underwritten by the Placing Underwriters on a several basis. Our Company expects to enter into the Placing Underwriting Agreement relating to the Placing on the Price Determination Date.

Number of Offer Shares offered

The number of Offer Shares to be initially offered under the Placing will be 135,000,000 Shares, representing 90% of the total number of the Offer Shares initially available under the Share Offer (subject to reallocation and assuming that the Over-allotment Option is not exercised). Subject to any reallocation of Offer Shares between the Placing and the Public Offer, the number of Placing Shares will represent 22.5% of our Company's enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The Placing is subject to the same conditions set out in “Conditions of the Share Offer” in this section above.

Allocation

The Placing will include selective marketing of Offer Shares to professional, institutional and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The Placing Shares will be allocated in accordance with the book-building process described in “Price determination of the Share Offer” in this section below, and is based on several factors, including the level and timing of demand, the 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 Offer Shares, and/or hold or sell its Offer Shares, after the Listing of the Offer Shares on the Stock Exchange. Such allocation is intended to achieve a distribution of the Shares that would allow for the establishment of a solid professional and institutional shareholder base which will be beneficial to our Company and our Shareholders as a whole.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer, to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

OVER-ALLOTMENT OPTION AND STOCK BORROWING AGREEMENT

In connection with the Share Offer, our Company is expected to grant an Over-allotment Option to the Placing Underwriters exercisable at the sole discretion of the Stabilising Manager (on behalf of the Placing Underwriters).

Pursuant to the Over-allotment Option, the Stabilising Manager (on behalf of the Placing Underwriters) has the right, exercisable at any time from the date of the Placing Underwriting Agreement until 30 days from the date of the last day of lodging application under the Public Offer, to require our Company to allot and issue up to 22,500,000 additional Shares, representing 15% of the number of the Offer Shares initially available under the Share Offer, at the same price per Offer Share under the Placing to cover over-allocation in the Placing, if any, on the same terms and conditions as the Offer Shares that are subject to the Share Offer. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.61% of our Company’s enlarged issued share capital immediately following the completion of the Share Offer and the Capitalisation Issue and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the requirements of the Listing Rules.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

In order to facilitate the settlement of over-allocations under the Placing, the Stabilising Manager (or any person acting for it) may, at its option, cover such over-allocations by borrowing Shares from Shareholders of our Company under stock borrowing arrangements, or acquire Shares from other sources, including the exercise of the Over-allotment Option.

The Stabilising Manager will enter into the Stock Borrowing Agreement with Oriental Ever Holdings, our Controlling Shareholder, whereby the Stabilising Manager may borrow Shares from Oriental Ever Holdings on the following conditions:

- (a) such stock borrowing arrangement will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- (b) the maximum number of Shares to be borrowed from Oriental Ever Holdings will be limited to 22,500,000 Shares, being the maximum number of Shares which may be allotted and issued by our Company upon full exercise of the Over-allotment Option;
- (c) the same number of Shares borrowed from Oriental Ever Holdings must be returned to it or its nominees (as the case may be) no later than the third business day following the earlier of:
 - (i) the last day on which the Over-allotment Option may be exercised;
 - (ii) the date on which the Over-allotment Option is exercised in full and the Shares to be allotted and issued upon exercise of the Over-allotment Option have been allotted and issued; or
 - (iii) such earlier time as may be agreed in writing between Oriental Ever Holdings and the Stabilising Manager;
- (d) the stock borrowing arrangement will be carried out in compliance with all applicable listing rules, laws and other regulatory requirements; and
- (e) no payments will be made to Oriental Ever Holdings by the Stabilising Manager in relation to such stock borrowing arrangement.

The stock borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that it complies with the requirements set out in Rule 10.07(3) of the Listing Rules.

PRICE DETERMINATION OF THE SHARE OFFER

The Offer Price will be fixed on the Price Determination Date, which is expected to be on or around Friday, 6 November 2020, and in any event not later than on Friday, 6 November 2020, by agreement between Fortune (HK) Securities (for itself and on behalf of the Underwriters) and our Company.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The Offer Price will not be more than HK\$1.08 per Offer Share and is expected to be not less than HK\$0.84 per Offer Share, unless otherwise announced, as further explained below. Applicants under the Public Offer must pay, on application, the maximum Offer Price of HK\$1.08 per Offer Share plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee, amounting to a total of HK\$3,272.65 for one board lot of 3,000 Shares. Prospective investors should be aware that the Offer Price to be determined on the expected Price Determination Date may be, but is not expected to be, lower than the bottom end of the indicative Offer Price range stated in this prospectus.

The Joint Bookrunners will solicit from prospective investors indications of interest in acquiring the Placing Shares. Prospective professional, institutional and other investors will be required to specify the number of Placing Shares 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 final Offer Price, the indications of interest in the Share Offer, the results of applications and the basis of allotment of Shares available under the Public Offer, are expected to be announced on Tuesday, 17 November 2020 on the Stock Exchange’s website at www.hkexnews.hk and our Company’s website at www.yadongtextile.com.

PRICE PAYABLE ON APPLICATION

Applicants for Public Offer Shares under the Public Offer are required to pay, on application, the maximum Offer Price of HK\$1.08 for each Public Offer Share (plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee). If the Offer Price is less than HK\$1.08, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies, without any interest) will be made to successful applicants.

If, for any reason our Company and Fortune (HK) Securities (for itself and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Friday, 6 November 2020, the Share Offer will not proceed and will lapse.

REDUCTION OF THE NUMBER OF OFFER SHARES AND/OR THE INDICATIVE OFFER PRICE RANGE

Fortune (HK) Securities (for itself and on behalf of the Underwriters), may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares offered in the Share Offer and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer.

In such a case, we will, as soon as practicable and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer following the decision to make such reduction, publish notices of the reduction in the number of Offer Shares

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

being offered under the Share Offer and/or the indicative Offer Price range on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.yadongtextile.com. Upon the issuance of such notices, the number of Offer Shares offered in the Share Offer and/or the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by Fortune (HK) Securities (for itself and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Share Offer and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer.

Such notices will also include confirmation or revision, as appropriate, of the working capital statement and the Share Offer statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notices so published, the Offer Price, if agreed upon by Fortune (HK) Securities (for itself and on behalf of the Underwriters) with our Company, will under no circumstances be fixed outside the Offer Price range as stated in this prospectus. Applicants under the Public Offer should note that applications cannot be withdrawn once they are submitted, unless the number of Offer Shares and/or the Offer Price is/are reduced.

If the number of Offer Shares and/or the indicative Offer Price range is reduced, applicants 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.

In the event of a reduction in the number of Offer Shares, Fortune (HK) Securities may, at its discretion, reallocate the number of Offer Shares offered under the Public Offer and the Placing, provided that the number of Offer Shares available under the Public Offer shall not be less than 10% of the total number of Offer Shares available under the Share Offer (assuming the Overallotment Option is not exercised). The Offer Shares to be offered in the Public Offer and the Offer Shares to be offered in the Placing may, in certain circumstances, be reallocated between these offerings at the discretion of Fortune (HK) Securities .

STABILISATION ACTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent any decline in the market price of the securities below the Offer Price. Such transactions may be carried out in all jurisdictions where it is permissible to do so, in each case, in compliance with all applicable laws, rules and regulations, including those of Hong Kong (such as the Securities and Futures (Price Stabilizing) Rules under the SFO, as amended, supplemented or otherwise modified from time to time). In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is carried out is not permitted to exceed the Offer Price.

We have appointed Fortune (HK) Securities as the Stabilising Manager for the purposes of the Share Offer in accordance with the Securities and Futures (Price Stabilizing) Rules under the SFO, as amended, supplemented or otherwise modified from time to time. In connection with the Share

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Offer, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or carry out transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing on the Listing Date and expected to end on the 30th day from the last day for lodging of applications under the Public Offer.

Any market purchases of the Shares may be carried out on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to conduct any such stabilising action, which if commenced, will be conducted at the sole and absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time. Any such stabilising activity must cease on the 30th day after the last day for the lodging of applications under the Public Offer. The number of Shares that may be over-allocated will not exceed the number of Shares that may be allotted and issued by our Company under the Over-allotment Option, namely 22,500,000 Shares in aggregate, which represents 15% of the Shares initially available under the Share Offer.

The types of stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules under the SFO include:

- (a) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares;
- (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares;
- (c) subscribing, or agreeing to subscribe, for the Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares;
- (e) selling, or agreeing to sell, the Shares in order to liquidate any position established as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) or (e) above.

The Stabilising Manager, its affiliates or any person acting for it, may take all or any of the above stabilising actions in Hong Kong during the stabilisation period. Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Stabilising Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- (b) there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, its affiliates or any person acting for it, will maintain such a position. Investors should be warned of the possible impact of any liquidation of such long position by the Stabilising Manager, its affiliates or any other person acting for them, may have an adverse impact on the market price of the Shares;
- (c) stabilising action cannot be used to support the price of the Shares for longer than the stabilising period, which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day from the last date for lodging applications under the Public Offer. After this date, no further stabilising action may be taken and therefore the demand for the Shares as well as the price of the Shares may fall;
- (d) there is no assurance that the price of the Shares will stay at or above the Offer Price either during or after the stabilising period by taking any stabilising action; and
- (e) stabilising bids may be made or transactions carried out in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions carried out at a price below the price paid by applicants or investors for the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilising period.

OVER-ALLOCATION

In connection with the Share Offer, Fortune (HK) Securities may over-allocate up to and not more than an aggregate of 22,500,000 additional Shares and cover such over-allocations by, among other methods, exercising the Over-allotment Option, which will be exercisable by the Stabilising Manager (on behalf of the Placing Underwriters) at its sole discretion, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of and permission to deal in:

- (a) the Shares in issue and to be issued pursuant to the Share Offer (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
- (b) the Shares to be issued upon the exercise of options that may be granted under the Share Option Scheme.

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

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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.

DEALINGS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. (Hong Kong time) on Wednesday, 18 November 2020, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. (Hong Kong time) on Wednesday, 18 November 2020.

The Shares will be traded in board lots of 3,000 Shares each and the stock code of the Shares will be 1795.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, Fortune (HK) Securities, 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 Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply 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 authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If an application is made by a person under a power of attorney, the Company and Fortune (HK) Securities may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR PUBLIC OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- are a Director or chief executive officer of our Company and/or any of its subsidiaries;
- are a connected person or a core connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer;
- are an associate or a close associate (as defined in the Listing Rules) of any of the above; or
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which application channel to use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **White Form eIPO** service at www.eipo.com.hk.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 30 October 2020 until 12:00 noon Friday, 6 November 2020 from:

- (a) any of the following addresses of the Public Offer Underwriters:

Fortune (HK) Securities Limited
43/F, Cosco Tower
183 Queen's Road Central
Central
Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

China Everbright Securities (HK) Limited
12/F, Everbright Centre
108 Gloucester Road
Wanchai
Hong Kong

Shenwan Hongyuan Securities (H.K.) Limited
Level 19, 28 Hennessy Road
Hong Kong

Fulbright Securities Limited
Room 2608–11, 26/F, Wing On Centre
No. 111 Connaught Road Central, Hong Kong

Guosen Securities (HK) Capital Company Limited
Suites 3207–3212
Level 32, One Pacific Place
88 Queensway
Hong Kong

Aristo Securities Limited
Room 101, 1st Floor
On Hong Commercial Building
145 Hennessy Road, Wanchai
Hong Kong

Wilson Securities Limited
Unit 19, 11/F, Peninsula Centre
67 Mody Road, Tsim Sha Shui East
Kowloon, Hong Kong

(b) any of the following branches of the receiving bank:

Bank of China (Hong Kong) Limited

	<u>Branch name</u>	<u>Address</u>
Hong Kong Island	Gilman Street Branch	136 Des Voeux Road Central Hong Kong
Kowloon	Prince Edward Branch	774 Nathan Road Kowloon
New Territories	Ma On Shan Plaza Branch	Shop 2103, Level 2 Ma On Shan Plaza Sai Sha Road Ma On Shan New Territories

HOW TO APPLY FOR PUBLIC OFFER SHARES

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 30 October 2020 until 12:00 noon Friday, 6 November 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — YADONG GROUP PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Friday, 30 October 2020 — 9:00 a.m. to 5:00 p.m.
- Saturday, 31 October 2020 — 9:00 a.m. to 1:00 p.m.
- Monday, 2 November 2020 — 9:00 a.m. to 5:00 p.m.
- Tuesday, 3 November 2020 — 9:00 a.m. to 5:00 p.m.
- Wednesday, 4 November 2020 — 9:00 a.m. to 5:00 p.m.
- Thursday, 5 November 2020 — 9:00 a.m. to 5:00 p.m.
- Friday, 6 November 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 Friday, 6 November 2020, the last application day or such later time as described in "10. Effect of bad weather on the opening of the application lists" in this section below.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully, otherwise, your application may be rejected.

By completing and submitting an Application Form or applying through the **White Form eIPO** service, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (a) undertake to execute all relevant documents and instruct and authorise our Company and/or Fortune (HK) Securities (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (b) agree to comply with the Cayman Companies Law, the Companies Ordinance, the Companies (WUMP) Ordinance and the Articles of Association;
- (c) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (d) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (e) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (f) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (g) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (h) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (i) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the laws of Hong Kong;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (l) represent, warrant and undertake that: (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (o) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (p) 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;
- (q) understand that our Company, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (r) (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
- (s) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional instructions for **YELLOW** Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “2. Who can apply” in this section above, may apply through the **White Form eIPO** service for the Public 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 authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for submitting applications under the White Form eIPO service

You may submit your application to the **White Form eIPO** Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 30 October 2020 until 11:30 a.m. on Friday, 6 November 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 6 November 2020 or such later time under “10. Effect of bad weather on the opening of the application lists” in this section below.

No multiple applications

If you apply by means of the **White Form eIPO**, 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 Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instructions** under the **White Form eIPO** more than once and obtaining payment 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.

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).

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 “Yadong Group Holdings Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support sustainability.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System at <https://ip.ccass.com> (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square 8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners, the Joint Lead Managers and our Hong Kong Branch Share Registrar.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (b) HKSCC Nominees will do the following things on your behalf:
 - (i) agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant stock account;
 - (ii) agree to accept the Public Offer Shares applied for or any lesser number allocated;
 - (iii) undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
 - (iv) (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;
 - (v) (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - (vi) confirm that you understand that our Company, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - (vii) authorise our Company to place HKSCC Nominee's name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - (viii) 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 PUBLIC OFFER SHARES

- (ix) 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;
- (x) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- (xi) agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;
- (xii) 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;
- (xiii) agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- (xiv) agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;

HOW TO APPLY FOR PUBLIC OFFER SHARES

(xv) 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 giving **electronic application instructions** to apply for Public Offer Shares;

(xvi) agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance, the Companies (WUMP) Ordinance and the Articles of Association; and

(xvii) agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 3,000 Public Offer Shares. Instructions for more than 3,000 Public Offer Shares must be in

HOW TO APPLY FOR PUBLIC OFFER SHARES

one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:^(Note)

- Friday, 30 October 2020 — 9:00 a.m. to 8:30 p.m.
- Saturday, 31 October 2020 — 8:00 a.m. to 1:00 p.m.
- Monday, 2 November 2020 — 8:00 a.m. to 8:30 p.m.
- Tuesday, 3 November 2020 — 8:00 a.m. to 8:30 p.m.
- Wednesday, 4 November 2020 — 8:00 a.m. to 8:30 p.m.
- Thursday, 5 November 2020 — 8:00 a.m. to 8:30 p.m.
- Friday, 6 November 2020 — 8:00 a.m. to 12:00 noon

Note: These times in this subsection are subject to change as HKSCC may determine, from time to time with prior notification to CCASS Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 30 October 2020 until 12:00 noon on Friday, 6 November 2020 (24 hours daily, except on Friday, 6 November 2020, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 6 November 2020, the last application day or such later time as described in “10. Effect of bad weather on the opening of the application lists” in this section below.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (WUMP) Ordinance (as applied by section 342E of the Companies (WUMP) Ordinance).

Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public 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 Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 6 November 2020.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees”, you must include:

- an account number; or
- some other identification code,

HOW TO APPLY FOR PUBLIC OFFER SHARES

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 3,000 Public Offer Shares. Each application or **electronic application instructions** in respect of more than 3,000 Public 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.

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).

HOW TO APPLY FOR PUBLIC OFFER SHARES

For further details of the Offer Price, please refer to “Structure and conditions of the Share Offer — Price determination of the Share Offer” in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is/are:

- a tropical cyclone warning signal number eight or above;
- 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 Friday, 6 November 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 6 November 2020 or if there is/are a tropical cyclone warning signal number eight or above, a “black” rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in “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 Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Tuesday, 17 November 2020 on the Stock Exchange’s website at www.hkexnews.hk and our Company’s website at www.yadongtextile.com.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Stock Exchange’s website at www.hkexnews.hk and our Company’s website at www.yadongtextile.com no later than 9:00 a.m. on Tuesday, 17 November 2020;
- from the designated results of allocations website at 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 on a 24-hour basis from 8:00 a.m. on Tuesday, 17 November 2020 to 12:00 midnight on Monday, 23 November 2020;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- by telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. on Tuesday, 17 November 2020, Wednesday, 18 November 2020, Thursday, 19 November 2020 and Friday, 20 November 2020; and
- in the special allocation results booklets which will be available for inspection during opening hours on Tuesday, 17 November 2020, Wednesday, 18 November 2020 and Thursday, 19 November 2020 at all the receiving bank designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Please refer to “Structure and conditions of the Share Offer” in this prospectus for further details.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (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

HOW TO APPLY FOR PUBLIC OFFER SHARES

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.

If our Company or its agents exercise their discretion to reject your application:

Our Company, Fortune (HK) Securities, 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.

If the allotment of Public Offer Shares is void:

The allotment of Public 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.

If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or Fortune (HK) Securities believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- you apply for more than 50% of the Public Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$1.08 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer set out in “Structure and conditions of the Share Offer — Conditions of the Share Offer” in this prospectus are not fulfilled or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, 17 November 2020.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest).

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

HOW TO APPLY FOR PUBLIC OFFER SHARES

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Tuesday, 17 November 2020. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 18 November 2020 provided that the Share Offer has become unconditional and the right of termination described in "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

If you apply using a WHITE Application Form

If you apply for 1,000,000 Public Offer Shares or more and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 17 November 2020, or such other date as notified by us on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.yadongtextile.com.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, 17 November 2020 by ordinary post and at your own risk.

If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collecting refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Tuesday, 17 November 2020, by ordinary post and at your own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the designated CCASS Participants stock account as stated in your Application Form on Tuesday, 17 November 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "11. Publication of results" in this section above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 17 November 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

If you apply through the White Form eIPO service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 17 November 2020, or such other date as notified by our Company on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.yadongtextile.com as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, 17 November 2020 by ordinary post at your own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 cheque(s) by ordinary post at your own risk.

If you apply via electronic application instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of share certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 17 November 2020 or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in "11. Publication of results" in this section above on Tuesday, 17 November 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 17 November 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 17 November 2020. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the

HOW TO APPLY FOR PUBLIC OFFER SHARES

number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, 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, 17 November 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-66, received from the reporting accountants of our Company, SHINEWING (HK) CPA Limited, for the purpose of incorporation in this prospectus.



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

ACCOUNTANTS' REPORT ON THE HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF YADONG GROUP HOLDINGS LIMITED AND FORTUNE FINANCIAL CAPITAL LIMITED

INTRODUCTION

We report on the historical financial information of Yadong Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-66, which comprises the Group's consolidated statements of financial position as at 31 December 2017, 2018 and 2019 and 30 April 2020, the Company's statements of financial position as at 31 December 2017, 2018 and 2019 and 30 April 2020, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 December 2017, 2018 and 2019 and four months ended 30 April 2020 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information are set out on pages I-4 to I-66 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 October 2020 (the "Prospectus") in connection with the share offer of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

DIRECTORS' RESPONSIBILITIES FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Report on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2017, 2018 and 2019 and 30 April 2020, the Company's financial position as at 31 December 2017, 2018 and 2019 and 30 April 2020 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

REVIEW OF STUB PERIOD COMPARATIVE FINANCIAL INFORMATION

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the four months ended 30 April 2019 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

**REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF
SECURITIES ON THE MAIN BOARD OF THE STOCK EXCHANGE AND THE
COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE****Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 14 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Track Record Period.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Kwan Chi Fung

Practising Certificate Number: P06614

Hong Kong

30 October 2020

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of the Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by SHINEWING (HK) CPA Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Four months ended 30 April	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Revenue	6	661,726	861,477	866,674	220,387	166,306
Cost of sales		<u>(580,036)</u>	<u>(748,293)</u>	<u>(737,131)</u>	<u>(188,876)</u>	<u>(139,906)</u>
Gross profit		81,690	113,184	129,543	31,511	26,400
Other income	8	1,620	1,389	1,877	467	347
Selling and distribution expenses		(14,951)	(18,826)	(20,819)	(4,893)	(4,928)
Administrative expenses		(19,605)	(24,876)	(31,287)	(10,607)	(15,068)
Finance costs	9	<u>(5,916)</u>	<u>(5,767)</u>	<u>(5,405)</u>	<u>(1,792)</u>	<u>(1,421)</u>
Profit before tax		42,838	65,104	73,909	14,686	5,330
Income tax expenses	10	<u>(12,275)</u>	<u>(16,019)</u>	<u>(21,245)</u>	<u>(3,367)</u>	<u>(2,746)</u>
Profit for the year/period	11	<u>30,563</u>	<u>49,085</u>	<u>52,664</u>	<u>11,319</u>	<u>2,584</u>
Other comprehensive (expense) income for the year/period:						
<i>Item that may be reclassified subsequently to profit or loss</i>						
Exchange difference arising on translating a foreign operation		<u>(2,468)</u>	<u>2,231</u>	<u>1,253</u>	<u>(721)</u>	<u>(809)</u>
Total comprehensive income for the year/period attributable to owners of the Company		<u>28,095</u>	<u>51,316</u>	<u>53,917</u>	<u>10,598</u>	<u>1,775</u>
Earnings per share						
Basic and diluted (RMB cents)	15	<u>6.79</u>	<u>10.91</u>	<u>11.70</u>	<u>2.52</u>	<u>0.57</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		The Group			
		As at 31 December			As at 30 April 2020
		2017	2018	2019	
Notes		RMB'000	RMB'000	RMB'000	RMB'000
Non-current Assets					
Property, plant and equipment	16	52,721	55,314	70,239	72,332
Right-of-use assets	18	10,152	17,017	13,208	14,093
Intangible asset	17	149	137	313	404
Deposits paid for acquisition of property, plant and equipment		2,460	3,493	1,149	2,336
Deferred tax assets	28	184	192	164	148
		<u>65,666</u>	<u>76,153</u>	<u>85,073</u>	<u>89,313</u>
Current Assets					
Inventories	19	68,696	54,580	65,618	109,437
Trade and bills receivables	20	165,846	162,926	172,130	133,600
Prepayments and other receivables	21	11,037	11,128	9,569	14,385
Amount due from the controlling shareholder	22	16,854	16,719	—	—
Amounts due from directors	22	873	—	—	30
Amounts due from related companies	22	39,920	40,416	1,321	27
Bank balances and cash	23	25,830	50,063	62,124	24,140
		<u>329,056</u>	<u>335,832</u>	<u>310,762</u>	<u>281,619</u>
Current Liabilities					
Trade and bills payables	24	148,668	127,174	162,519	155,125
Accruals and other payables	25	25,630	21,756	25,924	12,419
Contract liabilities	26	1,959	1,840	1,533	1,693
Income tax payable		22,121	19,451	23,476	4,207
Amount due to the controlling shareholder	22	—	—	4,263	1,978
Lease liabilities	18	120	3,339	3,153	3,933
Borrowings	27	75,790	74,800	70,590	95,590
		<u>274,288</u>	<u>248,360</u>	<u>291,458</u>	<u>274,945</u>
Net current assets		<u>54,768</u>	<u>87,472</u>	<u>19,304</u>	<u>6,674</u>
Total assets less current liabilities		<u>120,434</u>	<u>163,625</u>	<u>104,377</u>	<u>95,987</u>

		The Group			
		As at 31 December			As at 30 April
		2017	2018	2019	2020
<i>Notes</i>		RMB'000	RMB'000	RMB'000	RMB'000
Non-current Liabilities					
Lease liabilities	18	108	3,019	119	1,604
Deferred tax liabilities	28	<u>3,941</u>	<u>6,079</u>	<u>9,333</u>	<u>9,683</u>
		<u>4,049</u>	<u>9,098</u>	<u>9,452</u>	<u>11,287</u>
Net assets		<u>116,385</u>	<u>154,527</u>	<u>94,925</u>	<u>84,700</u>
Capital and Reserves					
Share capital	31	1	1	1	1
Reserves	32	<u>116,384</u>	<u>154,526</u>	<u>94,924</u>	<u>84,699</u>
Total Equity		<u>116,385</u>	<u>154,527</u>	<u>94,925</u>	<u>84,700</u>

STATEMENT OF FINANCIAL POSITION

		The Company			
		As at 31 December			As at
		2017	2018	2019	30 April
		RMB'000	RMB'000	RMB'000	2020
Notes					RMB'000
Non-current Asset					
Investment in a subsidiary	38	<u>92,064</u>	<u>92,064</u>	<u>92,064</u>	<u>92,064</u>
Current Assets					
Prepayments		645	1,002	2,500	4,452
Dividend receivable	39	<u>—</u>	<u>13,174</u>	<u>13,423</u>	<u>13,703</u>
		<u>645</u>	<u>14,176</u>	<u>15,923</u>	<u>18,155</u>
Current Liabilities					
Accruals		20	603	870	671
Amounts due to subsidiaries	40	<u>5,496</u>	<u>6,429</u>	<u>12,800</u>	<u>21,719</u>
		<u>5,516</u>	<u>7,032</u>	<u>13,670</u>	<u>22,390</u>
Net current (liabilities) assets		<u>(4,871)</u>	<u>7,144</u>	<u>2,253</u>	<u>(4,235)</u>
Net assets		<u><u>87,193</u></u>	<u><u>99,208</u></u>	<u><u>94,317</u></u>	<u><u>87,829</u></u>
Capital and Reserves					
Share capital		1	1	1	1
Reserves	32(c)	<u><u>87,192</u></u>	<u><u>99,207</u></u>	<u><u>94,316</u></u>	<u><u>87,828</u></u>
Total Equity		<u><u>87,193</u></u>	<u><u>99,208</u></u>	<u><u>94,317</u></u>	<u><u>87,829</u></u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company					
	Share capital	Capital reserve	Exchange reserve	Statutory reserve	Retained profits	Total
	RMB'000 (Note 31)	RMB'000 (Note 32(a))	RMB'000	RMB'000 (Note 32(b))	RMB'000	RMB'000
At 1 January 2017	1	(1)	4,324	2,054	81,912	88,290
Profit for the year	—	—	—	—	30,563	30,563
Exchange difference arising on translating a foreign operation	—	—	(2,468)	—	—	(2,468)
Total comprehensive (expense) income for the year	—	—	(2,468)	—	30,563	28,095
Appropriation to statutory reserve	—	—	—	2,325	(2,325)	—
At 31 December 2017 and 1 January 2018	1	(1)	1,856	4,379	110,150	116,385
Profit for the year	—	—	—	—	49,085	49,085
Exchange difference arising on translating a foreign operation	—	—	2,231	—	—	2,231
Total comprehensive income for the year	—	—	2,231	—	49,085	51,316
Appropriation to statutory reserve	—	—	—	2,375	(2,375)	—
Dividends paid (Note 14)	—	—	—	—	(13,174)	(13,174)
At 31 December 2018 and 1 January 2019	1	(1)	4,087	6,754	143,686	154,527
Profit for the year	—	—	—	—	52,664	52,664
Exchange difference arising on translating a foreign operation	—	—	1,253	—	—	1,253
Total comprehensive income for the year	—	—	1,253	—	52,664	53,917
Appropriation to statutory reserve	—	—	—	3,616	(3,616)	—
Dividends paid (Note 14)	—	—	—	—	(113,519)	(113,519)
As at 31 December 2019	1	(1)	5,340	10,370	79,215	94,925

	Attributable to owners of the Company					Total
	Share capital	Capital reserve	Exchange reserve	Statutory reserve	Retained profits	
	RMB'000 (Note 31)	RMB'000 (Note 32(a))	RMB'000	RMB'000 (Note 32(b))	RMB'000	RMB'000
At 1 January 2020	1	(1)	5,340	10,370	79,215	94,925
Profit for the period	—	—	—	—	2,584	2,584
Exchange difference arising on translating a foreign operation	—	—	(809)	—	—	(809)
Total comprehensive (expense) income for the period	—	—	(809)	—	2,584	1,775
Appropriation to statutory reserve	—	—	—	389	(389)	—
Dividends paid (Note 14)	—	(4,312)	—	—	(7,688)	(12,000)
At 30 April 2020	<u>1</u>	<u>(4,313)</u>	<u>4,531</u>	<u>10,759</u>	<u>73,722</u>	<u>84,700</u>
At 1 January 2019 (audited)	1	(1)	4,087	6,754	143,686	154,527
Profit for the period (unaudited)	—	—	—	—	11,319	11,319
Exchange difference arising on translating a foreign operation (unaudited)	—	—	(721)	—	—	(721)
Total comprehensive (expense) income for the period (unaudited)	—	—	(721)	—	11,319	10,598
Appropriation to statutory reserve	—	—	—	421	(421)	—
At 30 April 2019 (unaudited)	<u>1</u>	<u>(1)</u>	<u>3,366</u>	<u>7,175</u>	<u>154,584</u>	<u>165,125</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
OPERATING ACTIVITIES					
Profit before tax	42,838	65,104	73,909	14,686	5,330
Adjustments for:					
Amortisation of intangible assets	54	63	89	29	41
Depreciation of property, plant and equipment ("PPE")	6,779	7,664	7,828	2,565	2,656
Loss on disposal of PPE	—	206	35	—	—
Finance costs	5,916	5,767	5,405	1,792	1,421
Impairment loss (reversal of impairment loss) on trade and bills receivables	76	544	(290)	433	(63)
Depreciation of right-of-use assets	3,403	3,379	3,948	1,643	1,430
Government subsidies	(325)	(394)	(347)	(208)	(233)
Bank interest income	(92)	(211)	(158)	(49)	(22)
Operating cash flows before working capital changes	58,649	82,122	90,419	20,891	10,560
(Increase) decrease in inventories	(6,760)	14,116	(11,038)	(39,189)	(43,819)
(Increase) decrease in trade and bills receivables	(79,746)	4,819	(8,683)	23,072	38,837
(Increase) decrease in prepayments and other receivables	(645)	(35)	1,559	(6,163)	(4,771)
Increase (decrease) in trade and bills payables	67,214	(22,375)	35,093	33,455	(7,636)
Increase (decrease) in accruals and other payables	12,120	(3,957)	4,189	(8,298)	(13,399)
Increase (decrease) in contract liabilities	1,128	(119)	(309)	835	160
Cash generated from operations	51,960	74,571	111,230	24,603	(20,068)
Income taxes paid	(5,401)	(16,841)	(14,083)	—	(21,837)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	46,559	57,730	97,147	24,603	(41,905)

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
INVESTING ACTIVITIES					
Payments for purchase of PPE	(10,487)	(8,299)	(19,480)	(741)	(3,600)
Payments for deposits paid for PPE	(2,460)	(3,493)	(1,149)	(5,463)	(2,336)
Payments for purchase of intangible assets	—	(51)	(265)	(134)	(132)
Proceeds received from disposal of PPE	—	296	186	—	—
Interest received	92	211	158	49	22
Advances to the controlling shareholder	(5,244)	(13,039)	(6,200)	(1,787)	—
Repayments from the controlling shareholder	446	—	8,242	—	—
Advances to directors	(813)	(427)	(66)	(66)	(30)
Repayments from directors	—	1,300	66	66	—
Advances to related companies	(15,332)	(95,136)	(71,204)	(31,329)	(10,998)
Repayments from related companies	8,177	94,640	16,418	2,847	292
NET CASH USED IN INVESTING ACTIVITIES	<u>(25,621)</u>	<u>(23,998)</u>	<u>(73,294)</u>	<u>(36,558)</u>	<u>(16,782)</u>
FINANCING ACTIVITIES					
Interest paid	(5,916)	(5,767)	(5,427)	(1,792)	(1,553)
Repayments of borrowing	(253,900)	(98,590)	(74,800)	(2,800)	(60,590)
New borrowings raised	253,300	97,600	70,590	—	85,590
Government subsidies received	325	394	347	208	233
Advances from the controlling shareholder	—	—	—	—	300
Repayments to the controlling shareholder	—	—	—	—	(2,585)
Payments of lease liabilities	(3,570)	(4,114)	(3,225)	(172)	(50)
NET CASH (USED IN)/FROM FINANCING ACTIVITIES	<u>(9,761)</u>	<u>(10,477)</u>	<u>(12,515)</u>	<u>(4,556)</u>	<u>21,345</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	11,177	23,255	11,338	(16,511)	(37,342)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/ PERIOD	14,931	25,830	50,063	50,063	62,124
Effect of foreign exchange rate changes	(278)	978	723	(978)	(642)
CASH AND CASH EQUIVALENTS AT THE END OF YEAR/PERIOD, REPRESENTED BY BANK BALANCES AND CASH	<u>25,830</u>	<u>50,063</u>	<u>62,124</u>	<u>32,574</u>	<u>24,140</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. CORPORATE INFORMATION**

Yadong Group Holdings Limited (the “Company”) was incorporated in the Cayman Islands under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 22 September 2016 in preparation for the listing of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its immediate and ultimate holding company is Oriental Ever Holdings Limited (“Oriental Ever”), a company with limited liability incorporated in the British Virgin Islands (“BVI”). Oriental Ever is wholly and directly owned by Mr. Xue Shidong, who is also a director of the Company (the “Controlling Shareholder”).

The address of the registered office and the principal place of business of the Company are disclosed in the “Corporate Information” section of the Prospectus.

The Company is an investment holding company and its subsidiaries (together referred to as the “Group”) are principally engaged in sales of fabrics products and provision of dyeing and processing services. Particulars of the subsidiaries have been set out in Note 37.

The Historical Financial Information is presented in RMB, which is also the functional currency of the Company.

2. GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

Pursuant to the reorganisation, as detailed in the section headed “History, Reorganisation and Group structure — Group structure and reorganisation” in the Prospectus (the “Reorganisation”), the Company became the holding company of the companies now comprising the Group before the beginning of the Track Record Period on 26 October 2016. The Group has been under the control of the Controlling Shareholder prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. As a result, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period include the results, changes in equity and cash flows of the Group formed upon the completion of the reorganisation.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

For the purpose of preparing and presenting the Historical Financial Information, the Group has consistently adopted all the new and amendments to HKFRSs, which include HKFRSs, Hong Kong Accounting Standards (“HKASs”), amendments and interpretations issued by the HKICPA which are effective for the Group’s financial year beginning on 1 January 2017, including HKFRS 15 “Revenue from Contracts with Customers” (“HKFRS 15”), HKFRS 9 “Financial Instruments” (“HKFRS 9”) and HKFRS 16 “Leases” (“HKFRS 16”) on 1 January 2017. The Group has early applied HKFRS 9, HKFRS 15 and HKFRS 16 consistently throughout the Track Record Period.

New and amendments to HKFRSs issued but not yet effective

At the date of this report, the following new and amendments to HKFRSs have been issued but are not yet effective. The Group has not early applied these new and amendments to HKFRSs:

HKFRS 17	Insurance Contracts ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020 ³
Amendments to HKFRS 3	Reference to the Conceptual Framework ³
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRS 16	COVID-19-Related Rent Concessions ¹
Amendments to HKAS 16	Property, Plant and Equipment: Proceeds Before Intended Use ³
Amendments to HKAS 37	Onerous Contracts: Cost of Fulfilling a Contract ³

¹ Effective for annual periods beginning on or after 1 June 2020

² Effective for annual periods beginning on or after 1 January 2021

³ Effective for annual periods beginning on or after 1 January 2022

⁴ Effective for annual periods beginning on or after a date to be determined

The directors of the Company anticipate that the application of the above new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the accounting policies set out below which conform to HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The principal accounting policies are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial information of the Company and entities controlled by the Company and its subsidiaries.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income or expenses of subsidiaries are attributed to the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods or service.

The revenue from the sale of plain weave and corduroy fabrics is recognised at a point in time when the control of products is transferred to the customer upon delivery.

The revenue from the provision of dyeing and processing services is recognised according to the terms of service contracts. The terms of these contracts do not create an enforceable right to payment for the performance completed to date. Accordingly, such revenue is recognised at a point in time when the control of the final products are transferred to the customers.

Revenue is measured based on the consideration specified in a contract with a customer, excludes amounts collected on behalf of third parties and sales related taxes.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits costs

Payments to the People's Republic of China ("PRC") state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme ("the MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority on either (i) the same taxable entity; or (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress as described below are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for administrative purposes. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

The Group's intangible assets are all separately acquired computer software, with finite useful lives of five years and are carried at costs less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis.

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating unit, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Cash and cash equivalents

Bank balances and cash in the consolidated statements of financial position comprise cash at banks and on hand.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash at banks and on hand, as defined above.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Lease***Definition of a lease***

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is presented as a separate line in the consolidated statements of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Lease liability is remeasured (and with a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using revised discount rate.

- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, provision is recognised and measured under HKAS 37 "Provision, Contingent Liabilities and Contingent Assets". The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated on a straight-line basis over the shorter period of lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line item on the consolidated statements of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

Investment in a subsidiary

Investment in a subsidiary is stated on the statements of financial position of the Company at cost less accumulated impairment loss, if any.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial Assets

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. Financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

Amortised cost and interest income

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

Interest income is recognised in profit or loss and is included in the "other income" line item.

Impairment of financial assets

The Group recognises a loss allowance for expected credit loss ("ECL") on financial assets which are subject to impairment under HKFRS 9 (including trade and bills receivables, other receivables, amount due from the Controlling Shareholder, amounts due from directors, amounts due from related companies and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade and bills receivables. The Group determines the ECL collectively by using a provision matrix estimated based on shared credit risk characteristics, the Group's historical credit loss experience based on the past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate as well as consideration of various external sources of actual and forecast economic information that relate to the Group's operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread and the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

The ECL on these assets, except amount due from the Controlling Shareholder, amount due from directors, and amounts due from related companies in which the ECL are determined on an individual basis, is determined collectively by using a provision matrix estimated based on shared credit risk characteristics, the Group's historical credit loss experience based on the past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial Liabilities and Equity Instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not (1) contingent consideration of an acquirer in a business combination, (2) held-for-trading, or (3) designated as at FVTPL, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the amounts of assets, liabilities, revenue and expenses reported and disclosures made in the Historical Financial Information. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives and estimated impairment of property, plant and equipment

Property, plant and equipment is stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. The estimated useful lives reflect the Company's directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment, based on factors that include internal evaluation as well as technological changes and environmental regulations. The estimation of useful lives impacts the level of annual depreciation expenses recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statements of profit or loss and other comprehensive income.

As at 31 December 2017, 2018 and 2019 and 30 April 2020, the carrying amounts of property, plant and equipment were approximately RMB52,721,000, RMB55,314,000, RMB70,239,000 and RMB72,332,000 respectively. No impairment loss was recognised during the years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020.

Estimated impairment of financial assets

The Group uses provision matrix to calculate ECL for the trade and bills receivables and individually assessed the ECL for amount due from Controlling Shareholder, amounts due from directors and amounts due from related companies. The provision rates are based on shared credit risk characteristics as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and bills receivables, amount due from Controlling Shareholder, amounts due from directors and amount due from related companies are disclosed in Note 34, Note 20 and Note 22 respectively.

As at 31 December 2017, 2018 and 2019 and 30 April 2020, the carrying amounts of trade and bills receivables were approximately RMB165,846,000, RMB162,926,000, RMB172,130,000 and RMB133,600,000 respectively. As at 31 December 2017 and 2018, the carrying amounts of the amount due from the Controlling Shareholder were approximately RMB16,854,000 and RMB16,719,000 respectively. As at 31 December 2017 and 30 April 2020, the carrying amounts of the amounts due from directors were approximately RMB873,000 and RMB30,000 respectively. As at 31 December 2017, 2018 and 2019 and 30 April 2020, the carrying amounts of the amounts due from related companies were approximately RMB39,920,000, RMB40,416,000, RMB1,321,000 and RMB27,000 respectively.

During the years ended 31 December 2017 and 2018 and the four months ended 30 April 2019, the ECL impairment on trade and bills receivables were approximately RMB76,000, RMB544,000 and RMB433,000 respectively. During the year ended 31 December 2019 and the four months ended 30 April 2020, the reversal of ECL impairment on trade and bills receivables were approximately RMB290,000 and RMB63,000 respectively.

Estimated impairment of inventories

The management of the Group reviews an ageing analysis at the end of each reporting period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

As at 31 December 2017, 2018 and 2019 and 30 April 2020, the carrying amounts of inventories were approximately RMB68,696,000, RMB54,580,000, RMB65,618,000 and RMB109,437,000 respectively. No impairment of inventories was recognised during the years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020.

6. REVENUE

Revenue represents the amounts received and receivable arising from sales of fabric products and provision of dyeing and processing services, net of sales related taxes for the three years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020. The Group's revenue for the Track Record Period is recognised at a point in time. An analysis of the Group's revenue disaggregated by major products or service lines is as follows:

	Year ended 31 December			Four months ended	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)				
Sale of plain weave fabrics	485,450	708,684	625,430	158,025	124,076
Sale of corduroy fabrics	119,670	95,187	197,221	49,932	31,392
Provision of dyeing and processing services	56,606	57,606	44,023	12,430	10,838
	<u>661,726</u>	<u>861,477</u>	<u>866,674</u>	<u>220,387</u>	<u>166,306</u>

Transaction price allocated to the remaining performance obligations

The sales of fabric products and provision of dyeing and processing services are with an original expected duration of one year or less. Accordingly, the Group has elected the practical expedient and has not disclosed the amount of transaction price allocated to the performance obligation that are unsatisfied as of the end of each reporting period.

7. SEGMENT INFORMATION

The directors of the Company, being the chief operating decision makers, review the Group's internal reporting in order to assess performance and allocate resource. The Group is principally engaged in sales of fabrics products and provision of dyeing and processing services. Information reported to the chief operating decision makers, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Company as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

Geographical information

The Group's manufacturing and operations are all located in the PRC. Non-current assets of the Group are all located in the PRC.

An analysis of the Group's revenue from external customers is presented based on the location of customers.

	Revenue from external customers				
	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
The PRC	568,406	643,858	669,189	145,642	118,720
Japan	23,986	156,000	101,106	34,749	20,801
Other	69,334	61,619	96,379	39,996	26,785
	<u>661,726</u>	<u>861,477</u>	<u>866,674</u>	<u>220,387</u>	<u>166,306</u>

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group for the three years ended 31 December 2017, 2018 and 2019 and four months ended 30 April 2019 and 2020 are as follows:

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Customer A	78,722	N/A ¹	N/A ¹	22,248	N/A ¹
Customer B	77,509	N/A ¹	N/A ¹	22,240	17,939
Customer C	N/A ¹	124,927	N/A ¹	26,057	18,001
Customer D	N/A ¹	N/A ¹	N/A ¹	N/A ¹	21,279

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group.

8. OTHER INCOME

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Bank interest income	92	211	158	49	22
Exchange gain, net	855	—	246	97	—
Government subsidies (<i>Note</i>)	325	394	347	208	233
Reversal of impairment loss on trade and bills receivables	—	—	290	—	63
Sundry income	348	784	836	113	29
	<u>1,620</u>	<u>1,389</u>	<u>1,877</u>	<u>467</u>	<u>347</u>

Note: The government subsidies represent the one-off government subsidies that were received from local government authorities of which the entitlements were unconditional and under the discretion of the relevant authorities. The amounts were therefore immediately recognised as other income during the respective year.

9. FINANCE COSTS

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Interests on:					
Borrowings	5,328	5,535	4,784	1,665	1,356
Lease liabilities	218	12	381	127	65
Guarantee fees	370	220	240	—	—
	<u>5,916</u>	<u>5,767</u>	<u>5,405</u>	<u>1,792</u>	<u>1,421</u>

10. INCOME TAX EXPENSES

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Current tax:					
Hong Kong Profits Tax	2,114	5,492	4,727	1,600	1,083
PRC Enterprise Income Tax ("EIT")	8,091	8,397	13,236	1,403	1,297
	<u>10,205</u>	<u>13,889</u>	<u>17,963</u>	<u>3,003</u>	<u>2,380</u>
Deferred tax (<i>Note 28</i>):					
Current year	<u>2,070</u>	<u>2,130</u>	<u>3,282</u>	<u>364</u>	<u>366</u>
	<u>12,275</u>	<u>16,019</u>	<u>21,245</u>	<u>3,367</u>	<u>2,746</u>

- (i) Pursuant to the rules and regulation of the BVI and the Cayman Islands, the Group is not subject to any income tax in these jurisdictions.
- (ii) Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the years ended 31 December 2017.
- (iii) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. For the year ended 31 December 2018 and 2019 and the four months ended 30 April 2019 and 2020, Hong Kong Profits Tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.
- (iv) Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, Yadong (Changzhou Science and Technology Co., Ltd ("Yadong (Changzhou)"), a subsidiary of the Group established in the PRC, the tax rate is 25% for the years ended 31 December 2017, 2018 and 2019 and four months ended 30 April 2019 and 2020.
- (v) A tax concession of 100% was granted to the Group under Hong Kong tax jurisdiction which is subject to a ceiling of HK\$30,000, HK\$20,000, HK\$20,000, HK\$20,000 and HK\$20,000 per company for the years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020.

The income tax expenses for the years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020 can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

For the year ended 31 December 2017

	The PRC		Hong Kong		Others ¹		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	<u>31,292</u>		<u>12,800</u>		<u>(1,254)</u>		<u>42,838</u>	
Tax at the domestic income tax rate	7,823	25.0	2,112	16.5	(207)	(16.5)	9,728	22.7
Tax effect of expenses not deductible for tax purpose	184	0.6	114	0.9	207	16.5	505	1.2
Tax effect of income not taxable for tax purpose	—	—	(25)	(0.2)	—	—	(25)	(0.1)
Hong Kong Profits Tax concession	—	—	(26)	(0.2)	—	—	(26)	(0.1)
Withholding tax on undistributed earnings of a PRC subsidiary (Note 28)	<u>2,093</u>	6.7	<u>—</u>	—	<u>—</u>	—	<u>2,093</u>	4.9
Income tax expenses and effective tax rate for the year	<u>10,100</u>	32.3	<u>2,175</u>	17.0	<u>—</u>	—	<u>12,275</u>	28.7

For the year ended 31 December 2018

	The PRC		Hong Kong		Others ¹		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	<u>32,014</u>		<u>34,003</u>		<u>(913)</u>		<u>65,104</u>	
Tax at the domestic income tax rate	8,004	25.0	5,610	16.5	(151)	(16.5)	13,463	20.7
Tax effect of expenses not deductible for tax purpose	277	0.9	148	0.4	151	16.5	576	0.9
Tax effect of income not taxable for tax purpose	—	—	(2)	—	—	—	(2)	—
Effect of two-tiered profits tax rates regime	—	—	(139)	(0.5)	—	—	(139)	(0.2)
Hong Kong Profits Tax concession	—	—	(17)	—	—	—	(17)	—
Withholding tax on undistributed earnings of a PRC subsidiary (Note 28)	<u>2,138</u>	6.7	<u>—</u>	—	<u>—</u>	—	<u>2,138</u>	3.3
Income tax expenses and effective tax rate for the year	<u>10,419</u>	32.5	<u>5,600</u>	16.5	<u>—</u>	—	<u>16,019</u>	24.6

For the year ended 31 December 2019

	The PRC		Hong Kong		Others ¹		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	<u>49,352</u>		<u>29,552</u>		<u>(4,995)</u>		<u>73,909</u>	
Tax at the domestic income tax rate	12,338	25.0	4,877	16.5	(824)	(16.5)	16,391	22.1
Tax effect of expenses not deductible for tax purpose	560	1.1	381	2.5	824	16.5	1,765	2.4
Tax effect of income not taxable for tax purpose	—	—	(2)	(0.2)	—	—	(2)	—
Effect of two-tiered profits tax rates regime	—	—	(145)	—	—	—	(145)	(0.2)
Hong Kong Profits Tax concession	—	—	(18)	(0.2)	—	—	(18)	—
Withholding tax on undistributed earnings of a PRC subsidiary (Note 28)	<u>3,254</u>	6.6	<u>—</u>	—	<u>—</u>	—	<u>3,254</u>	4.4
Income tax expenses and effective tax rate for the year	<u>16,152</u>	32.7	<u>5,093</u>	17.2	<u>—</u>	—	<u>21,245</u>	28.7

For the four months ended 30 April 2019 (Unaudited)

	The PRC		Hong Kong		Others ¹		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	<u>4,939</u>		<u>11,113</u>		<u>(1,366)</u>		<u>14,686</u>	
Tax at the domestic income tax rate	1,235	25.0	1,834	16.5	(225)	(16.5)	2,844	19.4
Tax effect of expenses not deductible for tax purpose	36	0.7	57	0.5	225	16.5	318	2.2
Tax effect of income not taxable for tax purpose	—	—	(1)	0.0	—	—	(1)	0.0
Effect of two-tiered profits tax rates regime	—	—	(141)	(1.1)	—	—	(141)	(1.0)
Hong Kong Profits Tax concession	—	—	(17)	(0.1)	—	—	(17)	(0.1)
Withholding tax on undistributed earnings of a PRC subsidiary	<u>364</u>	7.0	<u>—</u>	—	<u>—</u>	—	<u>364</u>	2.5
Income tax expenses and effective tax rate for the period	<u>1,635</u>	33.1	<u>1,732</u>	15.6	<u>—</u>	—	<u>3,367</u>	22.9

For the four months ended 30 April 2020

	The PRC		Hong Kong		Others ¹		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	<u>5,254</u>		<u>6,609</u>		<u>(6,533)</u>		<u>5,330</u>	
Tax at the domestic income tax rate	1,314	25.0	1,090	16.5	(1,077)	(16.5)	1,327	24.9
Tax effect of expenses not deductible for tax purpose	—	—	—	—	1,077	16.5	1,077	20.2
Tax effect of income not taxable for tax purpose	—	—	(8)	(0.1)	—	—	(8)	(0.2)
Effect of two-tiered profits tax rates regime	—	—	—	—	—	—	—	—
Hong Kong Profits Tax concession	—	—	—	—	—	—	—	—
Withholding tax on undistributed earnings of a PRC subsidiary (<i>Note 28</i>)	<u>350</u>	6.7	<u>—</u>	—	<u>—</u>	—	<u>350</u>	6.6
Income tax expenses and effective tax rate for the period	<u>1,664</u>	31.3	<u>1,082</u>	16.4	<u>—</u>	—	<u>2,746</u>	51.5

¹ The expenses incurred by the Company incorporated in Cayman Island and its subsidiary incorporated in the British Virgin Islands are not deductible in any jurisdictions.

11. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Profit for the year/period has been arrived at after charging (crediting):					
Directors' emoluments (<i>Note 12</i>)	1,278	1,264	1,763	486	400
Salaries, allowances and other benefits (excluding directors' emoluments)	34,123	37,562	42,888	11,449	10,799
Contributions to retirement benefits scheme (excluding directors' emoluments)	<u>3,367</u>	<u>3,834</u>	<u>5,261</u>	<u>1,428</u>	<u>1,213</u>
Total staff costs	<u>38,768</u>	<u>42,660</u>	<u>49,912</u>	<u>13,363</u>	<u>12,412</u>
Auditor's remuneration	61	83	74	—	—
Listing expenses	756	847	4,424	438	6,496
Impairment loss/(reversal) of impairment loss on trade and bills receivables	76	544	(290)	433	(63)
Amortisation of intangible assets	54	63	89	29	41
Exchange (gain)/losses, net	(855)	248	(246)	(97)	546
Loss on disposal of property, plant and equipment	—	206	35	—	—
Amount of inventories recognised as an expense	527,824	695,912	700,274	178,448	130,788
Depreciation of property, plant and equipment	6,779	7,664	7,828	2,565	2,656
Depreciation of right-of-use assets	<u>3,403</u>	<u>3,379</u>	<u>3,948</u>	<u>1,643</u>	<u>1,430</u>

12. DIRECTORS' EMOLUMENTS

Details of directors' emoluments are as follows:

	<u>Fees</u>	<u>Discretionary performance related bonus</u>	<u>Salaries, allowances and other benefits</u>	<u>Contributions to retirement benefits scheme</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Year ended 31 December 2017					
<i>Executive Directors</i>					
Mr. Xue Shidong (薛士東)	—	—	366	15	381
Mr. Qiu Jianyu (邱建宇)	—	—	186	13	199
Ms. Zhang Yeping (張葉萍)	87	—	186	13	286
Mr. Wang Bin (王斌)	—	—	191	13	204
Mr. Jin Rongwei (金榮偉)	—	—	195	13	208
	<u>87</u>	<u>—</u>	<u>1,124</u>	<u>67</u>	<u>1,278</u>
Year ended 31 December 2018					
<i>Executive Directors</i>					
Mr. Xue Shidong (薛士東)	—	—	363	17	380
Mr. Qiu Jianyu (邱建宇)	—	—	184	14	198
Ms. Zhang Yeping (張葉萍)	84	—	180	14	278
Mr. Wang Bin (王斌)	—	—	186	14	200
Mr. Jin Rongwei (金榮偉)	—	—	194	14	208
	<u>84</u>	<u>—</u>	<u>1,107</u>	<u>73</u>	<u>1,264</u>
Year ended 31 December 2019					
<i>Executive Directors</i>					
Mr. Xue Shidong (薛士東)	—	50	364	20	434
Mr. Qiu Jianyu (邱建宇)	—	50	184	14	248
Ms. Zhang Yeping (張葉萍)	88	50	180	14	332
Mr. Wang Bin (王斌)	—	80	378	14	472
Mr. Jin Rongwei (金榮偉)	—	65	198	14	277
	<u>88</u>	<u>295</u>	<u>1,304</u>	<u>76</u>	<u>1,763</u>
Four months ended 30 April 2019					
(Unaudited)					
<i>Executive Directors</i>					
Mr. Xue Shidong (薛士東)	—	—	121	7	128
Mr. Qiu Jianyu (邱建宇)	—	—	61	5	66
Ms. Zhang Yeping (張葉萍)	29	—	60	5	94
Mr. Wang Bin (王斌)	—	—	124	5	129
Mr. Jin Rongwei (金榮偉)	—	—	64	5	69
	<u>29</u>	<u>—</u>	<u>430</u>	<u>27</u>	<u>486</u>

	<u>Fees</u>	<u>Discretionary performance related bonus</u>	<u>Salaries, allowances and other benefits</u>	<u>Contributions to retirement benefits scheme</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Four months ended 30 April 2020					
<i>Executive Directors</i>					
Mr. Xue Shidong (薛士東)	—	—	96	7	103
Mr. Qiu Jianyu (邱建宇)	—	—	51	5	56
Ms. Zhang Yeping (張葉萍)	30	—	50	5	85
Mr. Wang Bin (王斌)	—	—	96	5	101
Mr. Jin Rongwei (金榮偉)	—	—	50	5	55
	<u>30</u>	<u>—</u>	<u>343</u>	<u>27</u>	<u>400</u>

The executive directors' emoluments shown above were mainly paid for their services in connection with the management of the affairs of the Company and the Group. The discretionary bonus for the year ended 31 December 2019 was determined by the board of directors with reference to the duties and responsibilities of the relevant individuals within the Group and the Group's performance.

No directors of the Company waived or agreed to waive any emoluments during the years ended 31 December 2017, 2018 and 2019 and the four ended months 30 April 2019 and 2020. No emoluments were paid by the Group to any of these directors of the Company as an incentive payment for joining the Group or as compensation for loss of office during the years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020.

Mr. Xue Shidong was appointed as executive directors of the Company on 22 October 2016.

Mr. Qiu Jianyu, Ms. Zhang Yeping, Mr. Wang Bin and Mr. Jin Rongwei were re-designated as executive directors of the Company on 22 November 2019.

Mr. Zhu Qi, Mr. Ho Kin Cheong Kelvin and Mr. Wang Hongliang will be appointed as independent non-executive directors prior to the listing of the Company.

No chief executive was appointed during the years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020.

13. EMPLOYEES' EMOLUMENTS

The five individuals with the highest emoluments in the Group included three, three, three, two and two directors of the Company for the years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020 respectively, whose emoluments are set out in Note 12 above. The emoluments of the remaining two, two, two, three and three highest paid individuals were as follows:

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, allowances and other benefits	554	562	754	285	266
Contributions to retirement benefits scheme	25	26	34	10	11
	<u>579</u>	<u>588</u>	<u>788</u>	<u>295</u>	<u>277</u>

Their emoluments were within the following band:

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	Number of individuals	Number of individuals	Number of individuals	Number of individuals	Number of individuals
Nil to HK\$1,000,000					
(equivalent to approximately:					
31/12/2017: Nil to RMB833,000					
31/12/2018: Nil to RMB878,000					
31/12/2019: Nil to RMB895,000					
30/04/2019: Nil to RMB860,000					
30/04/2020: Nil to RMB914,000)	<u>2</u>	<u>2</u>	<u>2</u>	<u>3</u>	<u>3</u>

No emoluments were paid by the Group to any of the five highest paid individuals of the Group including the directors of the Company as an incentive payment for joining the Group or as compensation for loss of office during the years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020.

14. DIVIDENDS

During the year ended 31 December 2018, the Company declared dividend of HK\$15,000,000 (equivalent to approximately RMB13,174,000), which was settled through amount due from the Controlling Shareholder.

During the year ended 31 December 2019, the Company declared dividend of RMB113,519,000, which was settled through amount due from the Controlling Shareholder and a related company at approximately RMB19,638,000 and approximately RMB93,881,000 respectively.

During the four months ended 30 April 2020, the Company declared dividend of RMB12,000,000, which was settled through amount due from a related company.

Other than those as disclosed above, no dividend has been paid or proposed by the Company during years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020, nor has any dividend been proposed by the Company since the end of the reporting period.

The rate of dividends and the number of shares ranking for the above dividends are not presented as such information is not meaningful having regard to the purpose of this report.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share during the years ended 31 December 2017, 2018, 2019 and the four months ended 30 April 2019 and 2020 is based on the profit for the year/period attributable to the owners of the Company and the weighted average number of ordinary shares.

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Earnings for the purpose of basic earnings per share (profit for the year/period attributable to the owners of the Company)	<u>30,563</u>	<u>49,085</u>	<u>52,664</u>	<u>11,319</u>	<u>2,584</u>
	'000	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>	<u>450,000</u>

The weighted average number of ordinary shares for the purpose of basic earnings per share during the years ended 31 December 2017, 2018, 2019 and the four months ended 30 April 2019 and 2020 has been determined based on the number of shares in issue and deemed to be in issue, on the assumption that the Reorganisation as detailed in Note 2 and capitalisation issue as detailed in the section headed "Share Capital" to the Prospectus have been effective on 1 January 2017.

Diluted earnings per share

Diluted earnings per share is as same as basic earnings per share as there were no dilutive potential ordinary shares outstanding for the years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement	Plant and machineries	Furniture and fixture	Motor vehicles	Office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At 1 January 2017	—	58,518	429	1,237	860	—	61,044
Additions	251	10,159	203	139	117	—	10,869
At 31 December 2017 and 1 January 2018	251	68,677	632	1,376	977	—	71,913
Additions	1,978	4,936	71	394	407	2,973	10,759
Disposals	—	(894)	—	—	—	—	(894)
At 31 December 2018 and 1 January 2019	2,229	72,719	703	1,770	1,384	2,973	81,778
Additions	468	7,351	8	—	305	14,842	22,974
Disposals	—	—	—	(279)	—	—	(279)
At 31 December 2019 and 1 January 2020	2,697	80,070	711	1,491	1,689	17,815	104,473
Additions	15	833	—	—	—	3,901	4,749
At 30 April 2020	<u>2,712</u>	<u>80,903</u>	<u>711</u>	<u>1,491</u>	<u>1,689</u>	<u>21,716</u>	<u>109,222</u>
ACCUMULATED DEPRECIATION							
At 1 January 2017	—	11,546	92	470	305	—	12,413
Charge for the year	22	6,253	81	235	188	—	6,779
At 31 December 2017 and 1 January 2018	22	17,799	173	705	493	—	19,192
Charge for the year	671	6,404	116	266	207	—	7,664
Eliminated on disposals	—	(392)	—	—	—	—	(392)
At 31 December 2018 and 1 January 2019	693	23,811	289	971	700	—	26,464
Charge for the year	659	6,528	110	336	195	—	7,828
Eliminated on disposals	—	—	—	(58)	—	—	(58)
At 31 December 2019 and 1 January 2020	1,352	30,339	399	1,249	895	—	34,234
Charge for the period	246	2,293	35	16	66	—	2,656
At 30 April 2020	<u>1,598</u>	<u>32,632</u>	<u>434</u>	<u>1,265</u>	<u>961</u>	<u>—</u>	<u>36,890</u>
CARRYING VALUES							
At 31 December 2017	<u>229</u>	<u>50,878</u>	<u>459</u>	<u>671</u>	<u>484</u>	<u>—</u>	<u>52,721</u>
At 31 December 2018	<u>1,536</u>	<u>48,908</u>	<u>414</u>	<u>799</u>	<u>684</u>	<u>2,973</u>	<u>55,314</u>
At 31 December 2019	<u>1,345</u>	<u>49,731</u>	<u>312</u>	<u>242</u>	<u>794</u>	<u>17,815</u>	<u>70,239</u>
At 30 April 2020	<u>1,114</u>	<u>48,271</u>	<u>277</u>	<u>226</u>	<u>728</u>	<u>21,716</u>	<u>72,332</u>

- (i) The above items of property, plant and equipment (other than construction in progress) are on a straight-line basis at the following basis:

Leasehold improvement	3 years or over lease term whichever is shorter
Plant and machineries	3–10 years
Furniture and fixture	5 years
Motor vehicles	5 years
Office equipment	5 years

- (ii) The Group has pledged certain of its machineries with carrying value of approximately RMB14,984,000, RMB22,418,000, RMB20,814,000 and RMB19,738,000 as at 31 December 2017, 2018 and 2019 and 30 April 2020 respectively to secure general banking facilities granted to the Group. Details of which are set out in Notes 27 and 30.

17. INTANGIBLE ASSET

	Computer software
	RMB'000
COST	
At 1 January 2017 and 1 January 2018	267
Additions	<u>51</u>
At 31 December 2018 and 1 January 2019	318
Additions	<u>265</u>
At 31 December 2019 and 1 January 2020	583
Additions	<u>132</u>
At 30 April 2020	<u><u>715</u></u>
AMORTISATION	
At 1 January 2017	64
Amortisation	<u>54</u>
At 31 December 2017 and 1 January 2018	118
Amortisation	<u>63</u>
At 31 December 2018 and 1 January 2019	181
Amortisation	<u>89</u>
At 31 December 2019 and 1 January 2020	270
Amortisation	<u>41</u>
At 30 April 2020	<u><u>311</u></u>
CARRYING VALUES	
At 31 December 2017	<u>149</u>
At 31 December 2018	<u>137</u>
At 31 December 2019	<u><u>313</u></u>
At 30 April 2020	<u><u>404</u></u>

The above intangible asset was acquired from third party and has finite useful live. Such intangible asset is amortised on a straight-line basis over five years.

18. LEASES

(i) Right-of-use assets

	Land	Factory, warehouse and office	Total
	RMB'000	RMB'000	RMB'000
COST			
At 1 January 2017	7,284	9,556	16,840
Additions	<u>—</u>	<u>267</u>	<u>267</u>
At 31 December 2017 and 1 January 2018	7,284	9,823	17,107
Additions	<u>—</u>	<u>10,244</u>	<u>10,244</u>
At 31 December 2018 and 1 January 2019	7,284	20,067	27,351
Additions	<u>—</u>	<u>139</u>	<u>139</u>
At 31 December 2019 and 1 January 2020	7,284	20,206	27,490
Additions	<u>—</u>	<u>2,315</u>	<u>2,315</u>
At 30 April 2020	<u><u>7,284</u></u>	<u><u>22,521</u></u>	<u><u>29,805</u></u>
ACCUMULATED DEPRECIATION			
At 1 January 2017	328	3,224	3,552
Charge for the year	<u>146</u>	<u>3,257</u>	<u>3,403</u>
At 31 December 2017 and 1 January 2018	474	6,481	6,955
Charge for the year	<u>146</u>	<u>3,233</u>	<u>3,379</u>
At 31 December 2018 and 1 January 2019	620	9,714	10,334
Charge for the year	<u>146</u>	<u>3,802</u>	<u>3,948</u>
At 31 December 2019	766	13,516	14,282
Charge for the period	<u>48</u>	<u>1,382</u>	<u>1,430</u>
At 30 April 2020	<u><u>814</u></u>	<u><u>14,898</u></u>	<u><u>15,712</u></u>
CARRYING VALUES			
At 31 December 2017	<u><u>6,810</u></u>	<u><u>3,342</u></u>	<u><u>10,152</u></u>
At 31 December 2018	<u><u>6,664</u></u>	<u><u>10,353</u></u>	<u><u>17,017</u></u>
At 31 December 2019	<u><u>6,518</u></u>	<u><u>6,690</u></u>	<u><u>13,208</u></u>
At 30 April 2020	<u><u>6,470</u></u>	<u><u>7,623</u></u>	<u><u>14,093</u></u>

The additions to right-of-use assets for the years ended 31 December 2017 and 2019 and the four months ended 30 April 2020 amounted to RMB267,000, RMB139,000 and RMB2,315,000 respectively due to the renewal of the relevant leases of office whereas the addition to right-of-use assets for the year ended 31 December 2018 amounted to RMB10,244,000 was due to the renewal of factory and warehouse.

The right-of-use assets are depreciated on a straight-line basis over the shorter period of lease term and the useful life of the underlying asset.

The right-of-use assets represent land use right located in the PRC with lease term of 40 years and the lease of factory, warehouse and office located in the PRC and Hong Kong with lease terms generally ranged from 18 months to three years.

The Group has pledged the land with carrying value of approximately RMB6,810,000, RMB6,664,000, RMB6,518,000 and RMB6,470,000 as at 31 December 2017, 2018 and 2019 and 30 April 2020 respectively to secure general banking facilities granted to the Group. For the details, please refer to Note 30.

(ii) Lease Liabilities

	At 31 December			As at 30 April 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed as:				
Current portion	120	3,339	3,153	3,933
Non-current portion	108	3,019	119	1,604
	<u>228</u>	<u>6,358</u>	<u>3,272</u>	<u>5,537</u>
	At 31 December			As at 30 April 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts payable under lease liabilities				
Within one year	120	3,339	3,153	3,933
After one year but within two years	108	3,019	119	1,604
	<u>228</u>	<u>6,358</u>	<u>3,272</u>	<u>5,537</u>
Less: Amount due for settlement within 12 months (Shown under current liabilities)	<u>(120)</u>	<u>(3,339)</u>	<u>(3,153)</u>	<u>(3,933)</u>
Amount due for settlement after 12 months	<u>108</u>	<u>3,019</u>	<u>119</u>	<u>1,604</u>

(iii) Amounts recognised in profit or loss

	Year ended 31 December			Four months ended 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (Unaudited)	RMB'000
Depreciation expense on right-of-use assets					
— Land	146	146	146	49	48
— Factory, warehouse and office	3,257	3,233	3,802	1,594	1,382
Interest expense on lease liabilities	218	12	381	127	65

During the years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2020, the total financing cash outflows for lease liabilities were approximately RMB3,788,000, RMB4,126,000, RMB3,606,000 and RMB115,000 respectively.

The Group had no expenses relating to variable lease payments not included in the measurement of the lease liability or leases of low value assets or short term lease during the years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020. All lease payments are fixed payments.

As at 31 December 2017, 2018 and 2019 and 30 April 2020, certain right-of-use assets (i.e. factory and warehouse) of approximately RMB3,115,000, RMB10,244,000, RMB6,437,000 and RMB5,168,000 respectively are leased from a related company, Changzhou Dongxia Real Estate Agency Ltd.* (常州市東霞房地產代理有限公司) (“Dongxia”). Dongxia is beneficially owned by the Controlling Shareholder. The lease payment was based on mutually agreed terms with reference to market rates.

* The English name is for identification only

19. INVENTORIES

	At 31 December			As at 30 April
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	11,767	13,345	14,482	14,407
Work in progress	32,761	17,449	19,878	35,895
Finished goods	24,168	23,786	31,258	59,135
	<u>68,696</u>	<u>54,580</u>	<u>65,618</u>	<u>109,437</u>

20. TRADE AND BILLS RECEIVABLES

	At 31 December			As at 30 April 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	161,806	160,400	167,848	127,771
Bills receivables	4,255	3,285	4,751	6,235
Less: Impairment	(215)	(759)	(469)	(406)
	<u>165,846</u>	<u>162,926</u>	<u>172,130</u>	<u>133,600</u>

As at 31 December 2017, 2018 and 2019 and 30 April 2020, the gross amount of trade and bills receivables arising from contracts with customers amounted to approximately RMB166,061,000, RMB163,685,000, RMB172,599,000 and RMB134,006,000 respectively.

The Group allows credit period of up to 90 days to its trade customers. The Group does not hold any collateral over its trade and bills receivables. The following is an aged analysis of trade and bills receivables, net of impairment, presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	At 31 December			As at 30 April 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	135,194	121,545	145,244	108,313
31 to 60 days	19,261	20,113	19,174	19,504
61 to 90 days	8,663	1,412	5,355	863
91 to 180 days	1,418	10,868	1,765	4,475
181 to 365 days	1,310	2,233	465	352
Over 365 days	—	6,755	127	93
Total	<u>165,846</u>	<u>162,926</u>	<u>172,130</u>	<u>133,600</u>

The Group applies simplified approach to provide for ECL prescribed by HKFRS 9. The Group assessed the ECL for trade receivables in grouped based on shared credit risk characteristics as at 1 January 2017, 31 December 2017, 2018 and 2019 and 30 April 2020.

Impairment assessment on trade and bills receivables subject to ECL model

The Group measures the loss allowance for trade and bills receivables at an amount equal to lifetime ECL. The ECL on trade and bills receivables are estimated using a provision matrix by reference to past default experience of the debtor adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on invoice date ageing status is not further distinguished between the Group's different customer bases.

There has been no change in the estimation techniques or significant assumption made during the Track Record Period.

The Group recognised lifetime ECL for trade and bills receivables based on invoice date ageing status as follows:

	<u>Weighted average expected loss rate</u>	<u>Gross carrying amount</u>	<u>Loss allowance</u>
	%	RMB'000	RMB'000
As at 31 December 2017			
Within 30 days	0.1%	135,316	122
31 to 60 days	0.2%	19,296	35
61 to 90 days	0.3%	8,687	24
91 to 180 days	0.4%	1,424	6
181 to 365 days	2.1%	1,338	28
		<u>166,061</u>	<u>215</u>
As at 31 December 2018			
Within 30 days	0.1%	121,703	158
31 to 60 days	0.3%	20,166	53
61 to 90 days	0.4%	1,418	6
91 to 180 days	0.7%	10,944	76
181 to 365 days	2.4%	2,288	55
Over 365 days	5.7%	7,166	411
		<u>163,685</u>	<u>759</u>
As at 31 December 2019			
Within 30 days	0.2%	145,554	310
31 to 60 days	0.4%	19,256	82
61 to 90 days	0.6%	5,390	35
91 to 180 days	0.9%	1,785	16
181 to 365 days	1.7%	475	8
Over 365 days	12.9%	139	18
		<u>172,599</u>	<u>469</u>
As at 30 April 2020			
Within 30 days	0.2%	108,556	243
31 to 60 days	0.4%	19,591	87
61 to 90 days	0.7%	869	6
91 to 180 days	1.0%	4,522	47
181 to 365 days	1.7%	358	6
Over 365 days	15.5%	110	17
		<u>134,006</u>	<u>406</u>

The movement in the impairment losses of trade and bills receivables during the years ended 31 December 2017, 2018 and 2019 and 30 April 2020 is as follows:

	Impairment loss allowance
	RMB'000
Balance as at 31 January 2017	139
Impairment losses recognised	<u>76</u>
Balance as at 31 December 2017	215
Impairment losses recognised	<u>544</u>
Balance as at 31 December 2018	759
Reversal of impairment losses	<u>(290)</u>
Balance as at 31 December 2019	469
Reversal of impairment losses	<u>(63)</u>
Balance as at 30 April 2020	<u><u>406</u></u>

21. PREPAYMENTS AND OTHER RECEIVABLES

	At 31 December			As at 30 April 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	9,089	9,000	7,772	10,450
Other tax recoverables	—	—	—	2,313
Others	<u>1,948</u>	<u>2,128</u>	<u>1,797</u>	<u>1,622</u>
	<u><u>11,037</u></u>	<u><u>11,128</u></u>	<u><u>9,569</u></u>	<u><u>14,385</u></u>

ECL on prepayments and other receivables is insignificant as they are low risk of default and no significant increase in credit risk as at 31 December 2017, 2018 and 2019 and 30 April 2020.

22. AMOUNT(S) DUE (TO)/FROM THE CONTROLLING SHAREHOLDER, DIRECTORS AND RELATED COMPANIES

The assessment of ECL is based on historical individual default experience and adjusted for forward-looking information. The amount due from the Controlling Shareholder, amounts from directors and amounts due from the related companies are not past due and, there was no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

(a) Amount due (to)/from the Controlling Shareholder

	At 31 December 2017	Maximum amount outstanding during the year	At 31 December 2018	Maximum amount outstanding during the year	At 31 December 2019	Maximum amount outstanding during the year	At 30 April 2020	Maximum amount outstanding during the period
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Controlling Shareholder	16,854	16,854	16,719	25,167	(4,263)	19,292	(1,978)	(4,156)

The amount due (to)/from the Controlling Shareholder is non-trade in nature, unsecured, non-interest bearing and repayable on demand.

During the year ended 31 December 2018, the Company declared dividend of HK\$15,000,000 (equivalent to approximately RMB13,174,000), which was settled through amount due from the Controlling Shareholder.

During the year ended 31 December 2019, the Company declared dividend of RMB19,638,000, which was settled through amount due from the Controlling Shareholder.

During the four months ended 30 April 2020, the Company declared dividend of RMB12,000,000, which was settled through amount due from a related company.

(b) Amounts due from directors

Directors' current accounts disclosed pursuant to section 383 to the Hong Kong Companies Ordinance (Cap. 622) are as follows:

	At 31 December 2017	Maximum amount outstanding during the year	At 31 December 2018	Maximum amount outstanding during the year	At 31 December 2019	Maximum amount outstanding during the year	At 30 April 2020	Maximum amount outstanding during the period
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Qiu Jianyu	130	130	—	130	—	30	30	30
Ms. Zhang Yeping	743	743	—	743	—	36	—	30
Total	873	873	—	873	—	66	30	60

The amounts due from directors are unsecured, non-interest bearing, repayable on demand and non-trade in nature. These balances have low risk of default or have not been a significant increase in credit risk since initial recognition and no impairment loss is recognised.

(c) Amounts due from related companies

The amounts due from related companies are unsecured, non-interest bearing, repayable on demand and non-trade in nature. During the year ended 31 December 2019, the Company declared dividends of approximately RMB93,881,000 which was settled through the amount due from a related company. Details of the amounts due from related companies are set out in Note 35(a).

All balances due (to)/from the Controlling Shareholder and related companies as at 30 April 2020 are expected to be fully settled before listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited.

23. BANK BALANCES AND CASH

At 31 December 2017, 2018 and 2019 and 30 April 2020, bank balances earned interest at floating rates based on daily bank deposit rates ranging from 0.3%-2.8% per annum.

Included in the bank balances and cash is the following amount denominated in a currency other than the functional currency of relevant group entities:

	At 31 December			As at 30 April 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
HK\$	155	2,957	2,652	1,210

24. TRADE AND BILLS PAYABLES

	At 31 December			As at 30 April 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	129,318	119,474	157,269	147,525
Bills payables	19,350	7,700	5,250	7,600
	148,668	127,174	162,519	155,125

The following is an aged analysis of trade and bills payables presented based on invoice date at the end of the reporting period.

	At 31 December			As at
	2017	2018	2019	30 April
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Within 30 days	78,000	79,082	114,819	116,252
31 to 60 days	20,101	25,525	28,812	21,640
61 to 90 days	24,522	7,204	11,147	2,766
91 to 180 days	24,450	9,149	6,975	13,334
181 to 365 days	1,595	6,043	719	1,103
Over 365 days	—	171	47	30
Total	148,668	127,174	162,519	155,125

The average credit period on purchases of goods is ranging from 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

25. ACCRUALS AND OTHER PAYABLES

	At 31 December			As at
	2017	2018	2019	30 April
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
Accrued salaries (<i>Note</i>)	3,563	3,735	8,498	3,177
Accrued expenses	13,608	9,175	12,207	8,082
Interest payables	154	154	132	—
Other tax payables	5,617	7,159	3,532	—
Others	2,688	1,533	1,555	1,160
	25,630	21,756	25,924	12,419

Note: Accrued salaries included emoluments payable to the directors of the Company amounting to approximately RMB91,000, RMB95,000, RMB406,000 and RMB107,000 as at 31 December 2017, 2018 and 2019 and 30 April 2020.

Included in the other payables denominated is the following amount denominated in a currency other than the functional currency of relevant group entities:

	At 31 December			As at
	2017	2018	2019	30 April
	RMB'000	RMB'000	RMB'000	2020
				RMB'000
HK\$	808	447	1,035	1,299

26. CONTRACT LIABILITIES

	At 31 December			As at 30 April 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Contract liabilities	1,959	1,840	1,533	1,693

Contract liabilities represent advances received from customers related to sales of fabric products.

Movements in the contract liabilities during the Track Record Period are as follows:

	At 31 December			As at 30 April 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of year	831	1,959	1,840	1,533
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at beginning of year	(831)	(1,959)	(1,840)	(1,533)
Increase in contract liabilities as a result of cash received, excluding amounts recognised during the year	1,959	1,840	1,533	1,693
At end of year	1,959	1,840	1,533	1,693

27. BORROWINGS

	At 31 December			As at 30 April 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings, secured	75,790	74,800	70,590	95,590

As at 31 December 2017, 2018 and 2019 and 30 April 2020, revolving term loans of approximately RMB75,790,000, RMB74,800,000, RMB70,590,000 and RMB95,590,000 respectively, carried fixed interest ranging from 6.5% to 6.8% per annum, 6.6% to 7.0% per annum, 6.0% to 6.5% per annum and 5.2% to 6.5% per annum respectively and are secured by the Group's right-of-use asset and machineries and certain assets of Dongxia.

The bank borrowings are all repayable within one year based on scheduled repayment dates set out in the loan agreements and contain no repayable on demand clause.

As at 31 December 2017, 2018 and 2019 and 30 April 2020, such loans and the related banking facilities were also guaranteed by an independent financial guarantee company and one, one, one and two independent suppliers respectively, and the following related parties:

- (i) Dongxia;
- (ii) Changzhou Wujin Dongyu Corduroy Limited* (常州武進東宇燈絨有限公司) (“Dongyu”)*;
- (iii) the Controlling Shareholder and his spouse; and
- (iv) Mr. Xue Liang, the son of the Controlling Shareholder.*

* The guarantees by Dongyu and Mr. Xue Liang were released upon the expiration of the relevant facilities during the year ended 31 December 2017 and 2018 respectively.

The charges or mortgages and guarantees from the related parties will be released upon listing.

The amounts of banking facilities and the utilisation at the end of the reporting period are set out as follows:

	At 31 December			As at 30 April 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Facility amount	<u>159,068</u>	<u>128,255</u>	<u>94,245</u>	<u>113,815</u>
Utilisation				
Secured bank borrowings	<u>75,790</u>	<u>74,800</u>	<u>70,590</u>	<u>95,590</u>

Details of pledged of assets are set out in Note 30.

28. DEFERRED TAX ASSETS (LIABILITIES)

The following is the analysis of the deferred tax assets (liabilities), for financial reporting purposes:

	At 31 December			As at 30 April 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	184	192	164	148
Deferred tax liabilities	<u>(3,941)</u>	<u>(6,079)</u>	<u>(9,333)</u>	<u>(9,683)</u>
	<u>(3,757)</u>	<u>(5,887)</u>	<u>(9,169)</u>	<u>(9,535)</u>

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the Track Record Period:

	Withholding tax on undistributed profit of a PRC subsidiary	Allowance on doubtful debts	Lease liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(Note)</i>			
At 1 January 2017	(1,848)	35	126	(1,687)
(Charge) credit to consolidated profit or loss	<u>(2,093)</u>	<u>19</u>	<u>4</u>	<u>(2,070)</u>
At 31 December 2017 and 1 January 2018	(3,941)	54	130	(3,757)
(Charge) credit to consolidated profit or loss	<u>(2,138)</u>	<u>136</u>	<u>(128)</u>	<u>(2,130)</u>
At 31 December 2018 and 1 January 2019	(6,079)	190	2	(5,887)
(Charge) credit to consolidated profit or loss	<u>(3,254)</u>	<u>(73)</u>	<u>45</u>	<u>(3,282)</u>
At 31 December 2019	(9,333)	117	47	(9,169)
(Charge) credit to consolidated profit or loss	<u>(350)</u>	<u>(15)</u>	<u>(1)</u>	<u>(366)</u>
At 30 April 2020	<u><u>(9,683)</u></u>	<u><u>102</u></u>	<u><u>46</u></u>	<u><u>(9,535)</u></u>

Note: Under the EIT Law, withholding tax of 10% is imposed on dividends declared in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. Deferred taxation has been provided in respect of the temporary differences associated with the undistributed profits earned by a PRC subsidiary, Yadong (Changzhou) at the applicable withholding tax of 10%.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries. The Group did not have unrecognised deferred income tax assets and liabilities as at 31 December 2017, 2018 and 2019 and 30 April 2020.

29. RETIREMENT BENEFITS PLAN

The Group operates a MPF Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, capped at HK\$1,500 per month, to the MPF Scheme, in which the contribution is matched by the Company's directors and employees.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute a specified percentage ranged from 1%-15% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to consolidated statements of profit or loss and other comprehensive income of approximately RMB3,434,000, RMB3,907,000, RMB5,337,000, RMB1,482,000 and RMB944,000 represents contributions payable to these schemes by the Group for the years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020 respectively.

30. PLEDGE OF ASSETS

At 31 December 2017, 2018 and 2019 and 30 April 2020, the Group had pledged the following assets to secure banking facilities granted to the Group:

	At 31 December			As at 30 April 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Right-of-use assets	6,810	6,664	6,518	6,470
Machineries	14,984	22,418	20,814	19,738
	<u>21,794</u>	<u>29,082</u>	<u>27,332</u>	<u>26,208</u>

31. SHARE CAPITAL

Share capital of the Company

	Number of share	Amount HK\$	Amount RMB'000
Authorised ordinary shares at HK\$0.01 per share:			
At 1 January 2017, 31 December 2017, 2018 and 2019 and 30 April 2020	<u>38,000,000</u>	<u>380,000</u>	<u>323</u>
Issued and fully paid ordinary shares at HK\$0.01 per share:			
At 1 January 2017, 31 December 2017, 2018 and 2019 and 30 April 2020	<u>100,001</u>	<u>1,000</u>	<u>1</u>

32. RESERVES

(a) Capital reserve

The capital reserve of the Group arose as a result of the acquisition of subsidiaries under common control and represented the difference between the consideration paid for the acquisition and the amount of share capital of Qun Bong.

(b) Statutory reserve

According to the People's Republic of China ("the PRC") Company Law, the subsidiary in the PRC is required to transfer 10% of their respective after-tax profits, calculated in accordance with the relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon

approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital. The statutory reserve is not distributable as cash dividends and must be made before distribution of dividend to equity owners.

(c) **Reserves of the Company**

	Capital reserve	(Accumulated losses)/Retained profits	Total
	RMB'000	RMB'000	RMB'000
	<i>(Note i)</i>		
At 1 January 2017	92,064	(3,945)	88,117
Loss and total comprehensive expense for the year	—	(925)	(925)
At 31 December 2017 and 1 January 2018	92,064	(4,870)	87,192
Profit and total comprehensive income for the year	—	25,189	25,189
Dividends Paid	—	(13,174)	(13,174)
At 31 December 2018 and 1 January 2019	92,064	7,143	99,207
Profit and total comprehensive income for the year	—	108,628	108,628
Dividends Paid	—	(113,519)	(113,519)
At 31 December 2019 and 1 January 2020	92,064	2,252	94,316
Profit and total comprehensive income for the period	—	5,512	5,512
Dividends Paid	(4,312)	(7,688)	(12,000)
At 30 April 2020	<u>87,752</u>	<u>76</u>	<u>87,828</u>

Note i: Capital reserve represents the difference between the nominal value of the shares issues for acquisition of its subsidiaries and the net assets value of its subsidiaries at the date of acquisition.

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remained unchanged during the Track Record Period.

The capital structure of the Group consists of net debt, which includes borrowings, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure of the Group periodically. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through new share issues as well as the raise of additional borrowings as additional capital or the redemption of existing borrowings.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	The Group				The Company			
	At 31 December			At 30 April	At 31 December			At 30 April
	2017	2018	2019	2020	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets								
Financial assets at amortised cost								
(including bank balances and cash)	<u>251,271</u>	<u>272,252</u>	<u>237,364</u>	<u>159,419</u>	<u>—</u>	<u>13,174</u>	<u>13,423</u>	<u>13,703</u>
Financial liabilities								
Financial liabilities measured at								
amortised cost	<u>244,471</u>	<u>216,571</u>	<u>259,764</u>	<u>265,112</u>	<u>5,516</u>	<u>7,032</u>	<u>13,670</u>	<u>22,390</u>

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, bank balances and cash, amount due (to)/from the Controlling Shareholder, amounts due from related companies, amounts due from directors, trade and bills payables, accruals and other payables and borrowings. The Company's major financial instruments include dividend receivable, accruals and amounts due to subsidiaries.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments included credit risk, currency risk, interest rate risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk(i) *Currency risk*

The Group's major operating subsidiary has foreign currency sales, which expose the Group to foreign currency risk.

The Group also exposes to foreign currency risk relates principally to its trade receivables, trade and bills payables, other payables and bank balances denominated in foreign currencies other than the functional currency of the relevant group entities. Foreign currencies are also used to settle expenses for overseas operations, which expose the Group to foreign currency risk.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's monetary assets and monetary liabilities that are denominated in currencies other than the functional currencies of the relevant group entities at the end of the reporting periods are as follows:

	At 31 December						At 30 April	
	2017		2018		2019		2020	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
HK\$	155	808	2,957	447	2,652	1,035	1,210	1,299

No sensitivity analysis is presented since the directors of the Company consider the exposure would be immaterial.

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed rate borrowings (Note 27).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (Note 23). It is the Group's policy to keep its borrowing at fixed rate of interests so as to minimise the cash flow interest rate risk.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

The Group's exposure to interest rate risk in relation to variable-rate bank balances is not significant due to short-term maturities. Hence, no sensitivity is presented.

Credit risk

As at 31 December 2017, 2018 and 2019 and 30 April 2020, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counter parties is arising from the carrying amount of the respective recognised financial assets as stated in the Historical Financial Information.

The credit risk of our Group mainly arises from bank balances and cash, trade and bills receivables, other receivables, amount due from the Controlling Shareholder, amounts due from directors and amounts due from related companies. The carrying amounts of these balances represent our Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

For trade and bills receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL collectively by using a provision matrix with appropriate grouping based on shared credit risk characteristics, estimated reference to historical credit loss experience, as well as the general economic conditions of the industry in which the debtors operate. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

For other non-traded related receivables, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Management considered amount due from the Controlling Shareholder, amounts due from directors and amounts due from related companies to be low credit risk and thus the impairment provision recognised during the year was limited to 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 96%, 92%, 87% and 82% of the total trade receivables respectively as at 31 December 2017, 2018 and 2019 and 30 April 2020.

The Group has concentration of credit risk as 13%, 13%, 10% and 12% of the total trade receivables was due from the Group's largest customer respectively as at 31 December 2017, 2018 and 2019 and 30 April 2020. 45%, 45%, 32% and 35% of the total trade receivables was due from the Group's five largest customers respectively as at 31 December 2017, 2018 and 2019 and 30 April 2020.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout the reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- Internal credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increase in credit risk on other financial instruments of the borrower; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group and changes in the operating results of the borrower.

In order to minimise credit risk, the Group has tasked its operation management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit management team uses publicly available financial information and the Group's own trading records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising ECL
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL — not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL — credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of the Group's financial assets, as well as the Group's maximum exposure to credit risk by credit risk rating grades.

			As at 31 December 2017			
	<i>Note</i>	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net Carrying amount
Trade and bills receivables	20	(i)	Lifetime ECLs (not credit impaired) and simplified approach	166,061	(215)	165,846
Financial assets included in prepayments and other receivables		Performing	12-month ECL	849	—	849
Amount due from the Controlling Shareholder		Performing	12-month ECL	16,854	—	16,854
Amounts due from directors		Performing	12-month ECL	873	—	873
Amounts due from related companies		Performing	12-month ECL	39,920	—	39,920
Bank balances and cash		Performing	12-month ECL	25,830	—	25,830

			As at 31 December 2018			
	<i>Note</i>	<u>Internal credit rating</u>	<u>12-month or lifetime ECL</u>	<u>Gross carrying amount</u>	<u>Loss allowance</u>	<u>Net Carrying amount</u>
Trade and bills receivables	20	(i)	Lifetime ECLs (not credit impaired) and simplified approach	163,685	(759)	162,926
Financial assets included in prepayments and other receivables		Performing	12-month ECL	1,029	—	1,029
Amount due from the Controlling Shareholder		Performing	12-month ECL	16,719	—	16,719
Amounts due from related companies		Performing	12-month ECL	40,416	—	40,416
Bank balances and cash		Performing	12-month ECL	50,063	—	50,063
			As at 31 December 2019			
	<i>Note</i>	<u>Internal credit rating</u>	<u>12-month or lifetime ECL</u>	<u>Gross carrying amount</u>	<u>Loss allowance</u>	<u>Net Carrying amount</u>
Trade and bills receivables	20	(i)	Lifetime ECLs (not credit impaired) and simplified approach	172,599	(469)	172,130
Financial assets included in prepayments and other receivables		Performing	12-month ECL	923	—	923
Amounts due from related companies		Performing	12-month ECL	1,321	—	1,321
Bank balances and cash		Performing	12-month ECL	62,124	—	62,124

				As at 30 April 2020		
	<i>Note</i>	<u>Internal credit rating</u>	<u>12-month or lifetime ECL</u>	<u>Gross carrying amount</u>	<u>Loss allowance</u>	<u>Net Carrying amount</u>
Trade and bills receivables	20	(i)	Lifetime ECLs (not credit impaired) and simplified approach	134,006	(406)	133,600
Financial assets included in prepayments and other receivables		Performing	12-month ECL	1,622	—	1,622
Amounts due from directors		Performing	12-month ECL	30	—	30
Amounts due from related companies		Performing	12-month ECL	27	—	27
Bank balances and cash		Performing	12-month ECL	24,140	—	24,140

Note (i) For trade and bills receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the invoice date aging status of the debtors collectively, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Note 20 include further details on the loss allowance for these assets respectively

The credit quality of these financial assets was considered to be “performing” as they are not past due and there was no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. In addition, the Group relies on borrowings as a significant source of liquidity. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows.

	The Group			The Company	
	Less than 1 year	1–2 years	Total undiscounted cash flows	Carrying amount	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017					
Trade and bills payables	148,668	—	148,668	148,668	—
Accruals and other payables	20,013	—	20,013	20,013	20
Borrowings	81,118	—	81,118	75,790	—
Amounts due to subsidiaries	—	—	—	—	5,496
	<u>249,799</u>	<u>—</u>	<u>249,799</u>	<u>244,471</u>	<u>5,516</u>
Lease liabilities	<u>332</u>	<u>266</u>	<u>598</u>	<u>228</u>	<u>—</u>
At 31 December 2018					
Trade and bills payables	127,174	—	127,174	127,174	—
Accruals and other payables	14,597	—	14,597	14,597	603
Borrowings	80,335	—	80,335	74,800	—
Amounts due to subsidiaries	—	—	—	—	6,429
	<u>222,106</u>	<u>—</u>	<u>222,106</u>	<u>216,571</u>	<u>7,032</u>
Lease liabilities	<u>3,847</u>	<u>3,200</u>	<u>7,047</u>	<u>6,358</u>	<u>—</u>

	The Group				The Company
	Less than 1 year	1–2 years	Total undiscounted cash flows	Carrying amount	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2019					
Trade and bills payables	162,519	—	162,519	162,519	—
Accruals and other payables	22,392	—	22,392	22,392	870
Borrowings	75,374	—	75,374	70,590	—
Amount due to the Controlling Shareholder	4,263	—	4,263	4,263	—
Amounts due to subsidiaries	—	—	—	—	12,800
	<u>264,548</u>	<u>—</u>	<u>264,548</u>	<u>259,764</u>	<u>13,670</u>
Lease liabilities	<u>3,332</u>	<u>110</u>	<u>3,442</u>	<u>3,272</u>	<u>—</u>
At 30 April 2020					
Trade and bills payables	155,125	—	155,125	155,125	—
Accruals and other payables	12,419	—	12,419	12,419	671
Borrowings	98,727	—	98,727	95,590	—
Amount due to the Controlling Shareholder	1,978	—	1,978	1,978	—
Amounts due to subsidiaries	—	—	—	—	21,719
	<u>268,249</u>	<u>—</u>	<u>268,249</u>	<u>265,112</u>	<u>22,390</u>
Lease liabilities	<u>4,368</u>	<u>1,747</u>	<u>6,115</u>	<u>5,537</u>	<u>—</u>

The above financial liabilities of the Group and the Company are all repayable less than one year, except for the lease liabilities.

(c) Fair values of financial instruments

The directors of the Company consider that the carrying amounts of current financial assets and current financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values due to their short-term maturities.

35. RELATED PARTY TRANSACTIONS

- (a) Save as disclosed elsewhere in the Historical Financial Information, the Group had the following balances with related parties during the Track Record Period:

	<i>Notes</i>	At 31 December			As at 30 April
		2017	2018	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties					
Dongxia	(i), (ii)	15,000	40,416	1,321	27
Dongyu	(i), (ii)	24,920	—	—	—
		<u>39,920</u>	<u>40,416</u>	<u>1,321</u>	<u>27</u>
Maximum amount outstanding during the year					
Dongxia		27,741	59,949	102,705	15,136
Dongyu		<u>24,920</u>	<u>50,000</u>	<u>—</u>	<u>—</u>

Notes:

- (i) The balances are unsecured, interest free, repayable on demand and non-trade in nature.
- (ii) Dongxia is a related company incorporated in the PRC and is beneficially owned by Mr. Xue Shidong, the Controlling Shareholder of the Company.
- Dongyu is a related company incorporated in the PRC and is beneficially owned by Mr. Xue Shiguo, the brother of Controlling Shareholder.
- (iii) During the year ended 31 December 2019, amount due from Dongxia of appropriately RMB93,881,000 was settled with the dividend declared by the Company under the instruction of the Controlling Shareholder.

(b) Compensation of key management personnel

The remuneration of the directors of the Company and other members of key management during the Track Report Period were as follows:

	Year ended 31 December			As at 30 April	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Short-term benefits	1,596	1,579	1,900	542	499
Post-employment benefits	<u>223</u>	<u>231</u>	<u>271</u>	<u>78</u>	<u>35</u>
	<u>1,819</u>	<u>1,810</u>	<u>2,171</u>	<u>620</u>	<u>534</u>

The remuneration of key management personnel is determined by the remuneration committee having regard to the performance of the individuals and market trends.

(c) Right-of-use assets

Certain right-of-use assets are leased from a related company. Details of right-of-use assets during the Track Record Period are set out in Note 18.

During the years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2020, the Group had leased certain properties from a related party of the Group. As at 31 December 2017, 2018 and 2019 and 30 April 2020, the carrying amount of the related lease liabilities was RMB228,000, RMB6,358,000, RMB3,272,000 and RMB3,292,000 respectively. During the year ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020, the Group has made lease payments of RMB3,630,000, RMB4,000,000, RMB3,600,000, RMB Nil and RMB Nil to the related party respectively.

(d) Guarantee

Certain of the Group's banking facilities were granted from pledged assets or guarantees given by the related parties. The directors of the Company confirmed that the charges or mortgages and guarantees from related parties will be released upon listing. Details of the banking facilities and bank borrowings granted under such facilities are set out in Note 27.

36. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for what cash flow were, or future cash flow will be, classified in the consolidated statement of cash flow as cash flow from financing activities.

	Dividend payable	Lease liabilities	Borrowings	Interest payable	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(Note 14)</i>	<i>(Note 18)</i>			
As 1 January 2017	—	3,531	76,390	154	80,075
Cash flows in	—	—	253,300	—	253,300
Cash flows out	—	(3,570)	(253,900)	(5,916)	(263,386)
Finance costs incurred <i>(Note 9)</i>	—	—	—	5,916	5,916
Non-cash movement	—	267	—	—	267
As at 31 December 2017	<u>—</u>	<u>228</u>	<u>75,790</u>	<u>154</u>	<u>76,172</u>
As at 1 January 2018	—	228	75,790	154	76,172
Cash flows in	—	—	97,600	—	97,600
Cash flows out	—	(4,114)	(98,590)	(5,767)	(108,471)
Finance costs incurred <i>(Note 9)</i>	—	—	—	5,767	5,767
Dividend declared <i>(Note 14)</i>	13,174	—	—	—	13,174
Non-cash movement	(13,174)	10,244	—	—	(2,930)
As at 31 December 2018	<u>—</u>	<u>6,358</u>	<u>74,800</u>	<u>154</u>	<u>81,312</u>

	Dividend payable	Amount due to Controlling Shareholder	Lease liabilities	Borrowings	Interest payable	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(Note 14)</i>		<i>(Note 18)</i>			
As at 1 January 2019	—	—	6,358	74,800	154	81,312
Cash flows in	—	—	—	70,590	—	70,590
Cash flows out	—	—	(3,225)	(74,800)	(5,427)	(83,452)
Finance costs incurred						
<i>(Note 9)</i>	—	—	—	—	5,405	5,405
Dividend declared <i>(Note 14)</i>	113,519	—	—	—	—	113,519
Non-cash movement	(113,519)	*4,263	139	—	—	(109,117)
As at 31 December 2019	<u>—</u>	<u>4,263</u>	<u>3,272</u>	<u>70,590</u>	<u>132</u>	<u>78,257</u>

* Represents the remaining balance of dividend payable of approximately RMB19,638,000 after the settlement of the amount due from Controlling Shareholder of approximately RMB15,375,000 during the year ended 31 December 2019. Details of the dividend are set out in Note 14.

As at 1 January 2020	—	4,263	3,272	70,590	132	78,257
Cash flows in	—	300	—	85,590	—	85,890
Cash flows out	—	(2,585)	(50)	(60,590)	(1,553)	(64,778)
Finance costs incurred						
<i>(Note 9)</i>	—	—	—	—	1,421	1,421
Dividend declared <i>(Note 14)</i>	12,000	—	—	—	—	12,000
Non-cash movement	(12,000)	—	2,315	—	—	(9,685)
As at 30 April 2020	<u>—</u>	<u>1,978</u>	<u>5,537</u>	<u>95,590</u>	<u>—</u>	<u>103,105</u>

37. PARTICULARS OF SUBSIDIARIES

As at 31 December 2017, 2018 and 2019 and 30 April 2020 and up to the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Name of subsidiary	Date of incorporation/ establishment	Place of operation and establishment	Issued and fully paid share capital/registered capital	Percentage of equity interest and voting power attributable to the Company					Principal activity	
				31 December			30 April	At the date		
								of this		
				2017	2018	2019	2020	report		
Directly held										
Qun Bong Global Limited ("Qun Bong")	11 November 2013	BVI	US\$1	100%	100%	100%	100%	100%	Investment holding	
Indirectly held										
YaDong (Hong Kong) International Trading Company Limited ("Yadong (Hong Kong)")	27 June 2011	Hong Kong	HK\$20,000,000	100%	100%	100%	100%	100%	Investment holdings and trading of corduroy fabrics and plain weave fabrics	
Yadong (Changzhou)*	27 March 2014	The PRC	US\$10,000,000	100%	100%	100%	100%	100%	Dyeing, processing and trading of corduroy fabrics and plain weave fabrics	

* The English name is for identification only

All subsidiaries now comprising the Group are limited liability companies and have adopted 31 December as their financial year end date.

No statutory audited financial statements have been prepared for Qun Bong and Yadong (Changzhou) since their date of incorporation. There are no statutory audit requirements under the relevant rule and regulation in its jurisdiction of incorporation for Qun Bong and Yadong (Changzhou).

The statutory financial statements of Yadong (Hong Kong) for the three years ended 31 December 2017, 2018 and 2019 were prepared in accordance with HKFRSs issued by the HKICPA and they were audited by Fuson CPA Limited, a Certified Public Accountant registered in Hong Kong, for the years ended 31 December 2017, 2018 and 2019. No statutory audited financial statements of Yadong (Hong Kong) have been prepared for the period ended 30 April 2019 and 2020 as the financial statements have not yet been due to issue.

38. INVESTMENT IN A SUBSIDIARY

At 31 December 2017, 2018 and 2019 and 30 April 2020, the Company's investment cost in Qun Bong amounted to approximately HK\$102,311,000 (equivalent to approximately RMB92,064,000).

39. DIVIDEND RECEIVABLE

As at 31 December 2018 and 2019 and 30 April 2020, dividend receivable was from Qun Bong.

40. AMOUNTS DUE TO SUBSIDIARIES

Amounts due to subsidiaries are unsecured, interest-free, repayable on demand and non-trade in nature.

41. CAPITAL COMMITMENTS

	At 31 December			As at 30 April 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment and construction in progress contracted for but not provided in the Historical Financial Information	2,540	41,178	26,371	22,548

42. TRANSFER OF FINANCIAL ASSETS**Transferred financial assets that are derecognised in their entirety**

As at 31 December 2017, 2018 and 2019 and 30 April 2020, the Group endorsed certain notes receivable from customers accepted by banks in the PRC (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payable due to such suppliers with a carrying amount in aggregate of approximately RMB51,018,000, RMB30,240,000, RMB29,199,000 and RMB9,329,000. The Derecognised Bills had a maturity of one to seven months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors of the Company, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors of the Company, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

43. MAJOR NON-CASH TRANSACTIONS

Save as disclosed in notes 14, 18, 35 and 36, the Group had no other non-cash transactions incurred during the year ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2019 and 2020.

44. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 30 April 2020.

45. EVENTS AFTER THE REPORTING PERIOD**(i) Capitalisation Issue**

Pursuant to shareholders' written resolution passed on 21 October 2020, the authorised share capital of the Company increased upon capitalisation of certain sums standing to the credit of the share premium account of the Company (the "Capitalisation Issue"). Details of the Capitalisation Issue are set out in the section headed "Statutory and general information" in the Prospectus.

(ii) Share option scheme

Pursuant to shareholders' written resolution passed on 21 October 2020, a share option scheme has been conditionally adopted by the Company (the "Share Option Scheme"). The principal terms of the Share Option Scheme are summarized in "D. Share Option Scheme" in Appendix V to the Prospectus. No share option has been granted under the Share Option Scheme up to the date of this report.

(iii) Impact of Coronavirus

An outbreak of respiratory illness caused by Coronavirus Disease (the "**COVID-19**") first emerged in January 2020 and continues to expand globally. Details of the Company's evaluation on the COVID-19 outbreak are disclosed in "Business — Effect of the COVID-19 Outbreak" in the Prospectus.

The information set out in this appendix does not form part of the Accountants' Report prepared by the reporting accountants of our Company, SHINEWING (HK) CPA Limited, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with "Financial information" in this prospectus and the Accountants' Report as set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and on the basis set out below is for illustrative purposes only, and is set out below to illustrate the effect of the Share Offer on the consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 April 2020, as if the Share Offer had taken place on 30 April 2020.

As it is prepared for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2020 or at any future dates following the completion of the Share Offer. It is prepared based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 April 2020 derived from the Accountants' Report of the Group, the text of which is set out in Appendix I to this prospectus, after incorporating the unaudited pro forma adjustments as described in the accompanying notes below.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 April 2020	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 April 2020	Unaudited pro forma adjusted consolidated net tangible assets per share as at 30 April 2020	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>	<i>(Note 4)</i>
Based on the Offer Price of HK\$0.84 per share	84,296	84,600	168,896	0.28	0.31
Based on the Offer Price of HK\$1.08 per share	84,296	115,067	199,363	0.33	0.36

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 April 2020 is based on net assets attributable to owners of the company of RMB84,700,000 after adjusting for the intangible assets of RMB404,000 as extracted from the Accountants' Report set out in Appendix I to this prospectus.

- (2) The estimated net proceeds from the Share Offer are based on 150,000,000 Offer Shares at the indicative Offer price of HK\$0.84 per Share (being the low-end of the indicative Offer Price range) or HK\$1.08 per Share (being the high-end of the indicative Offer Price range) after deduction of the underwriting commission and other related expenses payable by the Company in relation to the Share Offer. The estimated net proceeds do not take into account any shares which may be allotted and issued upon the exercise of over-allotment Option and any options granted under the Share Option Scheme as described, respectively, in the sub-sections headed “Structure and Conditions of the Share Offer — Over-Allotment Option and Stock Borrowing Agreement” and “Appendix V — D. Share Option Scheme” of this prospectus.

The estimated net proceeds from the Share Offer is converted from Hong Kong dollars (“HK\$”) into Renminbi (“RMB”) at the rate of HK\$1.00 to RMB0.91. No representation is made that HK dollars amount have been, could have been or may have converted to RMB, or vice versa at that rate.

- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per share is calculated based on 600,000,000 shares in issue (including shares in issue as at the date of this prospectus and those shares expected to be issued pursuant to the Share Offer and the Capitalisation Issue but not taking into account any shares which may be issued upon the exercise of the Over-allotment Option or any options granted under the Share Option Scheme).
- (4) The unaudited pro forma adjusted consolidated net tangible assets per share is translated to Hong Kong dollars at an exchange rate of HK\$1.00 to RMB0.91. No representation is made that the Renminbi amounts have been, could have been or may have converted to Hong Kong dollars, or vice versa, at that rate.
- (5) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to 30 April 2020.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share for the year ending 31 December 2020 prepared in accordance with Rule 4.29 of the Listing Rules is set out below for the purpose of illustrating the effect of the Share Offer as if it had taken place on 1 January 2020. The unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial results of our Group following the Share Offer.

For the year ending 31 December 2020

Forecast consolidated profit attributable to owners of our Company for the year ⁽¹⁾	not less than RMB32 million (approximately HK\$35 million) ⁽³⁾
Unaudited pro forma forecast earnings per Share ⁽²⁾	not less than RMB5.33 cents (approximately HK5.86 cents) ⁽³⁾

Notes:

1. The forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020 is extracted from “Financial information — Profit forecast for the year ending 31 December 2020” in this prospectus. The bases and assumptions on which the above profit forecast for the year ending 31 December 2020 has been prepared are summarised in part A of Appendix III to this prospectus. Our Directors have prepared the forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020 based on the audited consolidated results of our Group for the four months ended 30 April 2020, the unaudited consolidated results of our Group for the four months ended 31 August 2020 and a forecast of the consolidated results of our Group for the remaining four months ending 31 December 2020. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in note 4 of the Accountants’ Report, the text of which is set out in Appendix I to this prospectus.
2. The calculation of the unaudited pro forma forecast earnings per Share for the year ending 31 December 2020 is based on the forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020, assuming 600,000,000 shares are in issue throughout the year ending 31 December 2020 (including shares in issue as at the date of this prospectus and those shares expected to be issued pursuant to the Share Offer and the Capitalisation Issue but not taking into account any shares which may be issued upon the exercise of the Over-allotment Option or any options granted under the Share Option Scheme).
3. The forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020 and unaudited pro forma forecast earnings per Share in RMB are converted to HK\$ at an exchange rate of HK\$1.00 to RMB0.91. No representation is made that the RMB amounts have been, could have been or may be converted to HK\$ at that rate or at any other rate.

**C. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report, prepared for the purpose of inclusion in this prospectus received from the reporting accountants of our Company, SHINEWING (HK) CPA Limited, in respect of unaudited pro forma financial information.



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The Board of Directors
Yadong Group Holdings Limited,
Unit B, 11/F, Eton Building,
288 Des Voeux Road Central,
Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Yadong Group Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attribution to the owner of the Company as at 30 April 2020 and the unaudited pro forma forecast earnings per share for the year ending 31 December 2020 and related notes as set out in Part A and Part B of Appendix II of the prospectus (the “Prospectus”) dated 30 October 2020 in connection with the proposed share offer (the “Share Offer”) of the shares of the Company on Main Board of The Stock Exchange of Hong Kong Limited. The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described in Part A and Part B of the unaudited pro forma financial information in the Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Share Offer on the Group’s net tangible assets as of 30 April 2020 as if the Share Offer had taken place at 30 April 2020 and the forecast earnings per share of the Company for the year ending 31 December 2020 as if the Share Offer had taken place at 1 January 2020. As part of this process, information about the Group’s financial position has been extracted by the directors of the Company from the Group’s financial information for the three years ended 31 December 2019 and four months ended 30 April 2020, on which an accountants’ report has been included in the Appendix I to the Prospectus. Information about the Group’s forecast of the consolidated profit attributable to the owners of the Company for the year ending 31 December 2020 (the “Profit Forecast”) has been extracted by the directors of the Company from the section headed “Financial information” in the Prospectus on which a letter from us has been published as set out in Appendix III to the Prospectus.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 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" ("AG7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG7 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 the Prospectus is solely to illustrate the impact of the Share Offer on unadjusted financial information of the Group as if the Share Offer 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 Share Offer at 30 April 2020 or 1 January 2020 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 of the Company 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 unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

SHINEWING (HK) CPA Limited

Certified Public Accountants

Kwan Chi Fung

Practising Certificate Number: P06614

Hong Kong

30 October 2020

The forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020 is set out in “Financial information — Profit forecast for the year ending 31 December 2020” in this prospectus.

A. BASES AND ASSUMPTIONS

Our Directors have prepared the forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020 based on our audited consolidated results for the four months ended 30 April 2020, our unaudited consolidated results for the four months ended 31 August 2020 and a forecast of our consolidated results for the remaining four months ending 31 December 2020. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Group as summarised in the Accountants’ Report as set out in Appendix I to this prospectus.

Our Directors have adopted the following principal assumptions in the preparation of the profit forecast:

- there will be no material changes in the existing government policies, legislation, rules or regulations, basis or rates of taxation, interest rates, exchange rates, inflation rates, or other fiscal, market or economic conditions in the markets our Group operates or otherwise related to our Group’s business;
- our Group will not be materially or adversely affected by any of the risk factors set out in “Risk factors” in this prospectus;
- there will be no changes in the existing accounting policies, critical accounting estimates and judgment from those adopted in the preparation of our Group’s results for each of the three years ended 31 December 2019 and the four months ended 30 April 2020 which are included in this prospectus;
- our Group’s operations and business will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of our Directors, including but not limited to the occurrence of natural disasters, supply failure, labour dispute, significant lawsuit and arbitration;
- there will be no material changes in our Group’s mode of business dealings with our customers and suppliers, in the credit policies offered to our customers and granted by our suppliers, and our Group will be able to secure new sales contracts/arrangements with our major customers under normal business criteria;
- our Directors and key senior management personnel continue to be involved in the operations of our Group; and
- total listing expenses of approximately RMB21.0 million are estimated to be incurred during the year ending 31 December 2020.

B. LETTER FROM OUR REPORTING ACCOUNTANTS ON PROFIT FORECAST

The following is the text of a letter received by our Directors from the reporting accountants of our Company, SHINEWING (HK) CPA Limited, in connection with the profit forecast, for the purpose of incorporation in this prospectus.



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

The Board of Directors
Yadong Group Holdings Limited,
Unit B, 11/F, Eton Building,
288 Des Voeux Road Central,
Hong Kong

Dear Sirs,

Yadong Group Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”)

PROFIT FORECAST FOR YEAR ENDING 31 DECEMBER 2020

We refer to the forecast of the consolidated profit of the Group attributable to the owners of the Company for the year ending 31 December 2020 (the “Profit Forecast”) set forth in the section headed “Financial information” in the prospectus of the Company dated 30 October 2020 (the “Prospectus”).

DIRECTORS’ RESPONSIBILITIES

The Profit Forecast has been prepared by the directors of the Company based on the audited consolidated results of the Group for the four months ended 30 April 2020, the unaudited consolidated results based on the management accounts of the Group for the four months ended 31 August 2020 and a forecast of the consolidated results of the Group for the remaining four months ending 31 December 2020.

The Company’s directors are solely responsible for the Profit Forecast.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANTS’ RESPONSIBILITIES

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Forecast based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 “Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness” and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the directors of the Company have properly compiled the Profit Forecast in accordance with the bases and assumptions adopted by the directors of the Company and as to whether the Profit Forecast is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

OPINION

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the bases and assumptions adopted by the directors of the Company as set out in Appendix III of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our Accountants’ Report dated 30 October 2020, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully,

SHINEWING (HK) CPA Limited

Certified Public Accountants

Kwan Chi Fung

Practising Certificate Number: P06614

Hong Kong

30 October 2020

C. LETTER FROM THE SOLE SPONSOR ON PROFIT FORECAST

The following is the text of a letter, prepared for inclusion in this prospectus, received by our Directors from the Sole Sponsor, in connection with the forecast consolidated profit attributable to owners of our Company for the year ending 31 December 2020.



Fortune Financial Capital Limited
43/F, Cosco Tower
183 Queen's Road Central
Central
Hong Kong

30 October 2020

The Board of Directors
Yadong Group Holdings Limited

Dear Sirs,

We refer to the forecast of the consolidated profit of Yadong Group Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") attributable to owners of the Company for the year ending 31 December 2020 (the "Profit Forecast"), as set out in the section headed "Financial information" of the prospectus issued by the Company dated 30 October 2020.

The Profit Forecast, for which you, as the directors of the Company are solely responsible, has been prepared by you based on the audited consolidated results of the Group for the four months ended 30 April 2020, the unaudited consolidated results of the Group for the four months ended 31 August 2020 and a forecast of the consolidated results of the Group for the remaining four months ending 31 December 2020.

We have discussed with you the bases and assumptions upon which the Profit Forecast has been made, we have also considered the letter dated 30 October 2020 addressed to you and us from SHINEWING (HK) CPA Limited regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by SHINEWING (HK) CPA Limited, we are of the opinion that the Profit Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully
For and on behalf of
Fortune Financial Capital Limited
Jiang Jun
Chief Executive Officer

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman Companies Law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 September 2016 under the Cayman Companies Law. Our Company's constitutional documents consist of its Amended and Restated Memorandum of Association and its Articles of Association (the "**Articles**").

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 21 October 2020 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply,

but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) *Alteration of capital*

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) *Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Cayman Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) *Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company)

and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) *Power to allot and issue shares and warrants*

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Cayman Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) *Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting.

(iv) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) *Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending

any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons

that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) *Loans and provision of security for loans to Directors*

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such

Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/ are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) *Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) *Annual general meetings and extraordinary general meetings*

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may

do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) *Notices of meetings and business to be conducted*

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) *Accounts and audit*

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Cayman Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Cayman Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during

any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Cayman Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Cayman Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members

or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Cayman Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law);

(d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Cayman Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Cayman Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Cayman Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 8 November 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Cayman Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) are made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Cayman Companies Law. A branch register must be kept in the same manner in which a principal register is by the Cayman Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of

the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation

thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands.

Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in "Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation**

- (a) Our Company was incorporated in the Cayman Islands as an exempted limited liability company under the Cayman Companies Law on 22 September 2016. Our Company has established its principal place of business in Hong Kong at Unit B, 11/F, Eton Building, 288 Des Voeux Road Central, Hong Kong and has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance. Ms. Chou Kwai Wah has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.
- (b) As our Company was incorporated in the Cayman Islands, our corporate structure and our Memorandum of Association and Articles of Association are subject to the relevant laws of the Cayman Islands. A summary of the relevant provisions of our Memorandum of Association and Articles of Association and certain relevant aspects of the Cayman Islands company law is set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company

The authorised share capital of our Company as at the date of its incorporation was HK\$380,000 divided into 38,000,000 Shares of par value of HK\$0.01 each. The following sets out the changes in our share capital since the date of our incorporation:

- (a) On 22 September 2016, one Share was allotted and issued fully paid to the initial subscriber, an Independent Third Party, which was transferred to Oriental Ever Holdings for HK\$0.01 on the same date.
- (b) On 26 October 2016, in consideration of the transfer of all the issued share capital of Qun Bong (our wholly-owned subsidiary) by Mr. Xue 100,000 Shares were allotted and issued to Oriental Ever Holdings, credited as fully paid, at the direction of Mr. Xue.
- (c) On 21 October 2020, the authorised share capital of our Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of an additional 9,962,000,000 new Shares under a resolution in writing passed by the sole Shareholder referred to in “A. Further information about our Group — 4. Written resolutions of our sole Shareholder” in this appendix below.
- (d) Immediately upon completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme), the authorised share capital of our

Company will be HK\$100,000,000 divided into 10,000,000,000 Shares and the issued share capital of our Company will be HK\$6,000,000 divided into 600,000,000 Shares, fully paid or credited as fully paid, and 9,400,000,000 Shares will remain unissued.

Other than any options which may be granted under the Share Option Scheme, our Company does not have any present intention to issue any Shares out of the authorised but unissued share capital of our Company.

3. Changes in share capital of our subsidiaries

Our subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the Accountants' Report, we do not have any other subsidiaries.

Save as disclosed in this prospectus, there has been no change to the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. Written resolutions of our sole Shareholder

Under the written resolutions of our sole Shareholder passed on 21 October 2020, the authorised share capital of our Company was increased from HK\$380,000 to HK\$100,000,000 by the creation of 9,962,000,000 new Shares which shall, when issued and paid, rank *pari passu* in all respects with the existing issued Shares (other than the participation in the Capitalisation Issue).

Under the written resolutions of our sole Shareholder passed on 21 October 2020:

- (a) conditional upon the conditions stated in “Structure and conditions of the Share Offer — Conditions of the Share Offer” in this prospectus being fulfilled or waived:
 - (i) the Share Offer was approved and our Directors were authorised to allot and issue, and to approve the transfer of, such number of Offer Shares in connection with the Share Offer as they think fit, on the terms and subject to the conditions stated in this prospectus and the Application Forms;
 - (ii) conditional further on the Listing Committee of the Stock Exchange granting approval of the Share Option Scheme, the rules of the Share Option Scheme were approved and adopted, and our Directors or any committee established by our Board were authorised, at their sole discretion, to make such further changes to the Share Option Scheme as requested by the Stock Exchange and which they deem necessary and/or desirable and at their absolute discretion to grant options to subscribe for Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme and to allot, issue and deal with Shares under the exercise of any options which may be granted under the

Share Option Scheme and to take all such action as they consider necessary, desirable and/or expedient to implement or give effect to the Share Option Scheme;

- (b) subject to the share premium account of our Company being credited as a result of the issue of Offer Shares under the Share Offer, our Directors are authorised to allot and issue a total of 449,899,999 Shares credited as fully paid at par to Oriental Ever Holdings (the holder of Shares whose name appears on the register of members of our Company at the close of business on 21 October 2020 (or as it may direct) by way of capitalisation of the sum of HK\$4,498,999.99 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued under this resolution shall rank *pari passu* in all respects with the existing issued Shares (the “**Capitalisation Issue**”);
- (c) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with Shares and to make or grant offers, agreements or options (including any warrants, bonds, notes and debentures conferring any rights to subscribe for or otherwise receive Shares) which might require Shares to be allotted and issued or dealt with subject to the requirement that the total number of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, other than under (i) a Rights Issue (as defined below); (ii) any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association; (iii) any specific authority granted by our Shareholders in general meeting; or (iv) the exercise of any options which may be granted under the Share Option Scheme, shall not exceed 20% of the number of issued Shares immediately following completion of the Capitalisation Issue and the Share Offer;
- (d) a general unconditional mandate was given to our Directors to exercise all powers of our Company to purchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the number of issued Shares immediately following completion of the Capitalisation Issue and the Share Offer, excluding Shares which may be issued under the exercise of any options which may be granted under the Share Option Scheme;
- (e) the general unconditional mandate as mentioned in paragraph (c) above was extended by the addition to the aggregate number of issued Shares which may be allotted and issued or agreed to be allotted and issued by our Directors under such general mandate of an amount representing the aggregate number of issued Shares purchased by our Company under the mandate to repurchase Shares referred to in paragraph (d) above;

- (f) our Company adopted the Memorandum of Association with immediate effect; and
- (g) our Company conditionally adopted the Articles of Association which shall become effective upon the Listing Date.

For the purposes of paragraph (c) above, “**Rights Issue**” means an offer of Shares or issue of options, warrants or other securities giving the right to subscribe for Shares open for a period fixed by our Directors to holders of Shares whose names appear on the register of members of our Company (and, where appropriate, to holders of other securities of our Company entitled to the offer) on a fixed record date in proportion to their then holdings of such Shares (or, where appropriate, such other securities) (subject in all cases to such exclusions or other arrangements as our Directors may deem necessary or expedient (but in compliance with the relevant provisions of the Listing Rules) in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to our Company).

Each of the general mandates referred to in paragraphs (c) and (d) above will remain in effect until the earliest of (1) the conclusion of the next annual general meeting of our Company; (2) the expiration of the period within which the next annual general meeting of our Company is required to be held by any applicable law or the Articles of Association; and (3) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

For the general mandates referred to in paragraphs (c) to (e) above, if our Company conducts a share consolidation or subdivision after the above general mandates have been approved, the maximum number of Shares that may be issued or repurchased (as the case may be) under the relevant general mandate as a percentage of the total number of issued Shares at the date immediately before and after such consolidation or subdivision shall be the same.

5. Corporate reorganisation

Our Company underwent the Reorganisation in preparation for the Listing. Further details are set out in “History, Reorganisation and Group structure — Group structure and Reorganisation” in this prospectus.

6. Repurchase of our own securities

This section includes 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 an ordinary resolution passed by our Shareholders in a general meeting.

(b) *Shareholders' approval*

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of our Shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

On 21 October 2020, our Directors were granted a general unconditional mandate to repurchase up to 10% of the number of issued Shares immediately following the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme) on the Stock Exchange or on any other stock exchange on which our 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 next annual Shareholders' general meeting, (ii) the date by which our next Shareholders' general meeting is required by applicable laws and our Articles of Association to be held, or (iii) such mandate being revoked or varied by ordinary resolutions of our Shareholders in a general meeting (the "**Relevant Period**").

(c) *Source of funds*

Our repurchase of the Shares listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with our Memorandum of Association and Articles of Association and the applicable laws of the Cayman Islands. We 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, we may make repurchases out of our profits, out of sums standing to the credit of our share premium account, out of the proceeds of a fresh issue of Shares for the purpose of the repurchase or, if authorised by our Articles of Association and subject to the Cayman Companies Law, out of capital. Any amount of premium payable on the purchase over the par value of our Shares to be repurchased must be out of any of the profits of our Company, or out of sums standing to the credit of our Company's share premium account or, if authorised by our Articles of Association and subject to the Cayman Companies Law, out of capital.

(d) *Reasons for repurchases*

Our Directors believe that it is in our and our Shareholders' best interests 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 per Share and/or earnings per Share and will only be made where our Directors believe that the repurchases will benefit us and our Shareholders.

(e) *Funding of repurchases*

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with our Memorandum of Association, Articles of Association, the Listing Rules, the Cayman Companies Law and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Company as disclosed in this prospectus and taking into account the current working capital position of our Company, our Directors believe that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(f) *Share capital*

The exercise in full of the current Repurchase Mandate, on the basis of 600,000,000 Shares in issue immediately after the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme), could accordingly result in up to 60,000,000 Shares being repurchased by us during the Relevant Period.

(g) *General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules) currently intends to sell any of our Shares to us.

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, our Memorandum of Association and Articles of Association, the Cayman Companies Law and any other applicable laws of the Cayman Islands.

If, as a result of any repurchase of our Shares, a Shareholder's proportionate interest in our voting rights is increased, the increase will be treated as an acquisition for the purpose of the Codes on Takeovers and Mergers and Share Buy-backs (the "**Takeovers Code**"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

No core connected person (as defined in the Listing Rules) of our Company has notified us that he or it has a present intention to sell his or its Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this prospectus that are or may be material:

- (a) the Deed of Indemnity;
- (b) the Deed of Non-competition; and
- (c) the Public Offer Underwriting Agreement.

2. Intellectual property rights

(a) Trademarks

As at the Latest Practicable Date, our Group had registered the following trademarks:

Trademark	Place of registration	Registration number	Class(es)	Date of registration	Expiry date	Registered owner
	Hong Kong	303434490	23, 24, 40 and 42	8 June 2015	7 June 2025	Yadong (HK)
						
	PRC	17375175	42	14 August 2016	13 August 2026	Yadong (Changzhou)

<u>Trademark</u>	<u>Place of registration</u>	<u>Registration number</u>	<u>Class(es)</u>	<u>Date of registration</u>	<u>Expiry date</u>	<u>Registered owner</u>
	PRC	17375828	38	14 August 2016	13 August 2026	Yadong (Changzhou)
	PRC	17376321	37	14 August 2016	13 August 2026	Yadong (Changzhou)
	PRC	17375237	25	14 August 2016	13 August 2026	Yadong (Changzhou)
	PRC	17375177	7	14 August 2016	13 August 2026	Yadong (Changzhou)
	PRC	17375275	9	7 September 2016	6 September 2026	Yadong (Changzhou)
	PRC	17375032	40	7 September 2016	6 September 2026	Yadong (Changzhou)
	PRC	17375161A	24	28 September 2016	27 September 2026	Yadong (Changzhou)
	PRC	17375161	24	28 September 2016	27 September 2026	Yadong (Changzhou)
	PRC	17375418A	35	21 October 2016	20 October 2026	Yadong (Changzhou)
	PRC	17375595	23	21 April 2017	20 April 2027	Yadong (Changzhou)

(b) Copyright

As at the Latest Practicable Date, our Group was the registered proprietor of the following copyright:

<u>Copyright</u>	<u>Place of registration</u>	<u>Registrant</u>	<u>Registration number</u>	<u>Completion date of creation</u>
	PRC	Yadong (Changzhou)	2015-F-00234455	29 March 2014

(c) Domain name

As at the Latest Practicable Date, our Group had registered the following domain names:

<u>Domain name</u>	<u>Name of registered proprietor</u>	<u>Expiry date</u>
yadongtextile.com	Yadong (Changzhou)	21 August 2023
yadong.com.hk	Yadong (Hong Kong)	2 December 2020

(d) Patents

As at the Latest Practicable Date, our Group was the registered proprietor of the following patents in the PRC which, in the opinion of our Directors, are material to our business:

<u>No.</u>	<u>Patent name</u>	<u>Patent holder</u>	<u>Class of patents</u>	<u>Patent number</u>	<u>Application date</u>	<u>Expiry date</u>
1.	Air thermal energy recovery system (一種空氣熱能回收系統)	Yadong (Changzhou)	Utility model	2010206229492	24 November 2010	23 November 2020
2.	Air thermal energy recovery and constant-temperature hot water supply system (一種空氣熱能回收及恒溫熱水供應系統)	Yadong (Changzhou)	Utility model	2010206229596	24 November 2010	23 November 2020
3.	Air thermal energy utilisation system applied for generating hot water, cool air and dehumidification (一種適於生成熱水、冷氣並除濕的空氣熱能利用系統)	Yadong (Changzhou)	Utility model	201020622969X	24 November 2010	23 November 2020

No.	Patent name	Patent holder	Class of patents	Patent number	Application date	Expiry date
4.	Control device for air thermal energy recovery system (一種空氣熱能回收系統的控制裝置)	Yadong (Changzhou)	Utility model	2010206229825	24 November 2010	23 November 2020
5.	Air thermal energy recovery system applied for cooling station in workshop (一種適於給車間的工位降溫的空氣熱能回收系統)	Yadong (Changzhou)	Utility model	2010206229952	24 November 2010	23 November 2020
6.	Tandem air thermal energy recovery system (一種串聯式空氣熱能回收系統)	Yadong (Changzhou)	Utility model	2010206230466	24 November 2010	23 November 2020
7.	Fabric (Kaleidoscope) (布(萬花筒))	Yadong (Changzhou)	Design	2015303341126	1 September 2015	31 August 2025
8.	Fabric (Guide) (布(導向標))	Yadong (Changzhou)	Design	2015303341130	1 September 2015	31 August 2025
9.	Fabric (Cherry) (布(櫻桃))	Yadong (Changzhou)	Design	2015303341145	1 September 2015	31 August 2025
10.	Fabric (Paisley) (布(腰果花))	Yadong (Changzhou)	Design	201530334115X	1 September 2015	31 August 2025
11.	Fabric (Bee grid) (布(蜂網格))	Yadong (Changzhou)	Design	2015303341164	1 September 2015	31 August 2025
12.	Fabric (Fishhook) (布(魚鉤))	Yadong (Changzhou)	Design	2015303341179	1 September 2015	31 August 2025
13.	Hot water recovery constant pressure water supply system (一種熱水回收恒壓供水系統)	Yadong (Changzhou)	Utility model	2018205001964	10 April 2018	9 April 2028
14.	Steam automatic water discharging device (一種蒸汽自動排水裝置)	Yadong (Changzhou)	Utility model	2018205001644	10 April 2018	9 April 2028
15.	Purify pneumatics gas and automatic water discharging device (一種淨化空壓氣及自動排水裝置)	Yadong (Changzhou)	Utility model	2018205002223	10 April 2018	9 April 2028
16.	Compound surface fabric of environment-friendly (一種環保型複合面料)	Yadong (Changzhou)	Utility model	2018205002219	10 April 2018	9 April 2028
17.	Middle edge difference repairing device (一種中邊差修補裝置)	Yadong (Changzhou)	Utility model	2018214304237	3 September 2018	2 September 2028
18.	Automatic auxiliary recovery device (一種助劑的自動回收裝置)	Yadong (Changzhou)	Utility model	2018214303802	3 September 2018	2 September 2028
19.	Wastewater neutralising device (一種廢水中和裝置)	Yadong (Changzhou)	Utility model	2018214304010	3 September 2018	2 September 2028

<u>No.</u>	<u>Patent name</u>	<u>Patent holder</u>	<u>Class of patents</u>	<u>Patent number</u>	<u>Application date</u>	<u>Expiry date</u>
20.	Modification device for pigment dyeing of baking machine (一種烘培機用於塗料染色的改造裝置)	Yadong (Changzhou)	Utility model	2018214303681	3 September 2018	2 September 2028
21.	Satin drill tissue thermal fabric (一種直貢組織保暖面料)	Yadong (Changzhou)	Utility model	2018214303696	3 September 2018	2 September 2028
22.	Fibre splitting and dyeing process for modal polyester (一種莫代爾滌桃皮絨開纖染色工藝)	Yadong (Changzhou)	Invention	2018103447138	17 April 2018	16 April 2038

As at the Latest Practicable Date, our Group had applied for registration of the following patents in the PRC:

<u>No.</u>	<u>Patent name</u>	<u>Applicant</u>	<u>Class of patents</u>	<u>Application number</u>	<u>Application date</u>
1.	Dyeing method of cotton-brocade elastic interwoven fabric (一種棉錦彈力交織布的染色方法)	Yadong (Changzhou)	Invention	201810037203.6	15 January 2018
2.	Automatic scheduling system for textile printing and dyeing production (一種紡織品印染生產的自動排單系統)	Yadong (Changzhou)	Invention	201810036817.2	15 January 2018
3.	Fibre splitting and dyeing process for modal polyester that can reduce pollution with high yield (可降低污染、成品率高的莫代爾滌桃皮絨開纖染色工藝)	Yadong (Changzhou)	Invention	202010638530.4	17 April 2020

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

1. Disclosure of interests

(i) Long position in Shares

Immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme), the interests of our Directors and chief executives of our Company in the equity or debt securities of our Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, under section 352 of the SFO, to be entered in the register referred to in that section, or under the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to our Company and the Stock Exchange, in each case, once the Shares are listed will be as follows:

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Number and class of securities</u>	<u>Approximate percentage of interest in our Company immediately after completion of the Capitalisation Issue and the Share Offer</u>
Mr. Xue	Interest in a controlled corporation ^(Note)	450,000,000 Shares	75%

Note: Oriental Ever Holdings is wholly-owned by Mr. Xue. Therefore, Mr. Xue is deemed, or taken to be, interested in all Shares held by Oriental Ever Holdings for the purpose of the SFO.

(ii) Long position in the shares of associated corporation

<u>Name of Director</u>	<u>Name of associated corporation</u>	<u>Capacity/nature</u>	<u>Number of shares held/interested</u>	<u>Percentage of shareholding</u>
Mr. Xue	Oriental Ever Holdings	Beneficial interest	1	100%

2. Substantial Shareholders

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme), the following persons will have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries:

Long position in Shares

<u>Name of Shareholder</u>	<u>Nature of interest</u>	<u>Number of Share</u>	<u>Approximate percentage of interest in our Company immediately after completion of the Capitalisation Issue and the Share Offer</u>
Oriental Ever Holdings	Beneficial interest	450,000,000 Shares	75%
Mr. Xue	Interest in a controlled Corporation ¹	450,000,000 Shares	75%
Ms. Hu Beixia	Interest of spouse ²	450,000,000 Shares	75%

Notes:

1. Oriental Ever Holdings is wholly-owned by Mr. Xue. Therefore, Mr. Xue is deemed, or taken to be, interested in all Shares held by Oriental Ever Holdings for the purpose of the SFO.
2. Ms. Hu Beixia is the spouse of Mr. Xue. Accordingly, Ms. Hu is deemed, or taken to be, interested in the Shares which Mr. Xue is interested in for the purpose of the SFO.

3. Particulars of service agreements and letters of appointment

(a) Executive Directors

Each of our executive Directors has entered into a service agreement with our Company under which they agreed to act as executive Directors for an initial term of three years commencing from the Listing Date. Either party has the right to give not less than three months' written notice to terminate the respective service agreement.

Each of the executive Directors is entitled to a salary and bonus payment, allowance and benefits-in-kind, at the discretion of our Board. The aggregate annual salary of the five executive Directors is approximately RMB2 million.

(b) *Independent non-executive Directors*

Each of the independent non-executive Directors has entered into an appointment letter with our Company for an initial term of three years commencing from the Listing Date. Each of Mr. Zhu Qi and Mr. Wang Hongliang is entitled to a directors' fee of RMB120,000 per annum. Mr. Ho Kin Cheong Kelvin is entitled to a directors' fee of HK\$120,000 per annum.

(c) *Remuneration of Directors*

- (1) The aggregate amount of emoluments paid to our Directors were approximately RMB1.3 million, RMB1.3 million, RMB1.8 million and RMB0.4 million for the Track Record Period, respectively.
- (2) Under the existing arrangements currently in force, the aggregate emoluments received by our Directors in respect of the year ending 31 December 2020 is estimated to be approximately RMB1.6 million.

Save as disclosed in this prospectus, none of our Directors has or is proposed to have a service contract with any member of our Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

4. Fees or commissions received

Save as disclosed in this prospectus, none of our Directors nor any of the persons whose names are listed in "E. Other information — 7. Consents" in this appendix had received any commissions, discounts, agency fee, brokerages or other special terms in connection with the issue or sale of any capital of our Company or any of our subsidiaries from our Company within the two years preceding the date of this prospectus.

5. Related party transactions

During the Track Record Period, we were engaged in related party transactions as described under "Connected transaction" in this prospectus and note 35 to the Accountants' Report set out in Appendix I to this prospectus.

6. Interest in our top five suppliers or customers

Save as disclosed in this prospectus, none of our Directors nor their close associates, nor any Shareholder (which to the knowledge of our Directors owns more than 5% of our Company's share capital) has any interest in our top five suppliers or our top five customers.

D. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted under the written resolutions of our sole Shareholder passed on 21 October 2020:

1. Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

“Adoption Date”	21 October 2020, the date on which the Share Option Scheme is conditionally adopted by the sole Shareholder by way of written resolution(s)
“Board”	the board of Directors or a duly authorised committee of the board of Directors
“Business Day”	any day on which the Stock Exchange is open for the business of dealing(s) in securities
“Group”	our Company and any entity in which our Company, directly or indirectly, holds any equity interest
“Scheme Period”	the period commencing on the Adoption Date and expiring at the close of business on the business day immediately preceding the tenth anniversary thereof, unless terminated earlier in accordance with the terms of the Share Option Scheme

2. Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of our sole Shareholder passed on 21 October 2020:

(a) *Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

(b) *Who may join and basis of eligibility*

Our Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (c) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by our Board (or as the case may be, our independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

(c) *Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by our Board and notified to a participant and shall be at least the higher of: (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a Business Day; (ii) the average closing prices of our Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option. For the purpose of calculating the subscription price where our Company has been listed on the Stock Exchange for less than five Business Days, the issue price of the Shares on the Stock Exchange shall be used as the closing price for any Business Day falling within the period before listing.

(d) *Grant of options and acceptance of offers*

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK\$1.

(e) *Maximum number of Shares*

- (i) Subject to sub-paragraphs (ii) and (iii) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all our Shares in issue as at the Listing Date. Therefore, it is expected that our Company may grant options

in respect of up to 60,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 60,000,000 Shares from time to time) to the participants under the Share Option Scheme.

- (ii) The 10% limit as mentioned above may be refreshed at any time by approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of our Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to the Shareholders containing the information as required under the Listing Rules in this regard.
- (iii) Our Company may seek separate approval from our Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose and all other information required under the Listing Rules.
- (iv) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such 30% limit being exceeded.

(f) *Maximum entitlement of each participant*

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of our Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his close associates abstaining from voting. In such event, our Company must send a circular to the Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the Listing Rules. The

number and terms (including the subscription price) of the options to be granted must be fixed before the approval of the Shareholders and the date of our Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(g) *Grant of options to certain core connected persons*

- (i) Any grant of an option to a Director, chief executive or substantial Shareholder (or any of their respective close associates) must be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).
- (ii) Where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective close associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:
 - (a) representing in aggregate over 0.1% of our Shares in issue; and
 - (b) having an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options is required to be approved by the Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to the Shareholders containing all information as required under the Listing Rules in this regard. All core connected persons of our Company shall abstain from voting (except where any core connected person intends to vote against the proposed grant and his intention to do so has been stated in the aforesaid circular). Any change in the terms of an option granted to a substantial Shareholder or an independent non-executive Director or any of their respective close associates is also required to be approved by the Shareholders in the aforesaid manner.

(h) *Restrictions on the times of grant of options*

- (i) Our Company may not grant any options after any inside information has come to its knowledge until such inside information has been announced pursuant to the requirements of the Listing Rules and the SFO. In particular, no options may be granted during the period commencing 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 the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (b) the last day on which for our Company is to publish an announcement of our Company's results for any year or half-year under the Listing Rules, or quarterly or other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement.

- (ii) Further to the restrictions in paragraph (i) above, no option may be granted to a Director on any day on which financial results of our Company are published and:
 - (a) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
 - (b) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(i) *Time of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as our Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(j) *Performance targets*

Save as determined by our Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(k) *Ranking of Shares*

Our Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* in all respects with our fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be

on or before the date of allotment, save that the Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(l) *Rights are personal to grantee*

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(m) *Rights on cessation of employment by death*

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (n) below arises within a period of three years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (q), (r) and (s) occurs prior to his death or within such period of 12 months following his death, then his legal personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

(n) *Rights on cessation of employment by dismissal*

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by our Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

(o) *Rights on cessation of employment for other reasons*

In the event that the grantee is an employee, a consultant or an adviser (as the case may be) of a member of our Group at the date of grant and he subsequently ceases to be an employee, a consultant or an adviser (as the case may be) of our Group for any reason other than his death or the termination of his employment of an employee or engagement of a consultant or an adviser (as the case may be) on one or more of the grounds specified in (n) above, the option (to the extent not already lapsed or exercised) shall lapse on the expiry of three months after the date of cessation of such employment of an employee or engagement of a consultant or an adviser (as the case may be) (which date will be in the case of an employee the last actual working day, on which the grantee was

physically at work with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not, and in the case of a consultant or an adviser (as the case may be), the last actual day of providing consultancy or advisory services to the relevant member of our Group).

(p) *Effects of alterations to share capital*

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, open offer, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices of any unexercised option, as the auditors of or independent financial adviser to our Company shall certify or confirm in writing (as the case may be) to our Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the Listing Rules, or any guideline or supplementary guideline issued by the Stock Exchange from time to time, provided that any alteration shall give a grantee, as near as possible, the same proportion of the issued share capital of our Company as that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

(q) *Rights on a general offer*

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all our Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror), our Company shall use its best endeavours to procure that an appropriate offer is extended to all the grantee (on comparable terms, *mutatis mutandis*, and assuming that they will become, by exercise in full of the options granted to them, as Shareholders) and when such offer becoming or being declared unconditional, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already lapsed or exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(r) *Rights on winding-up*

In the event a notice is given by our Company to our members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Group give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two Business Days prior to the proposed general meeting of our Company by giving notice in

writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(s) *Rights on compromise or arrangement*

In the event of a compromise or arrangement between our Company and the Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Cayman Companies Law, our Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to the Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already lapsed or exercised) shall become exercisable in whole or in part on such date not later than two Business Days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement (the “**Suspension Date**”), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the Business Day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. Our Board shall endeavour to procure that our Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or wilful default on the part of our Company or any of our officers.

(t) *Lapse of options*

An option shall lapse automatically on the earliest of:

- (1) the expiry of the period referred to in paragraph (i) above;
- (2) the date on which our Board exercises our Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (l);
- (3) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (m), (n), (o), (q), (r) or (s) above;
- (4) subject to paragraph (r) above, the date of the commencement of the winding-up of our Company;
- (5) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;
- (6) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group; or
- (7) subject to the compromise or arrangement as referred to in paragraph (s) becoming effective, the date on which such compromise or arrangement becomes effective.

(u) *Cancellation of options granted but not yet exercised*

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as our Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

(v) *Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the Business Day immediately preceding the tenth anniversary thereof.

(w) *Alteration to the Share Option Scheme*

- (i) The Share Option Scheme may be altered in any respect by resolution of our Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options matters governed by Rule 17.03 of the Listing Rules shall not be made except with the prior approval of the Shareholders in general meeting.
- (ii) Any alternations to any terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of our Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (iii) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of Chapter 17 of the Listing Rules or any guidelines issued by the Stock Exchange from time to time.

(x) *Termination to the Share Option Scheme*

Our Company by resolution in general meeting or our Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

(y) *Conditions of the Share Option Scheme*

The Share Option Scheme is conditional upon the Listing Committee granting the listing of, and permission to deal in, any Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and commencement of dealings in the Shares on the Stock Exchange.

3. Present status of the Share Option Scheme

Application has been made to the Listing Committee for the listing of and permission to deal in 60,000,000 Shares which fall to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme. As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

E. OTHER INFORMATION**1. Tax and other indemnity**

Our Controlling Shareholders (the “**Indemnifiers**”) have entered into a deed of indemnity dated 21 October 2020 (“**Deed of Indemnity**”) with and in favour of our Company (for itself and as trustee for the benefit of each of its subsidiaries) (being the material contract (a) referred to in “B. Further information about our business — 1. Summary of material contracts” in this appendix) to provide indemnities on a joint and several basis, in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group at any time on or before the Listing; and
- (b) tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision or reserve has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 30 April 2020;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 30 April 2020 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily entered into by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Listing Date; and

- (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Listing Date or pursuant to any statement of intention made in this prospectus;
- (c) to the extent that such taxation liabilities or claim arise or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the IRD, or any other statutory or governmental authority (whether in Hong Kong or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such claim arises or is increased by an increase in rates of taxation or claim after the date of the Deed of Indemnity with retrospective effect; or
- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 30 April 2020 which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Pursuant to the Deed of Indemnity, the Indemnifiers have undertaken to us that they will indemnify and at all times keep us fully indemnified on demand, on a joint and several basis, from all claims, payments, suits, damages, settlements, payments, fines, actions, liabilities, fees and any associated costs and expenses which would be incurred or suffered by our Group directly or indirectly, from or on the basis of or in connection with the non-compliance matters relating to our Group as described in "Business — Legal and compliance matters" in this prospectus or in connection with any other non-compliance matters of our Group which have occurred at any time on or before the Listing Date.

2. Litigation

As at the date of this prospectus, save as disclosed in "Business — Legal and compliance matters" in this prospectus, we are not involved in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against any member of our Group.

3. The Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including the Offer Shares and any Shares which may fall to be allotted and issued pursuant to (a) the Capitalisation Issue; (b) the exercise of the Over-allotment Option; and (c) the exercise of any options which may be granted under the Share Option Scheme.

The Sole Sponsor has confirmed that it satisfies the independence criteria applicable to them as set out in Rule 3A.07 of the Listing Rules.

The Sole Sponsor has received or will receive a financial advisory and documentation fee of approximately HK\$6.0 million as the Sole Sponsor in relation to the Share Offer.

4. Preliminary expenses

The estimated preliminary expenses incurred or proposed to be incurred by our Company are approximately HK\$44,000 and are payable by our Company.

5. Promoters

Our Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding to the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given to, or is proposed to be paid, allotted or given to, any promoter in connection with the Share Offer or the related transactions described in this prospectus.

6. Qualifications of experts

The qualifications of the experts (as defined in the Listing Rules and the Companies (WUMP) Ordinance) who have given their opinions or advice in this prospectus are as follows:

<u>Name</u>	<u>Qualifications</u>
Fortune Financial Capital Limited	A licensed corporation permitted to carry on type 6 (advising on corporate finance) regulated activity under the SFO
SHINEWING (HK) CPA Limited	Certified Public Accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jiangsu BST Law Office	Legal advisers of our Company as to the PRC laws
JC Master Law Offices	Legal advisers of our Company as to the PRC laws
Ipsos Asia Limited	Independent industry consultant
SHINEWING Tax and Business Advisory Limited	Tax adviser
Chan Chung	Hong Kong barrister-at-law

7. Consents

Each of the experts referred to in “E. Other information — 6. Qualifications of experts” in this appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or advice and/or opinion and/or summary thereof (as the case may be) and/or the references to their names included in this prospectus in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our 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.

8. Share register

The register of members of our Company will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited and a Hong Kong branch share register will be maintained in Hong Kong by the Hong Kong Branch Share Registrar. Unless our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the share register in Hong Kong and may not be lodged in the Cayman Islands.

9. Miscellaneous

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executives of our Company has any interests and short positions in our Shares, the underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, under section 352 of the SFO, to be entered into the register referred to in that section, or will be required, under the Model Code for Securities Transactions by Directors of Listed Companies to be notified to us and the Stock Exchange, in each case once our Shares are listed;
- (b) none of our Directors nor any of the parties listed in “E. Other information — 7. Consents” in this appendix has any direct or indirect interest in the promotion of our Company or any of our subsidiaries, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;

- (c) none of our Directors nor any of the parties listed in “E. Other information — 7. Consents” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (d) save for the Underwriting Agreements, none of the parties listed in “E. Other information — 7. Consents” in this appendix:
 - (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities;
- (e) none of the equity and debt securities of our Company are listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought from any other stock exchange;
- (f) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
- (g) we have not issued or agreed to issue any founder shares, management shares or deferred shares;
- (h) we have no outstanding convertible debt securities;
- (i) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special items have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries and we have not issued or agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (j) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in or debentures of our Company;
- (k) no amount or securities or benefit has been paid or allotted or given within the two years preceding the date of this prospectus to any of our promoters nor is any such securities or amount or benefit intended to be paid or allotted or given;
- (l) since 30 April 2020, there has been no material adverse change in the financial or trading position or prospects of our Company;
- (m) there is no arrangement under which future dividends are waived or agreed to be waived;

- (n) the Share Offer does not involve the exercise of any right of pre-emption or the transfer of subscription rights;
- (o) as at the date of this prospectus, there is no restriction affecting the remittance of profits or repatriation of capital of our Company into Hong Kong from outside Hong Kong;
- (p) there has not been any interruption in the business of our Company which may have or has had a significant effect on the financial position of our Company in the 12 months preceding the date of this prospectus;
- (q) the English text of this prospectus shall prevail over the Chinese text; and
- (r) none of our Company or any of our subsidiaries is presently listed on any stock exchange or traded on any trading system.

10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration are:

- (a) a copy of each of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in “E. Other information — 7. Consents” in Appendix V to this prospectus; and
- (c) a copy of each of the material contracts referred to in “B. Further information about our business — 1. Summary of material contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of David Fong & Co., at Unit A, 12/F., China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the Accountants’ Report prepared by SHINEWING (HK) CPA Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Group for the three years ended 31 December 2017, 2018 and 2019 and the four months ended 30 April 2020;
- (d) the report on the unaudited pro forma financial information prepared by SHINEWING (HK) CPA Limited, the text of which is set out in Appendix II to this prospectus;
- (e) the letters relating to profit forecast of our Group for the year ending 31 December 2020 issued by SHINEWING (HK) CPA Limited and the Sole Sponsor, the text of which is set out in Appendix III to this prospectus;
- (f) the letter prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law as referred to in Appendix IV to this prospectus;
- (g) the legal opinion prepared by each of our PRC Legal Advisers;
- (h) the legal opinion prepared by Chan Chung, Hong Kong barrister-at-law;
- (i) the industry report prepared by Ipsos;
- (j) the transfer pricing study report prepared by the Tax Adviser;

- (k) the Cayman Companies Law;
- (l) the material contracts referred to in “B. Further information about our business — 1. Summary of material contracts” in Appendix V to this prospectus;
- (m) the service agreements and letters of appointment referred to in “C. Further information about our Directors, substantial Shareholders and experts — 3. Particulars of service agreements and letters of appointment” in Appendix V to this prospectus;
- (n) the rules of the Share Option Scheme as set out in “D. Share Option Scheme” in Appendix V to this prospectus; and
- (o) the written consents referred to in “E. Other information — 7. Consents” in Appendix V to this prospectus.



亞 東

Yadong Group Holdings Limited
亞東集團控股有限公司