



# GLOBAL NEW MATERIAL INTERNATIONAL HOLDINGS LIMITED 环球新材国际控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 6616

## GLOBAL OFFERING

Sole Sponsor



Sole Global Coordinator, Joint Bookrunner and  
Joint Lead Manager



## IMPORTANT

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



### GLOBAL NEW MATERIAL INTERNATIONAL HOLDINGS LIMITED 环球新材国际控股有限公司

(Incorporated in the Cayman Islands with limited liability)

#### GLOBAL OFFERING

Number of Offer Shares	: 290,674,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 29,068,000 Shares (subject to reallocation)
Number of International Offer Shares	: 261,606,000 Shares (subject to reallocation and the Over-allotment Option)
Offer Price (subject to the Downward Offer Price Adjustment)	: Not more than HK\$4.22 per Offer Share and expected to be not less than HK\$3.52 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, subject to refund) (If the Offer Price is determined at such amount which is up to 10% below the low-end of the indicative range of the Offer Price after making the Downward Offer Price Adjustment, the minimum Offer Price will be HK\$3.17 per Offer Share.)
Nominal value	: HK\$0.10 for each Share
Stock code	: 6616

Sole Sponsor



Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager



Joint Bookrunners and Joint Lead Managers

(In alphabetical order)



Joint Lead Managers

(In alphabetical order)



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

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

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

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 7 July 2021 (Hong Kong time) and, in any event, not later than Friday, 9 July 2021 (Hong Kong time). The Offer Price will be not more than HK\$4.22 and is expected to be not less than HK\$3.52 (subject to the Downward Offer Price Adjustment). If, for whatever reason, the Sole Global Coordinator (for itself and on behalf of the other Underwriters) and us are unable to agree on the Offer Price by Friday, 9 July 2021, the Global Offering will not proceed and will lapse.

In addition to the Downward Offer Price Adjustment, the Sole Global Coordinator (for itself and on behalf of the other Underwriters) may, with the consent of our Company, reduce the indicative range of the Offer Price below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of such reduction will be published on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company at [www.chesir.net](http://www.chesir.net) as soon as practicable but in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. If applications for our Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, such applications can be withdrawn if the indicative range of the Offer Price is so reduced.

Prospective investors of our Hong Kong Offer Shares should note that the obligations of our Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure subscribers for, our Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) if certain events occur prior to 8:00 a.m. on Friday, 16 July 2021 (Hong Kong time). Such grounds are set forth in the section headed "Underwriting" in this prospectus.

30 June 2021

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

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

available from . . . . . 9:00 a.m. on Wednesday, 30 June 2021

Latest time to complete electronic applications under the  
**HK eIPO White Form** service through one of the following  
ways:

(1) the designated website at **www.hkeipo.hk** . . . . . 11:30 a.m. on Tuesday, 6 July 2021

(2) the IPO App, which can be downloaded by searching for  
“**IPO App**” in the App Store or Google Play or  
downloaded at **www.hkeipo.hk/IPOApp** or  
**www.tricorglobal.com/IPOApp** . . . . . 11:30 a.m. on Tuesday, 6 July 2021

Application Lists open<sup>(3)</sup> . . . . . 11:45 a.m. on Tuesday, 6 July 2021

Latest time for lodging **WHITE** and **YELLOW**  
Application Forms and to give **electronic application**

**instructions** to HKSCC<sup>(4)</sup> . . . . . 12:00 noon on Tuesday, 6 July 2021

Latest time for completing payment of **HK eIPO White Form**  
application by effecting internet banking transfer(s)

or PPS payment transfer(s) . . . . . 12:00 noon on Tuesday, 6 July 2021

Application Lists close<sup>(3)</sup> . . . . . 12:00 noon on Tuesday, 6 July 2021

Price Determination Date<sup>(5)</sup> . . . . . Wednesday, 7 July 2021

Where applicable, announcement of the Offer Price being set  
below the low-end of the indicative range of the Offer Price  
after making the Downward Offer Price Adjustment on the  
Stock Exchange’s website at **www.hkexnews.hk** and our  
Company’s website at **www.chesir.net** on or before (See the  
section headed “Structure and Conditions of the Global  
Offering — Pricing and allocation” in this prospectus) . . . . . Friday, 9 July 2021

(1) Announcement of the Offer Price, the level of indications  
of interest in the International Offering, the level of  
application in the Hong Kong Public Offering, and the  
basis of allocation of our Hong Kong Offer Shares to be  
published on the website of the Stock Exchange at  
**www.hkexnews.hk** and the website of our Company at  
**www.chesir.net** <sup>(6)</sup> on or before . . . . . Thursday, 15 July 2021

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

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(2) Announcement of the result of allocations in the Hong Kong Public Offering (with successful applications' identification document numbers, where appropriate to be available through a variety of channels as described in the section headed "How to Apply for our Hong Kong Offer Shares — 11. Publication of results" in this prospectus . . . . . Thursday, 15 July 2021

(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Stock Exchange at **www.hkexnews.hk** and the website of the Company at **www.chesir.net** . . . . . Thursday, 15 July 2021

Result of allocations in the Hong Kong Public Offering will be available or at **www.tricor.com.hk/ipo/result** or **www.hkeipo.hk/IPOResult** or at "Allotment Result" function in the **IPO App** with a "search by ID" function from . . . . . Thursday, 15 July 2021

Despatch of refund cheques and **HK eIPO White Form** e-Auto Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before<sup>(7)(9)</sup> . . . . . Thursday, 15 July 2021

Despatch of Share certificates or deposit of the Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before<sup>(8)(9)</sup> . . . . . Thursday, 15 July 2021

Dealings in our Shares on the Stock Exchange expected to commence at 9:00 a.m. on . . . . . Friday, 16 July 2021

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*Notes:*

- (1) All times refer to Hong Kong local time, except as otherwise stated.
- (2) You will not be permitted to submit your application through the designated website at **www.hkeipo.hk** or in **IPO App** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the **IPO App** or designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application money) until 12:00 noon on the last day for submitting application, when the Application Lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 6 July 2021, the Application Lists will not open or close on that day. See "How to Apply for our Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the Application Lists" in this prospectus.
- (4) Applicants who apply for our Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to section headed "How to Apply for our Hong Kong Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS" in this prospectus.

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

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- (5) The Price Determination Date is expected to be on or around Wednesday, 7 July 2021, and, in any event, not later than Friday, 9 July 2021. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (acting for itself and on behalf of the other Hong Kong Underwriters) and us by Friday, 9 July 2021, the Global Offering will not proceed and will lapse.
- (6) The announcement will be available for viewing on the “Main Board — Allotment of results” page on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).
- (7) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before 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) **Share certificates will become valid at 8:00 a.m. on the Listing Date, provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting — Underwriting Arrangements and expenses — Hong Kong Public Offering — Grounds for termination” in this prospectus has not been exercised. Investors who trade Share prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.**
- (9) Applicants who have applied on **WHITE** Application Forms or through the **HK eIPO White Form** service for 1,000,000 or more Hong Kong 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 Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 15 July 2021. Applicants being individuals who are eligible for personal collection may not authorise any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend through their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce evidence of identity acceptable to our Hong Kong Share Registrar at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong 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 for our Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for our Hong Kong Offer Shares — 14. Despatch/Collection of Share certificates and refund monies — Personal collection — (iv) If you apply via electronic application instructions to HKSCC” in this prospectus for further information.

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

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

Further information is set forth in the sections headed “How to Apply for our Hong Kong Offer Shares — 13. Refund of application money” and “How to Apply for our Hong Kong Offer Shares — 14. Despatch/Collection of Share certificates and refund monies” in this prospectus.

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

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The above expected timetable is a summary only. You should refer to the sections headed “Structure and Conditions of the Global Offering” and “How to Apply for our Hong Kong Offer Shares” in this prospectus for further information of the structure and conditions of the Global Offering, including the conditions of the Global Offering, and the procedures for application for our Hong Kong Offer Shares.

**Our Company will not issue any temporary documents of title in respect of our Offer Shares. Share certificates for our Offer Shares will become valid certificates of title only if the Global Offering has become unconditional in all respects and the right of termination as described in the section headed “Underwriting” in this prospectus has not been exercised, which is expected to be not later than 8:00 a.m. on the Listing Date.**

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

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### IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than our Hong Kong Offer Shares offered by this prospectus. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances.

No action has been taken to permit a public offering of our Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. Hence, the distribution of this prospectus and the offering of our 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 our Company, our Directors or any of the Relevant Persons. Information contained in the website of our Company at [www.chesir.net](http://www.chesir.net) does not form part of this prospectus.

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## SUMMARY AND HIGHLIGHTS


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**This section aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in our Hong Kong Offer Shares.**

**There are risks associated with any investment. Some of the particular risks in investing in our Hong Kong Offer Shares are set forth in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in our Hong Kong Offer Shares.**

### OVERVIEW

We are the largest pearlescent pigment producer in the PRC market as measured by revenue in 2020 with a market share of 11.0%, according to the Frost & Sullivan Report. In the global market, we are the fourth largest pearlescent pigment producer as measured by revenue in 2020 with a market share of 3.0%. Our principle products include natural mica-based and synthetic mica-based pearlescent pigment products. Pearlescent pigment products are generally used as colourants in a wide range of industrial and non-industrial applications. The synthetic mica-based pearlescent pigment market is in a state of rapid development and accounted for 15.8% of the PRC pearlescent pigment market of RMB4,843.9 million in 2020. The market size of the global pearlescent pigment market reached RMB18.9 billion in 2020, in which the synthetic mica-based pearlescent pigment market accounted for a market share of 11.7%.

Our business principally focuses on the production and sales of a comprehensive portfolio of pearlescent pigment products for use in diverse applications and industries, including industrial coatings, plastics, textiles and leather, cosmetics and automotive coatings. We are a midstream producer in the value chain of pearlescent pigment industry. Our pearlescent pigment products can be broadly divided into (a) natural mica-based pearlescent pigment products; (b) synthetic mica-based pearlescent pigment products; (c) glass flake-based pearlescent pigment products; and (d) silicon oxide-based pearlescent pigment products, which are sold to customers in the PRC and more than 30 countries and territories in Asia (excluding the PRC), Europe, Africa and South America under our brand of “Chesir Pearl” . In addition, we also produce and sell synthetic mica powder of different granule sizes which can be used for the production of different grades of pearlescent pigment products (including those used in cosmetics, ceramics and automotive applications) and also as raw materials for the production of functional fillers, insulating materials, refractory materials and nickel-hydrogen batteries.

Our pearlescent pigment products primarily use natural mica, synthetic mica, glass flakes and silica as substrates, which are coated with a single or multiple layers of metal oxides. As of the Latest Practicable Date, our pearlescent pigment products comprised a comprehensive portfolio of various applications, colours, texture and glossiness, which include 476 natural mica-based pearlescent pigment products, 266 synthetic mica-based pearlescent pigment products, 30 glass flake-based pearlescent pigment products and five silicon oxide-based pearlescent pigment products. Our synthetic mica powder products are of different granule sizes.

Our research and development efforts focus on the development of new products and applications, improving our production and processing technology, enhancing our efficiency and upgrading our production plant and machinery. Our research and development efforts are well recognised and we have received a number of awards and recognitions. We obtained the accreditation of “National Intellectual Property Advantage Enterprise” (國家知識產權優勢企業) in 2017 and “Innovative Technology Exemplary Enterprise” (技術創新示範企業) in Guangxi Zhuang Autonomous Region in 2018. One of our registered patents was awarded with gold award in 2014 and three registered patents were awarded with silver award in 2014, 2017 and 2018 in “Guangxi Invention Creation Exhibition and Trade Fair Project” (廣西發明創造成果展覽交易會項目).

As a result of our devoted efforts and commitments, we have achieved significant revenue growth during the Track Record Period. Our revenue increased significantly by 38.5% from RMB318.2 million in 2018 to RMB440.6 million in 2019. Our revenue further increased by 29.2% to RMB569.1 million during the year ended 31 December 2020.

According to the Frost & Sullivan Report, the market size of the global pearlescent pigment market is expected to reach RMB44.6 billion by 2025 at a CAGR of 23.9% from 2021 to 2025, among which synthetic mica-based pearlescent pigment is expected to account for a market share of 23.6%.

## SUMMARY AND HIGHLIGHTS

The PRC pearlescent pigment market is also in a state of rapid development and is expected to reach RMB14.2 billion by 2025 at a CAGR of 30.8% from 2021 to 2025, among which synthetic mica-based pearlescent pigment products market is expected to reach RMB4.6 billion, accounting for a market share of 32.6%.

See pages 89 to 109 of this prospectus for further information.

### STRENGTHS

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

- We are one of the largest pearlescent pigment product producers in the PRC.
- Our proprietary production technologies and well-designed production plant and machinery are key to ensuring our product quality.
- We have strong research and development capability.
- We have a strong marketing team.
- We have an experienced management team.

See pages 155 to 160 of this prospectus for further information.

### STRATEGIES

We intend to continue to increase our market share in the pearlescent pigment and synthetic mica industries. To achieve our goals, we plan to pursue the following strategies:

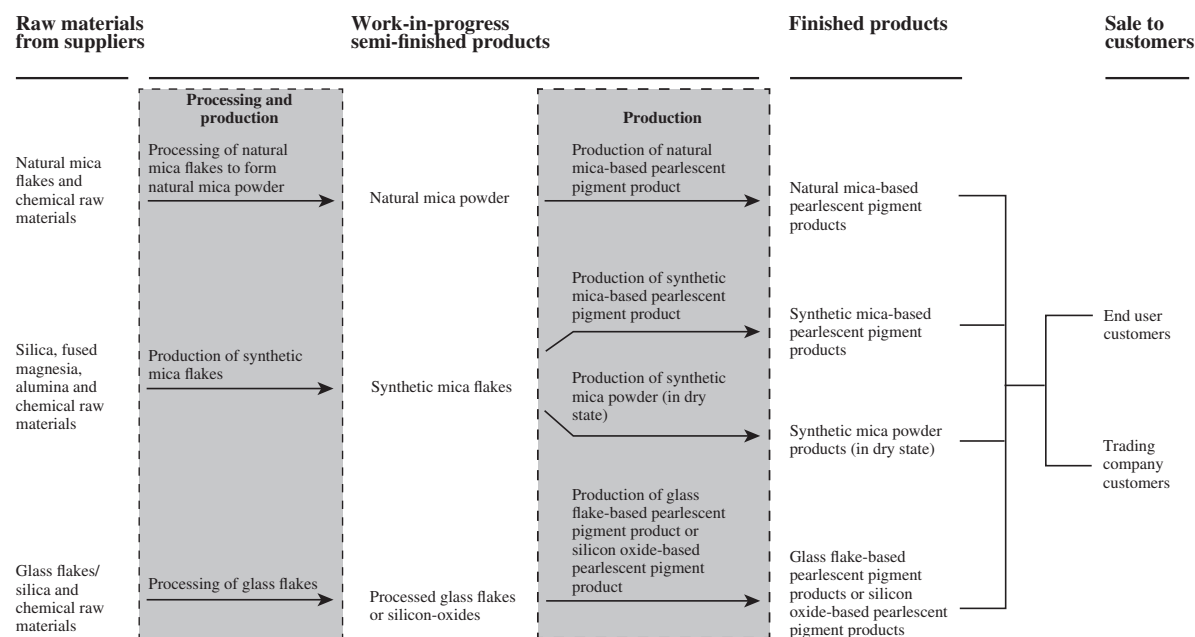
- Expand our production capacity for the production of pearlescent pigment products.
- Further strengthen our research and development capability.
- Enhance our market position through promoting our brand awareness.

See pages 160 to 172 of this prospectus for further information.

### BUSINESS MODEL

Our pearlescent pigment products primarily use natural mica, synthetic mica, glass flakes and silica as substrates, which are coated with a single or multiple layers of metal oxides. Our pearlescent pigment products broadly include (a) natural mica-based pearlescent pigment products; (b) synthetic mica-based pearlescent pigment products; (c) glass flake-based pearlescent pigment products; and (d) silicon oxide-based pearlescent pigment products.

Our pearlescent pigment products are sold to trading company customers and end user customers for different industrial applications. We also produce synthetic mica powder products of different granule sizes for sales to our customers. Our products are sold in the PRC and international markets under our own brand of “Chesir Pearl”. The diagram below illustrates our business model:



See pages 172 and 173 of this prospectus for further information.

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## SUMMARY AND HIGHLIGHTS

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### PRODUCTS

Pearlescent pigment is produced by coating of the substrate with a layer or multiple layers of metal oxides with high refractive index, and is used to simulate the inherent lustre, brilliance and gleam of natural pearls. Owing to the layered structure, light is reflected at different levels in the pearlescent pigment, causing reflected lights to interfere with each other, leading to amplification and cancellation, which creates the pearlescent effect in the form of unique lustre and gleam. Through the use of different substrates and adjustment to the thickness of the coatings in the production of pearlescent pigment, there can be variation in the refractive indices and optical path leading to different light reflection and formation of a variety of colours and colour effects. Pearlescent pigment products have remarkable chemical properties such as temperature resistance, weather resistance, lightfastness, water resistance and colour fastness. Pearlescent pigment products also cover diverse colour spectrum and offer distinctive lustre properties and colour intensity.

Our pearlescent pigment products can be broadly divided into (a) natural mica-based pearlescent pigment products; (b) synthetic mica-based pearlescent pigment products; (c) glass flake-based pearlescent pigment products; and (d) silicon oxide-based pearlescent pigment products. Our pearlescent pigment products are used as colourant in diverse applications and industries, including industrial coatings, plastics, textiles and leather, cosmetics and automotive coatings. As of the Latest Practicable Date, we offered four principal categories of pearlescent pigment products under different product series with different colours, particle sizes and lustre level as follows:

- (a) 476 natural mica-based pearlescent pigment products under 17 series of different colours, texture and glossiness;
- (b) 266 synthetic mica-based pearlescent pigment products under 14 series of different colours, texture and glossiness;
- (c) 30 glass flake-based pearlescent pigment products under two series which has different transparency, refractive index and flake structure; and
- (d) five silicon oxide-based pearlescent pigment products under one series.

We also produce synthetic mica powder of different granule sizes. Our synthetic mica powder is used by us for the production of synthetic mica-based pearlescent pigment products. Our synthetic mica powder can also be used as raw materials for the production of functional fillers, insulating materials, refractory materials and nickel-hydrogen batteries. During the Track Record Period, we only sold a small portion of synthetic mica powder to our customers.

### **Downstream applications of our pearlescent pigment products**

Our pearlescent pigment products can be used in different downstream applications as follows:

#### ***Industrial coatings***

Pearlescent pigment possesses physical stability and can be used with coatings of various forms including solvent-based, water-based and pigment powder. Pearlescent pigment can withstand high temperature and has high resistance to acid and alkali. These properties make pearlescent pigment suitable for use in industrial coatings. During the Track Record Period, revenue generated from our sales to end user customers which engaged in industrial coatings industry amounted to RMB41.2 million, RMB58.3 million and RMB60.2 million, respectively.

#### ***Plastics***

Pearlescent pigment is used in plastics industry for its weather resistance, light and thermal stability as well as the stability against chemical and mechanical impact. Pearlescent pigment can give metallic and pearl lustre to plastics products and provide an even finish minimising cracks and pores on the plastics surface. During the Track Record Period, revenue generated from our sales to end user customers which engaged in plastics industry amounted to RMB12.0 million, RMB16.9 million and RMB20.7 million, respectively.

## SUMMARY AND HIGHLIGHTS

### *Textiles and leather*

Pearlescent pigment has the characteristics of wear resistance, thermal resistance, good air and water permeability and corrosion resistance to organic solvents, and has been increasingly used in surface colouring and surface processing for the manufacturing of leather goods and is widely used in leather, textiles and upholstery applications. During the Track Record Period, revenue generated from our sales to end user customers which engaged in textiles and leather industry amounted to RMB5.8 million, RMB7.5 million and RMB5.1 million, respectively.

### *Cosmetics*

Pearlescent pigment has high colour saturation level and provide a wide array of colour, sparkle, shimmer and glitter effects to cosmetics. During the Track Record Period, revenue generated from our sales to end user customers which engaged in cosmetics industry amounted to RMB0.5 million, RMB9.1 million and RMB15.5 million, respectively.

### *Ceramics*

Pearlescent pigment can withstand high temperature and can be used in various kinds of ceramic applications, including in-glaze, on-glaze, single-firing and third-firing. During the Track Record Period, revenue generated from our sales to end user customers which engaged in ceramics industry amounted to RMB0.7 million, RMB1.2 million and RMB2.1 million, respectively.

### *Automotive coatings*

Pearlescent pigment is widely used in automotive coatings due to its physical attributes of anti-corrosion, colour strength, durability, good coverage, chemical inertness, weather resistance, light and thermal stability, as well as the ability to withstand harsh environmental conditions and UV exposure. The glossiness and the gleam properties of pearlescent pigment also provide premium lustre finishes to automobiles and are extensively used in the manufacturing of cars. During the Track Record Period, revenue generated from our sales to end user customers which engaged in automotive coatings industry amounted to RMB0.5 million, RMB1.0 million and RMB2.1 million, respectively.

## **Sales revenue, sales volume, average unit selling price, gross profit and gross profit margin**

### *Sales revenue*

The table below sets forth an analysis of our revenue by products for the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Pearlescent pigment products						
- Natural mica-based . . . . .	245,321	77.1	295,510	67.1	318,957	56.0
- Synthetic mica-based . . . . .	68,280	21.5	124,705	28.3	197,141	34.6
- Glass flakes-based . . . . .	1,375	0.4	13,865	3.1	46,821	8.2
- Silicon oxide-based . . . . .	—	—	75	—*	2,869	0.5
	<u>314,976</u>	<u>99.0</u>	<u>434,155</u>	<u>98.5</u>	<u>565,788</u>	<u>99.4</u>
Synthetic mica powder . . . . .	3,268	1.0	6,428	1.5	3,325	0.6
<b>Total</b>	<u><u>318,244</u></u>	<u><u>100.0</u></u>	<u><u>440,583</u></u>	<u><u>100.0</u></u>	<u><u>569,113</u></u>	<u><u>100.0</u></u>

\* Value insignificant

## SUMMARY AND HIGHLIGHTS

### *Sales volume and average unit selling price*

The table below sets forth the sales volume and the average unit selling price by products for the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price
	(tonnes)	(RMB'000 per tonne)	(tonnes)	(RMB'000 per tonne)	(tonnes)	(RMB'000 per tonne)
Pearlescent pigment products						
- Natural mica-based . . . . .	7,217.9	34.0	8,822.4	33.5	10,056.8	31.7
- Synthetic mica-based . . . . .	1,228.8	55.6	2,231.8	55.9	3,943.5	50.0
- Glass flakes-based . . . . .	4.4	312.6	42.4	327.0	158.9	294.7
- Silicon oxide-based . . . . .	—	—	0.1	750.0	5.9	486.3
	8,451.1	37.3	11,096.7	39.1	14,165.1	39.9
Synthetic mica powder . . . . .	84.4	38.7	167.8	38.3	78.2	42.5
<b>Total</b>	<b>8,535.5</b>		<b>11,264.5</b>		<b>14,243.3</b>	

The average unit selling prices of our natural mica-based and synthetic mica-based pearlescent pigment products remained generally stable during the two years ended 31 December 2019. However, during the year ended 31 December 2020, the average unit selling prices of natural mica-based and synthetic-mica based pearlescent pigment products decreased by 5.4% and 10.6%, respectively. Such decreases were caused by our marketing initiative to reduce the selling prices of selected pearlescent pigment products in response to the outbreak of the COVID-19 pandemic.

The average unit selling prices of our glass flakes-based pearlescent pigment products decreased from RMB327,000 per tonne for the year ended 31 December 2019 to RMB294,700 per tonne for the year ended 31 December 2020, primarily due to our competitive pricing strategy to enhance our sales to trading company customers. As a result, an increasing proportion of our sales of glass flakes-based pearlescent pigment products were sold to trading company customers. During the two years ended 31 December 2020, sales to trading company customers accounted for 71.5% and 89.8%, respectively, of the sales revenue of glass flakes-based pearlescent pigment products.

The average unit selling prices of our silicon oxide-based pearlescent pigment products decreased by 35.2% during the year ended 31 December 2020. Such decrease was primarily due to the increasing sales to the trading company customers, which accounted for 99.0% of the total revenue generated from such sales for the year ended 31 December 2020, as compared to 33.3% for the year ended 31 December 2019. Such increase was part of our sales strategies for the promotion of such pearlescent pigment products.

## SUMMARY AND HIGHLIGHTS

### *Gross profit and gross profit margin*

The table below sets forth the amount of gross profit and gross profit margin for our major products during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Pearlescent pigment products						
- Natural mica-based . . . . .	105,203	42.9	123,766	41.9	129,192	40.5
- Synthetic mica-based . . . . .	38,526	56.4	78,188	62.7	109,123	55.4
- Glass flakes-based . . . . .	1,215	88.4	12,287	88.6	40,990	87.5
- Silicon oxide-based . . . . .	—	—	67	89.3	2,535	88.4
	<u>144,944</u>	46.0	<u>214,308</u>	49.4	<u>281,840</u>	49.8
Synthetic mica powder . . . . .	2,003	61.3	3,969	61.7	2,225	66.9
<b>Total</b>	<u><u>146,947</u></u>	46.2	<u><u>218,277</u></u>	49.5	<u><u>284,065</u></u>	49.9

Although the average selling prices of our pearlescent pigment products continued to decrease throughout the Track Record Period, we were able to maintain our gross profit margins during the Track Record Period.

Our overall gross profit margin increased to 49.5% during the year ended 31 December 2019 from 46.2% during the year ended 31 December 2018. Such increase was principally due to (a) the increase in the sales to end user customers from 19.1% of the total revenue for the year ended 31 December 2018 to 21.3% of the total revenue for the year ended 31 December 2019; (b) the modest increases in the average selling prices of our pearlescent pigment products; and (c) effective control of our cost of goods sold. In addition, the continuous improvements in our gross profit margin during the Track Record Period was also due to the increases in the percentage of sales of synthetic mica-based pearlescent pigment products which had relatively higher average unit selling prices than those of natural mica-based pearlescent pigment products during the Track Record Period.

Our overall gross profit margin was 49.9% during the year ended 31 December 2020 which was comparable to 49.5% during the year ended 31 December 2019. The modest difference in the gross profit margin was mainly attributable to the increase in the percentage of sales of synthetic mica-based pearlescent pigment products which could achieve higher gross profit margins.

The table below sets forth the amount of gross profit and gross profit margin by nature of our customers during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Trading company customers . .	114,425	44.4	163,367	47.1	224,921	48.5
End user customers . . . . .	32,522	53.6	54,910	58.4	59,144	56.0
<b>Total</b>	<u><u>146,947</u></u>		<u><u>218,277</u></u>		<u><u>284,065</u></u>	

See pages 173 to 178 of this prospectus for further information.

## SUMMARY AND HIGHLIGHTS

### CUSTOMERS

Our pearlescent pigment products and synthetic mica powder products are sold to trading company customers and end user customers. During the Track Record Period, a significant percentage of our sales of pearlescent pigment products and synthetic mica powder were sold to trading company customers. Our end user customers include manufacturers in different industries, such as automotive coatings, cosmetics, industrial coatings, plastics, printing, textile and leather and ceramics, which use our pearlescent pigment products as colourants and use our synthetic mica powder for the production of pearlescent pigment products and as raw material for the production of functional fillers, insulating materials, refractory materials and nickel-hydrogen batteries. The table below sets forth an analysis of our sales to end user customers and trading company customers in the PRC and international markets during the Track Record Period:

	Year ended 31 December								
	2018			2019			2020		
	Number	RMB'000	% of total revenue	Number	RMB'000	% of total revenue	Number	RMB'000	% of total revenue
Trading company customers									
- PRC . . . . .	190	241,028	75.7	185	325,628	73.9	206	441,662	77.6
- International . . . . .	22	16,579	5.2	28	20,981	4.8	29	21,821	3.8
	212	257,607	80.9	213	346,610	78.7	235	463,483	81.4
End user customers									
- PRC . . . . .	69	52,175	16.4	77	84,800	19.2	120	97,509	17.1
- International . . . . .	13	8,462	2.7	8	9,173	2.1	12	8,121	1.5
	82	60,637	19.1	85	93,973	21.3	132	105,630	18.6
<b>Total</b>	294	318,244	100.0	298	440,583	100.0	367	569,113	100.0

The table below sets forth an analysis of our sales to trading customers and end user customers by products during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Trading company customers						
- Pearlescent pigment products . . .	256,866	80.7	344,734	78.2	463,367	81.4
- Synthetic mica powder . . . . .	741	0.2	1,876	0.5	116	—*
	257,607	80.9	346,610	78.7	463,483	81.4
End user customers						
- Pearlescent pigment products . . .	58,111	18.3	89,421	20.3	102,421	18.0
- Synthetic mica powder . . . . .	2,526	0.8	4,552	1.0	3,209	0.6
	60,637	19.1	93,973	21.3	105,630	18.6
<b>Total</b>	318,244	100.0	440,583	100.0	569,113	100.0

\* Value insignificant

## SUMMARY AND HIGHLIGHTS

The table below sets forth the amount of gross profit and gross profit margin by nature of our customers during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Trading company customers . . . . .	114,425	44.4	163,367	47.1	224,921	48.5
End user customers . . . . .	32,522	53.6	54,910	58.4	59,144	56.0
<b>Total</b>	<b>146,947</b>		<b>218,277</b>		<b>284,065</b>	

During the Track Record Period, we sold our products in the PRC and to more than 30 countries and territories in Asia (excluding the PRC), Europe, Africa and South America. The table below sets forth an analysis of our revenue by delivery destinations for the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	% of total revenue	<i>RMB'000</i>	% of total revenue	<i>RMB'000</i>	% of total revenue
PRC						
- Eastern region . . . . .	239,494	75.2	332,282	75.4	436,527	76.7
- Western region . . . . .	24,440	7.7	36,634	8.3	45,267	8.0
- Central region . . . . .	29,269	9.2	41,512	9.4	57,378	10.1
	293,203	92.0	410,428	93.1	539,172	94.8
Asia . . . . .	11,351	3.6	14,084	3.2	13,287	2.3
Europe . . . . .	10,144	3.2	13,653	3.1	11,174	2.0
Africa . . . . .	2,944	0.9	2,058	0.5	5,276	0.9
South America . . . . .	602	0.2	360	0.1	205	—*
<b>Total</b>	<b>318,244</b>	<b>100.0</b>	<b>440,583</b>	<b>100.0</b>	<b>569,113</b>	<b>100.0</b>

\* Value insignificant

See pages 179 to 195 of this prospectus for further information.

The table below sets forth an analysis of revenue by downstream industries of end user customers during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	% of total revenue	<i>RMB'000</i>	% of total revenue	<i>RMB'000</i>	% of total revenue
Industrial coatings . . . . .	41,178	67.9	58,261	62.0	60,204	57.0
Plastics . . . . .	12,031	19.8	16,918	18.0	20,716	19.6
Textiles and leather . . . . .	5,778	9.5	7,514	8.0	5,092	4.8
Cosmetics . . . . .	466	0.8	9,118	9.7	15,467	14.6
Ceramics . . . . .	682	1.1	1,212	1.3	2,082	2.0
Automotive coatings . . . . .	471	0.8	950	1.0	2,054	2.0
Others . . . . .	31	0.1	—	—	15	—*
<b>Total</b>	<b>60,637</b>	<b>100.0</b>	<b>93,973</b>	<b>100.0</b>	<b>105,630</b>	<b>100.0</b>

\* Value insignificant

We have no control over the business of the trading company customers, which are Independent Third Parties, and have no right to obtain any information from the trading company customers on the downstream industries their customers are engaged in.



## SUMMARY AND HIGHLIGHTS

### PRODUCTION FACILITIES

Our Phase 1 Production Plant is situated at No. 380, Feilu Road (Pearlescent Industrial Park), Luzhai Town, Luzhai County, Liuzhou City, Guangxi Zhuang Autonomous Region, the PRC, and is strategically located adjacent to the highways network which provides convenient access for the delivery of raw materials and finished products.

As of the Latest Practicable Date, our Phase 1 Production Plant occupied a total site area of 99,688.2 sq.m. with an aggregate gross floor area of 56,445.6 sq.m., including eight factory buildings, an office building, staff quarter and certain ancillary facilities. Our Phase 1 Production Plant has commenced production of pearlescent pigment products since 2014 and operates 24 hours a day supported by three working shifts of labour.

The table below sets forth our designed production/processing capacity, actual production/processing volume and the utilisation rate of our Phase 1 Production Plant during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	Designed production/processing capacity (tonnes)	Actual production/processing volume (tonnes)	Utilisation rate <sup>(1)</sup> (%)	Designed production/processing capacity (tonnes)	Actual production/processing volume (tonnes)	Utilisation rate <sup>(1)</sup> (%)
Finished products						
Pearlescent pigment products . . . . .	10,464	8,809	84.2	12,978	11,348	87.4
Synthetic mica powder . . . . .	4,752	1,564	32.9	4,752	3,653	76.9
<b>Total</b>	<b>15,216</b>	<b>10,373</b>		<b>17,730</b>	<b>15,001</b>	
Work-in-progress and semi-finished products						
Natural mica powder . . . . .	14,256	7,871	55.21	14,256	9,644	67.65
Synthetic mica flakes . . . . .	5,049	2,097	41.53	5,049	3,519	69.70
				<b>23,244</b>	<b>11,382</b>	<b>48.73</b>
				<b>23,244</b>	<b>4,757</b>	<b>20.47</b>
				<b>17,730</b>	<b>17,730</b>	<b>100.00</b>

*Note:*

(1) The calculation of the utilisation rates is based on the actual production/processing volume divided by the designed production/processing capacity in a given year.

See pages 204 to 208 of this prospectus for further information.

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## SUMMARY AND HIGHLIGHTS

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### SUPPLIERS AND RAW MATERIALS

The principal raw materials used in our production process include natural mica flakes and titanium tetrachloride. Natural mica flakes are used as raw material for the production of natural mica-based pearlescent pigment products. Titanium tetrachloride is a major chemical raw material used for the metal oxide coating in the production of natural mica-based pearlescent pigment products, synthetic mica-based pearlescent pigment products, glass flake-based pearlescent pigment products and silicon oxide-based pearlescent pigment products. We procure most of our raw materials in the PRC, except for some natural mica flakes and certain high-end glass flakes, which are imported from India and Australia, respectively. Some of our natural mica flakes procured from suppliers in the PRC are imported from overseas countries, including India and Madagascar. We are also exploring sourcing alternative supply of natural mica flakes from Brazil, Nigeria and Pakistan and high-end glass flakes from Japan to ensure we have adequate supply of natural mica flakes and high-end glass flakes in response to potential trade restriction or trade tension with the PRC.

The table below sets forth an analysis of our purchase cost of raw materials during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	<i>% of total cost of purchase of raw materials</i>	<i>RMB'000</i>	<i>% of total cost of purchase of raw materials</i>	<i>RMB'000</i>	<i>% of total cost of purchase of raw materials</i>
Raw materials						
— Natural mica flakes . . .	39,050	30.9	40,930	24.6	51,270	24.5
— Other raw materials . . .	10,473	8.3	18,747	11.3	25,393	12.1
	<u>49,523</u>	<u>39.2</u>	<u>59,677</u>	<u>35.9</u>	<u>76,663</u>	<u>36.6</u>
Chemical raw materials						
— Titanium tetrachloride.	51,100	40.4	70,158	42.2	75,467	36.1
— Other chemical raw materials . . . . .	17,196	13.6	25,910	15.6	41,025	19.6
	<u>68,296</u>	<u>54.0</u>	<u>96,068</u>	<u>57.8</u>	<u>116,492</u>	<u>55.7</u>
Packaging materials . . . . .	6,518	5.2	8,092	4.9	11,196	5.3
Furnace materials and utensils . . . . .	2,098	1.7	2,274	1.4	4,974	2.4
<b>Total</b>	<u>126,435</u>	<u>100.0</u>	<u>166,111</u>	<u>100.0</u>	<u>209,325</u>	<u>100.0</u>

See pages 209 to 216 of this prospectus for further information.

## SUMMARY AND HIGHLIGHTS

### FINANCIAL INFORMATION

#### Selected information on our consolidated statements of profit or loss

The table below sets forth selected information on our consolidated statements of profit or loss for the Track Record Period:

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue . . . . .	318,244	440,583	569,113
Cost of goods sold . . . . .	(166,917)	(218,222)	(280,246)
Sales related tax and auxiliary charges . . . . .	(4,380)	(4,084)	(5,002)
Gross profit . . . . .	146,947	218,277	284,065
Other income and other gains and losses . . . . .	4,971	5,295	14,778
Reversals of impairment losses on trade and other receivables/(Impairment losses for trade and other receivables) . . . . .	612	208	(4,118)
Selling expenses . . . . .	(13,347)	(23,292)	(24,607)
Administrative and other operating expenses <sup>(1)</sup> . . . . .	(35,568)	(56,712)	(72,898)
<b>Profit from operations</b>	<b>103,615</b>	<b>143,776</b>	<b>197,220</b>
Finance costs . . . . .	(15,869)	(18,475)	(19,399)
<b>Profit before tax</b>	<b>87,746</b>	<b>125,301</b>	<b>177,821</b>
Income tax expense . . . . .	(6,382)	(17,968)	(24,960)
<b>Profit for the year</b>	<b>81,364</b>	<b>107,333</b>	<b>152,861</b>
Attributable to			
Owners of our Company . . . . .	77,400	102,806	148,172
Non-controlling interests . . . . .	3,964	4,527	4,689
	<u>81,364</u>	<u>107,333</u>	<u>152,861</u>

*Note:*

(1) Our administrative and other operating expenses increased from RMB35.6 million during the year ended 31 December 2018 to RMB56.7 million during the year ended 31 December 2019, representing an increase of 59.4%. The increase was primarily due to the expenses incurred for the recruitment of additional administrative staff and the related travelling and business development expenses. During the year ended 31 December 2019, we also incurred RMB23.2 million for our research and development activities, as compared to RMB10.7 million during the year ended 31 December 2018, which were charged to profit or loss.

Our administrative and other operating expenses further increased from RMB56.7 million during the year ended 31 December 2019 to RMB72.9 million during the year ended 31 December 2020, representing an increase of 28.5%. The increase was primarily due to the amount of the Listing expenses incurred by us and charged to profit or loss of RMB13.2 million during the year ended 31 December 2020.

## SUMMARY AND HIGHLIGHTS

### Selected information on our consolidated statements of financial position

The table below sets forth selected information on our consolidated statements of financial positions as of 31 December 2018, 2019 and 2020:

	As of 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Assets</b>			
Non-current assets . . . . .	340,185	411,717	555,791
Current assets . . . . .	404,928	766,024	1,038,513
<b>Total assets</b>	<u>745,113</u>	<u>1,177,741</u>	<u>1,594,304</u>
<b>Equity</b>			
Equity attributable to owners of our Company . . . . .	298,101	712,208	1,181,239
Non-controlling interests . . . . .	156,858	161,385	166,074
<b>Total equity</b>	<u>454,959</u>	<u>873,593</u>	<u>1,347,313</u>
<b>Liabilities</b>			
Non-current liabilities . . . . .	15,341	222,984	82,761
Current liabilities . . . . .	274,813	81,164	164,230
<b>Total liabilities</b>	<u>290,154</u>	<u>304,148</u>	<u>246,991</u>
<b>Total equity and liabilities</b>	<u>745,113</u>	<u>1,177,741</u>	<u>1,594,304</u>
<b>Net current assets<sup>(1)</sup></b>	<u>130,115</u>	<u>684,860</u>	<u>874,283</u>
<b>Net assets<sup>(2)</sup></b>	<u>454,959</u>	<u>873,593</u>	<u>1,347,313</u>

*Notes:*

- (1) The amount represents the difference between our current assets and our current liabilities. As of 31 December 2018, 2019 and 2020, we had net current assets of RMB130.1 million, RMB684.9 million and RMB874.3 million, respectively. The increase in our net current assets as of 31 December 2019 was primarily due to the increase in our bank and cash balance as a result of our operating results and the net proceeds received from the equity offering by Chesir Pearl in June 2019 and the issuance of the 2019 Convertible Bonds. The increase in our bank and cash balances as of 31 December 2020 was mainly due to the receipt of the net proceeds from the Pre-IPO Investments by GX Land & Sea and Mr. SU.
- (2) The amount represents the difference between our total assets and our total liabilities. As of 31 December 2018, 2019 and 2020, we had net assets of RMB455.0 million, RMB873.6 million and RMB1,347.3 million, respectively. The significant increases in our net assets as of 31 December 2019 and 2020 were primarily due to the increase in our net current assets as set forth in note (1) above and the reserve arose from the issue of new shares by Chesir Pearl (further information on which is set forth in the Accountants' Report). In addition, the significant increase in our net assets as of 31 December 2020 was also due to the conversion of the 2019 Convertible Bonds on 19 October 2020 and the increase in our construction in progress being part of the Phase 2 Production Plant.

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## SUMMARY AND HIGHLIGHTS

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### Selected information on consolidated statements of cash flows

The table below sets forth selected information on our consolidated statements of cash flows for the Track Record Period:

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flow before movements in working capital .	120,019	164,591	222,962
Changes in working capital . . . . .	(74,263)	30,399	(85,727)
Interest paid and/or tax paid . . . . .	(19,737)	(31,446)	(40,664)
Net cash generated from operating activities . . . . .	26,019	163,544	96,571
Net cash used in investing activities . . . . .	(72,386)	(90,071)	(166,386)
Net cash generated from financing activities . . . . .	151,563	314,514	257,556
Net increase in cash and cash equivalents . . . . .	105,196	387,987	187,741
Cash and cash equivalents at beginning of year . . . . .	66,656	171,854	559,839
Effect of foreign exchange rate changes . . . . .	2	(2)	2
<b>Cash and cash equivalents at end of year</b>	<b>171,854</b>	<b>559,839</b>	<b>747,582</b>

See pages 304 to 374 of this prospectus for further information.

### ACCUMULATED LOSS PRIOR TO THE TRACK RECORD PERIOD

Chesir Pearl had accumulated loss of RMB23.3 million brought forward as of 1 January 2018. Such amount was primarily due to the fact that Chesir Pearl only commenced commercial operation during the year ended 31 December 2015, whilst it had made substantial amount of investments in the production facilities and the product development since its establishment in March 2011. Such amount of accumulated loss could not be offset by the operating profit of Chesir Pearl during the two years ended 31 December 2017. See the section headed “Financial Information — Summary of business development of Chesir Pearl prior to the Track Record Period — Overall development” in this prospectus for further information.

Since the beginning of 2017, Chesir Pearl managed to develop and produce more high-end pearlescent pigment products for industrial applications and expand the product offerings, which increased the amount of revenue. During the Track Record Period, Chesir Pearl launched 15, 56 and 42 new products, respectively, and the average unit selling prices of pearlescent pigment products continued to increase throughout the Track Record Period. In addition, our Group has achieved significant revenue growth due to the increase in the production and sales volume of our core products and the number of our customers. As a result, our Company’s retained earnings have been improved to RMB33.9 million as of 31 December 2018, RMB126.7 million as of 31 December 2019 and RMB273.9 million as of 31 December 2020.

## SUMMARY AND HIGHLIGHTS

### KEY FINANCIAL RATIOS

		Year ended 31 December				
		Numerator	Denominator	2018	2019	2020
Gross profit margin	(%)			46.2%	49.5%	49.9%
Net profit margin	(%)			25.6%	24.4%	26.9%
Return on equity	(%)	Profit for the year	Equity	17.9%	12.3%	11.3%
Return on total assets	(%)	Profit for the year	Total assets	10.9%	9.1%	9.6%
Gearing ratio <sup>(1)</sup>	(%)	Total liabilities	Equity	63.8%	34.8%	18.3%
Current ratio	Times	Current assets	Current liabilities	1.47	9.44	6.32
Quick ratio	Times	Current assets-Inventories	Current liabilities	1.20	8.45	5.86
Net debt to equity ratio <sup>(2)</sup>	(%)	Bank loans and other borrowings net of bank and cash balances	Equity	3.1%	Net Cash	Net Cash

*Notes:*

- (1) Gearing ratio is calculated based on our total liability divided by our total equity as of the end of each reporting year and multiplied by 100%.
- (2) Net debt to equity ratio is calculated by dividing our net debt, being our total bank loans and other borrowings net of bank and cash balances, by total equity as of the end of each reporting year and multiplied by 100%.

See pages 374 to 376 of this prospectus for further information.

### PROPOSED USE OF THE NET PROCEEDS FROM THE GLOBAL OFFERING

The table below sets forth the estimate of net proceeds from the Global Offering which we will receive after deduction of underwriting fees and commissions and estimated expenses in connection with the Listing and the Global Offering:

	<b>Assuming the Over-allotment Option is not exercised</b>	<b>Assuming the Over-allotment Option is exercised in full</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Assuming that the Offer Price is HK\$3.17 (after the Downward Offer Price Adjustment of 10%) . . . . .	HK\$ 856.6	HK\$ 989.9
Assuming that the Offer Price is HK\$3.52 (being the low-end of the indicative range of the Offer Price) . . . . .	HK\$ 954.7	HK\$1,102.8
Assuming that the Offer Price is HK\$3.87 (being the mid-point of the indicative range of the Offer Price) . . . . .	HK\$1,052.9	HK\$1,215.7
Assuming that the Offer Price is HK\$4.22 (being the high-end of the indicative range of the Offer Price) . . . . .	HK\$1,151.1	HK\$1,328.6

Assuming that the Offer Price is HK\$3.87, being the mid-point of the indicative range of the Offer Price, we intend to use the net proceeds from the Global Offering for the following purposes:

- (1) 55.6% of the net proceeds from the Global Offering, or HK\$586.4 million (equivalent to RMB493.7 million), will be used for partial financing of the construction of our Phase 2 Production Plant, of which (a) HK\$293.2 million (equivalent to RMB246.9 million) will be used for the construction of various buildings and facilities for our Phase 2 Production Plant and (b) HK\$293.2 million (equivalent to RMB246.8 million) will be used for the purchase and installation of production plant and machinery, installation of intelligent control system, equipment installation, testing and commission. Our Phase 2 Production Plant will be used for the production of pearlescent pigment products and in particular, high-end pearlescent pigment products with a designed annual production capacity of 30,000 tonnes. See the section headed “Future Plans and Proposed Use of the Net Proceeds from the Global Offering — Construction of our Phase 2 Production Plant” in this prospectus for further information.

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## SUMMARY AND HIGHLIGHTS

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- (2) 34.1% of the net proceeds from the Global Offering, or HK\$358.9 million (equivalent to RMB302.2 million), will be used for partial financing of the construction of our Luzhai Synthetic Mica Plant, of which (a) HK\$187.7 million (equivalent to RMB158.0 million) will be used for the construction of various building and facilities for our Luzhai Synthetic Mica Plant and (b) HK\$171.2 million (equivalent to RMB144.2 million) will be used for the purchase and installation of 60 synthetic mica melting furnaces and the intelligent control system. Our Luzhai Synthetic Mica Plant will be used for the production of synthetic mica flakes with an estimated designed annual production capacity of 30,000 tonnes. See the section headed “Future Plans and Proposed Use of the Net Proceeds from the Global Offering — Construction of our Luzhai Synthetic Mica Plant” in this prospectus for further information.
- (3) 7.1%, or HK\$74.0 million (equivalent to RMB62.3 million), will be used to increase our investment in research and development facilities and testing equipment of our research and development centre.
- (4) 3.2%, or HK\$33.6 million (equivalent to RMB28.3 million), will be used for sales and marketing activities and building sales network to enhance our brand recognition in the PRC and overseas.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes and to the extent permitted by applicable law and regulations, if we are unable to effect any part of our future plans as intended, we will deposit the unused net proceeds from the Global Offering in short-term deposits with authorised financial institutions and/or licensed banks in Hong Kong or the PRC.

See pages 383 to 394 of this prospectus for further information.

### OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders are Mr. SU, Ertian International, Seven Color Pearl Investment, Liuzhou Qise LP, Liuzhou Lianrun LP, Liuzhou Colorful LP, Mr. ZHENG, Mr. JIN, Hongzun Investment and Hongzun International, and they are a group of Controlling Shareholders for the purpose of the Listing Rules. Immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option any option that may be granted under the Post-IPO Share Option Scheme), our Controlling Shareholders will beneficially own an aggregate of 36.67% of our Shares in issue.

See pages 282 to 285 of this prospectus for further information.

### PRE-IPO INVESTMENTS

For the purpose of the Listing and as part of the Reorganisation, we have received equity investments from three Pre-IPO Investors, namely GX Land & Sea, Guidong Electric and Mr. SU (through Ertian International and Seven Color Pearl Investment). Mr. SU and Guidong Electric are existing equity holders of Chesir Pearl, and they have made additional equity investments to Chesir Pearl by way of subscription for new shares of Chesir Pearl and exercise of the conversion right attached with the 2019 Convertible Bonds, respectively. GX Land & Sea is a new investor with its equity investment made through Generous Fortune for the purpose of facilitating the conversion of Chesir Pearl into a sino-foreign equity joint venture for the purpose of the Listing. Their equity investments constitute our pre-IPO investments as defined in the Guidance Letters HKEx-GL29-12 (updated in March 2017), HKEx-GL-43-12 (updated in July 2013 and March 2017) and HKEx-GL44-12 (updated in March 2017) issued by the Stock Exchange.

In addition, there were 69 completed transactions involving the transfer of an aggregate 27,493,141 shares of Chesir Pearl. The transferees in these transactions (other than Mr. SU and Mr. WEI Seguang (韦色广)), who have exchanged their shares of Chesir Pearl into the shares of Generous Fortune pursuant to the Chesir Pearl Equity Transfer Agreement and ultimately our Shares by way of the Cayman Share Swap, have become part of the Consent Chesir Pearl Equity Holders and ultimately, our Shareholders through the Reorganisation. These transferees are deemed to be our Pre-IPO Investors as they acquire the issued share of Chesir Pearl in contemplation of the Listing.

See pages 144 to 152 of this prospectus for further information.

### CORNERSTONE INVESTMENTS

As a part of the International Offering, the Cornerstone Investment (Shanghai Huijin) Agreement and Cornerstone Investment (YBN Investments) Agreement have been entered into, pursuant to which Shanghai Huijin and YBN Investments have agreed to invest RMB32.0 million and HK\$50.0 million, respectively, for the subscription for our International Offer Shares at the Offer Price, rounded down

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## SUMMARY AND HIGHLIGHTS

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to the nearest board lot of 1,000 Shares. Following the Listing, Shanghai Huijin No. 3 Fund and YBN Investments will hold our International Offer Shares issued and allotted to Shanghai Huijin and YBN Investments, respectively. Assuming that the Offer Price is HK\$3.87 (being the mid-point of the indicative range of the Offer Price), the total number of our International Offer Shares to be subscribed by Shanghai Huijin and YBN Investments would be 9,576,000 Shares and 12,919,000 Shares, respectively, representing 3.29% and 4.44% of the initial number of our Offer Shares and 0.82% and 1.11% of the number of our Shares in issue immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme).

See pages 395 to 402 of this prospectus for further information.

### OFFER STATISTICS

Offer size. . . . .	Initially 290,674,000 Shares, representing 25.0% of the enlarged number of Shares in issue (subject to the Over-allotment Option)
Offer structure. . . . .	Initially 90% International Offering and 10% Hong Kong Public Offering (subject to re-allocation and the Over-allotment Option)
Over-allotment Option .	Up to 15% of the initial number of our Offer Shares
Offer Price. . . . .	HK\$3.52 to HK\$4.22 for each Share (subject to the Downward Offer Price Adjustment)

	<b>Based on the minimum Offer Price of HK\$3.17 after the Downward Offer Price Adjustment of 10%</b>	<b>Based on the low-end of the indicative range of the Offer Price of HK\$3.52</b>	<b>Based on the high-end of the indicative range of the Offer Price of HK\$4.22</b>
Market capitalisation of our Shares . . . . .	HK\$3,685.7 million	HK\$4,092.7 million	HK\$4,906.6 million
Unaudited pro forma adjusted net tangible assets per Share . . . . .	HK\$1.96	HK\$2.04	HK\$2.21

### LISTING EXPENSES

Assuming the Offer Price of HK\$3.87, being the mid-point of the indicative range of the Offer Price, the total amount of Listing expenses (including the underwriting fees and commissions in connection with the Global Offering) is estimated to be RMB60.6 million, representing 6.4% of the gross proceeds from the Global Offering of HK\$1,124.9 million. Out of this amount, RMB39.7 million will be accounted for as a deduction from equity upon the Listing. Listing expenses of RMB13.2 million were charged to the profit or loss during the year ended 31 December 2020. We expect that an additional amount of Listing expenses of RMB7.7 million would be charged to the profit or loss for the year ending 31 December 2021. Listing expenses are non-recurring in nature, and the amount stated above is only the best estimate of our Directors as of the Latest Practicable Date and for reference only. The actual amount of Listing expenses may differ from the above estimated amount. We do not expect Listing expenses to have a material impact on our operating results for the year ending 31 December 2021.

### DIVIDENDS

During the Track Record Period, we did not declare and pay any dividend to our Shareholders. Following the Listing, dividends may be paid out by way of cash or by such other means as we consider appropriate. Declaration and payment of any dividends would require the recommendation



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## SUMMARY AND HIGHLIGHTS

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of our Directors and will be at their discretion. In addition, any final dividend for a financial year will be subject to the approval of our Shareholders. A decision to declare or pay any dividend in the future, and the amount of any of such dividends, depends on a number of factors, including our results of operations, financial condition, amount of capital expenditures, payment by our subsidiaries of cash dividends to us and other factors our Directors may deem relevant. There can be no assurance that our Company will be able to declare or distribute any dividend in the future. Our Company currently does not have any fixed dividend pay-out ratio.

### PRINCIPAL RISK FACTORS

Our business operations and the Global Offering involve certain risks and uncertainties. See the section headed “Risk Factors” in this prospectus for further information. Some of the major risk factors are set forth as follows:

- Our sales are dependent on the PRC and global economy, and any significant economic downturn in the PRC and global economy could adversely affect our business, financial condition, results of operations and prospects.
- We may not be able to secure a stable supply of raw materials with acceptable quality or on acceptable prices which would adversely affect our operations and financial condition.
- Rising political tensions and current tensions in international trade may have an adverse effect on our business and expansion plans.
- Our performance could be adversely affected by any decrease in our sales to our key customers.
- Our production and operation are subject to extensive environmental protection laws and regulations, and compliance with these laws and regulations may be costly.
- We may not be able to fully utilise our production capacity due to insufficient or unstable demand or interruption in the production process.
- We may fail to derive benefits from our research and development efforts and our investments in new production facilities, keep pace with and respond to technological changes and evolving industry standards in an efficient and timely manner.
- The construction of our Phase 2 Production Plant and our Luzhai Synthetic Mica Plant might not be completed as planned, may exceed our original budget and might not achieve the intended economic results or commercial viability.
- Any material disruption to the operation of our production facilities could materially and adversely affect our business and financial condition and operating results.
- We may not be able to adequately protect our intellectual property rights and any unauthorised use of our intellectual property rights by competitors or third parties, and the expenses incurred in protecting such intellectual property rights, may adversely affect our business and reputation.

See pages 22 to 53 of this prospectus for further information.

### RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

#### Our performance during the three months ended 31 March 2021

Our business continues to grow during the three months ended 31 March 2021. Based on the unaudited financial information, our revenue during the three months ended 31 March 2021 increased by 20.5% as compared to the corresponding period in 2020. Our gross profit margin increased during the three months ended 31 March 2021, as compared to the three months ended 31 March 2020, primarily due to the increase in sales of synthetic mica-based and glass flakes-based pearlescent pigment products which had higher gross profit margin than natural mica-based pearlescent pigment products.

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## SUMMARY AND HIGHLIGHTS

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During the three months ended 31 March 2021, the production volume and the sales volume of our pearlescent pigment products increased by 47.8% and 21.7%, respectively, as compared to the corresponding period in 2020. The utilisation rate of our production facilities for the production of pearlescent pigment products increased from 74.1% for the three months ended 31 March 2020 to 85.3% for the three months ended 31 March 2021. We recorded a lower utilisation rate of our production facilities during the first quarter of 2020 due to the extension of the Chinese New Year holiday as a result of the COVID-19 pandemic.

### **Listing expenses**

Our operating results during the year ended 31 December 2020 were affected by the Listing expenses charged to the profit or loss. The Listing expenses in the total amount of RMB13.2 million were charged to the profit or loss during the year ended 31 December 2020. We expect that an additional amount of Listing expenses of RMB7.7 million would be charged to the profit or loss for the year ending 31 December 2021.

There was no interruption to our business that has or may have a significant effect on our financial position in the last 12 months. Except to the extent disclosed in this prospectus and the Listing expenses in connection with the Global Offering, our Directors confirm that there has been no material adverse change in our financial, operational or trading position since 31 December 2020 (being the date as of which our latest audited consolidated financial statements were prepared as set forth in the Accountants' Report) and up to the date of this prospectus.

### **IMPACT OF THE COVID-19 PANDEMIC**

#### **Overall business environment**

Since early 2020, the COVID-19 pandemic has materially and adversely affected the global economy as well as the economy in the PRC. The PRC Government and other governments around the world have implemented strict measures to contain the pandemic. Our pearlescent pigment products are generally used as colourant in different downstream applications, such as automotive coatings, cosmetics, industrial coatings, plastics, printing, textile and leather and ceramics, and on this basis, we are not particularly affected by the COVID-19 pandemic as all such end products will require colourant to complete the production process. The cost of colourant only represents a small percentage of the cost of production of the end products. Our Directors therefore consider that we are not in the industries which are severely affected by the COVID-19. According to the Frost & Sullivan Report, with gradual recovery from the COVID-19 pandemic, the pearlescent pigment market in the PRC is expected to continue to maintain its growth momentum.

#### **Our performance**

In around February 2020, our business was slightly affected by the lockdown imposed by the PRC Government in Hubei Province in response to the COVID-19 pandemic. We were not able to deliver our products to our customers and our production activities were suspended during the period from 1 February 2020 to 10 February 2020. As a result, our operating results during the first quarter of 2020 were adversely affected due to the combined impact of the extension of the Chinese New Year holiday and the measures implemented by the PRC Government to contain the pandemic. With the decrease in the number of confirmed cases of COVID-19 in the PRC and the effective quarantine measures, the PRC economy was stabilised during the second and the third quarters of 2020. Our revenue during the year ended 31 December 2020 bounced back with increases in our sales to customers in the PRC and other countries, and as a result our profitability had also improved, as compared to the amounts of revenue and profit during the year ended 31 December 2019. In addition, despite the short suspension of our production during the first quarter of 2020, there had not been any significant impact on the utilisation rate of our production facilities in 2020 which had increased to 98.3% as compared to 87.4% during the year ended 31 December 2019. With the decrease in the number of confirmed cases of COVID-19 in the PRC and the general recovery of the economic and the social activities, our Directors consider that it would be unlikely that our production activities would be suspended again due to the COVID-19 pandemic.

Our Directors accept that the COVID-19 pandemic has a profound impact on the global business and economic outlook at large. Some of our customers, particularly those engaged in international trade, were affected in various ways and to different extent. In response to the current situation, we have slightly reduced the average unit selling prices during the year ended 31 December 2020 and have extended the credit period provided to our customers on a case-by-case basis. These measures

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## SUMMARY AND HIGHLIGHTS

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have resulted in an increase in the balance of trade and other receivables as of 31 December 2020, but with no significant increase in the impairment loss as of 31 December 2020. Our travelling and business development expenses had also increased during the same period due to more frequent customer visits made by our sales personnel after the lifting of the lockdown measures in the PRC.

Our performance for the year ended 31 December 2020 was significantly better than that for the year ended 31 December 2019. Our revenue and profit during the year ended 31 December 2020 had bounced back with the increase in our sales to customers in the PRC, as compared to the revenue and profit for the year ended 31 December 2019.

Our sales in the PRC during the year ended 31 December 2020 grew by 31.4% as compared to our sales in the PRC during the year ended 31 December 2019, with insignificant impact on our sales in the PRC market caused by COVID-19 pandemic. Our Directors believe that this was primarily due to the fact that we had continued our efforts to promote our products during the pandemic and the fact that our business is not in the industries which are severely hit by the pandemic.

Our sales to overseas customers during the year ended 31 December 2020 recorded a slight decline of 0.7% as compared to our overseas sales during the year ended 31 December 2019. Sales to almost all international markets (other than Africa) had slightly decreased primarily due to the impact of COVID-19 pandemic. Nevertheless, with gradual recovery of global economic activities, our Directors have not noticed that the COVID-19 pandemic has created any imminent and adverse impact on our sales to the international markets.

As of the Latest Practicable Date, there was no COVID-19 case confirmed amongst our employees. We have adopted a series of precautionary steps to prevent the spread of the COVID-19 within our production facilities and offices, and such measures include, disinfecting our production facilities and offices on a regular basis, measuring body temperature of all employees and visitors entering our production facilities and offices, maintaining detailed business travel history of our employees and providing face masks and disinfectant to our employees.

As of the Latest Practicable Date, we have not received from our customers any notification of cancellation or postponement of delivery of all or part of their purchase orders due to the COVID-19 pandemic. Our Directors also confirm that up to the Latest Practicable Date, we have not encountered or do not expect to encounter any material disruption to our supply chain because of the COVID-19 pandemic. Our Directors do not consider that there would be disruption to the continuous supply of natural mica flakes from India as such supply was not interrupted during the outbreak of COVID-19 in 2020 and the first quarter of 2021. Moreover, we also sourced natural mica flakes from other countries, such as Madagascar, Brazil, Nigeria and Pakistan. Our Directors believe that we would not encounter any interruption to the supply of natural mica flakes in the near future based on the publicly available information.

Currently, our Directors believe that our expansion plans as disclosed in the section headed “Business — Our strategies” in this prospectus are feasible and appropriate. Based on the information publicly available to them, our Directors do not envisage any change in the proposed use of the net proceeds from the Global Offering as a result of the COVID-19 pandemic.

### **Hypothetical scenario of suspension of a substantial part of our business operations due to the COVID-19 pandemic**

If we were required to reduce or suspend a substantial part of our business operations due to the COVID-19 pandemic in the PRC and other countries with which we have business relationship, our Directors believe that our Group would continue to have sufficient liquidity and financial resources and would remain financially sound and viable for at least 15 months from May 2021. This estimation is based on the following assumptions:

- (a) we would be required to suspend all of our business operations from May 2021 and the corresponding level of our production activities has also been suspended;
- (b) we would not incur any variable production costs, sales and marketing costs and research and development costs other than staff wages and salaries;
- (c) we would not be required to repay our payables and borrowings prior to the agreed repayment dates;
- (d) we would not encounter any significant difficulty in collecting our trade receivables, which would be collected from our customers based on the historical settlement patterns and the turnover days;

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## SUMMARY AND HIGHLIGHTS

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- (e) our inventories would not be used by us given that all business operations and production activities have been suspended since May 2021;
- (f) we would not need to rely on any external debt or equity financing; and
- (g) the outstanding capital expenditure in respect of the proposed use of the net proceeds from the Global Offering would continue as planned.

The above analysis is for illustrative purpose only and our Directors are of the view that our business would not encounter such extreme and hypothetical situation, given the fact that the PRC government has implemented stringent measures to control the spread of the COVID-19 pandemic and has successfully implemented various policies to promote economic growth.

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## DEFINITIONS

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

**The English names of the PRC entities, PRC laws or regulations, and the PRC governmental authorities referred to in this prospectus are translations from their Chinese names and are for identification purposes. If there is any inconsistency, the Chinese names shall prevail.**

“2017 Convertible Loan”	the convertible loan in the principal amount of RMB30,000,000 borrowed by Chesir Pearl from 厦门国际信托有限公司 (Xiamen International Trust Co., Ltd.) which is an Independent Third Party, see the section headed “Financial Information — Components of our non-current assets and non-current liabilities — Convertible loans — 2017 Convertible Loan” in this prospectus for further information
“2019 Convertible Bonds”	the convertible bonds in the principal amount of RMB72,240,000 issued by Chesir Pearl to the Bondholders on 31 May 2019 pursuant to the Convertible Bond Subscription Agreement, which had been transferred to Guidong Electric under the Convertible Bonds Transfer Agreement, and the conversion right attached therewith has been exercised in full by Guidong Electric, see the section headed “Pre-IPO Investments” in this prospectus for further information
“Accountants’ Report”	the report of the Reporting Accountants on our financial information during the Track Record Period, the text of which is set forth in Appendix I to this prospectus
“Application Form(s)”	<b>WHITE, YELLOW</b> and <b>GREEN</b> application form(s), or where the context so requires, any of them
“Application Lists”	the application lists for the Hong Kong Public Offering
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company conditionally adopted on 2 June 2021 which will become effective on the Listing Date, a summary of which is set forth in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	a committee established by our Board for the purpose of overseeing the accounting and financial reporting processes of our Group and the audit of the financial statements of our Company
“Board of Directors” or “Board”	our board of Directors

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## DEFINITIONS

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“Bondholders”	the initial holders of the 2019 Convertible Bonds, namely 福睿创信(厦门)新兴产业投资合伙企业(有限合伙) (Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership)) and 西藏福聚投资有限公司 (Tibet Fujun Investment Co., Ltd)
“Business Day”	any day other than a Saturday, Sunday or public holiday in Hong Kong or days on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m. on which licenced banks in Hong Kong are generally open for business during their normal business hours
“Buy-back Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the buy-back of our Shares, see the section headed “Share Capital” in this prospectus for further information
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 726,684,655 new Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company as referred to in the paragraphs under “A. Further information about our Group — 4. Written resolutions approved by our Shareholders on 2 June 2021” in Appendix V to this prospectus
“Cayman Companies Act”	the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands
“Cayman Principal Registrar”	Conyers Trust Company (Cayman) Limited, our principal share registrar in the Cayman Islands
“Cayman Share Swap”	a share swap implemented and accepted by all shareholders of Generous Fortune, whereby one share of Generous Fortune was exchanged for one Share, except for the 7,493,138 shares of Generous Fortune held by Ertian International, which were exchanged for 3,593,138 Shares allotted and issued to Ertian International
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

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## DEFINITIONS

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“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chesir France”	Chesir Europe S.A.S., a joint stock company with sole shareholder incorporated under the laws of France on 5 December 2016 and a wholly-owned subsidiary of Chesir Pearl
“Chesir Luzhai”	Luzhai Chesir Pearl Mica Material Co., Ltd (鹿寨七色珠光云母材料有限公司), a company established under the laws of the PRC with limited liability on 20 September 2017 and a non-wholly owned subsidiary of Chesir Pearl
“Chesir Pearl”	Guangxi Chesir Pearl Material Co., Ltd. (广西七色珠光材料股份有限公司), a sino-foreign equity joint venture established under the laws of the PRC with limited liability on 29 March 2011 and a non-wholly owned subsidiary of our Company
“Chesir Pearl Equity Transfer Agreement”	the equity transfer agreement (股权转让协议) dated 18 November 2020 entered into between the Consent Chesir Pearl Equity Holders and Global New Material (HK), pursuant to which the Consent Chesir Pearl Equity Holders have agreed to transfer their shares of Chesir Pearl for the same number of new shares of Generous Fortune to be allotted and issued to them (or their nominees)
“China” or “PRC”	The People’s Republic of China and, except where the context otherwise requires and only for the purpose of this prospectus, references in this prospectus to China or the PRC exclude Hong Kong and The Macau Special Administration Region of the PRC and Taiwan
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company”	Global New Material International Holdings Limited (环球新材国际控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 8 June 2018

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## DEFINITIONS

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“Compliance Adviser”	Essence Corporate Finance (Hong Kong) Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, acting as our compliance adviser upon the Listing
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consent Chesir Pearl Equity Holders”	the 22 equity holders of Chesir Pearl <sup>(1)</sup> who have agreed and completed the required procedures under the applicable PRC laws and regulations to transfer their equity interests in Chesir Pearl for the same number of shares of Generous Fortune under the Chesir Pearl Equity Transfer Agreement, a list of which is set forth in the section headed “History, Development and Reorganisation — Reorganisation — Generous Fortune” in this prospectus
“Continuous Profit”	Continuous Profit Limited (連潤有限公司), a company incorporated under the laws of the BVI with limited liability on 28 March 2018 and wholly-owned by Mr. SU
“Controlling Shareholders”	have the meaning ascribed to it under the Listing Rules and in the context of this prospectus, include Mr. SU, Ertian International, Seven Color Pearl Investment, Liuzhou Qise LP, Liuzhou Lianrun LP, Liuzhou Colorful LP, Mr. ZHENG, Mr. JIN, Hongzun Investment and Hongzun International

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*Note:*

- (1) These equity holders include (1) SU Ertian (苏尔田), (2) LUO Lingtao (骆凌涛), (3) LI Sun (李孙), (4) DAI Rong (戴荣), (5) ZHANG Xianchao (张仙超), (6) Guangxi Hongzun Investment Group Co., Ltd (广西鸿尊投资集团有限公司), (7) Hangzhou Weixing Zhichen Equity Investment L.P. (杭州伟星智晨股权投资合伙企业(有限合伙)), (8) Zhejiang Venture Investment Group Co., Ltd. (浙江省创业投资集团有限公司), (9) Liuzhou Qise Enterprise Management Partnership Enterprise (Limited Partnership) (柳州七色企业管理合伙企业(有限合伙)), (10) Liuzhou Colorful Enterprise Management Partnership Enterprise (Limited Partnership) (柳州七彩企业管理合伙企业(有限合伙)), (11) Liuzhou Banyan Business Management L.P. (柳州榕树企业管理合伙企业(有限合伙)), (12) Liuzhou Dice Hongze Enterprise Management L.P. (柳州迪策鸿泽企业管理合伙企业(有限合伙)), (13) Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) (福睿创信(厦门)新兴产业投资合伙企业(有限合伙)), (14) Zhuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.) (珠海格金广发信德智能制造产业投资基金(有限合伙)), (15) Ningbo Jingzhu Investment L.P. (宁波京珠投资合伙企业(有限合伙)), (16) Beijing Longmahui Capital Investment Co., Ltd. — Ningbo Meishan Bonded Port Area Fengrong Investment Management L.P. (北京龙马汇资本投资有限公司 — 宁波梅山保税港区丰融投资管理合伙企业(有限合伙)), (17) Beijing Jiahua Huijin Investment Management Co., Ltd. — Ningbo Meishan Bonded Port Area Huazhen Equity Investment L.P. (北京嘉华汇金投资管理有限公司 — 宁波梅山保税港区华臻股权投资合伙企业(有限合伙)), (18) Qingdao Jin Yi Qing Control Venture Investment Center L.P. (青岛清控金奕创业投资中心(有限合伙)), (19) Liuzhou Chuanfu Business Management Partnership L.P. (柳州川富企业管理合伙企业(有限合伙)), (20) Beijing Longmahui Capital Investment Co., Ltd. — Ningbo Meishan Bonded Port Area Fenghui Investment Management L.P. (北京龙马汇资本投资有限公司 — 宁波梅山保税港区丰汇投资管理合伙企业(有限合伙)), (21) Liuzhou Lianrun Enterprise Management Partnership Enterprise (Limited Partnership) (柳州连润企业管理合伙企业(有限合伙)) and (22) LIU Zhihe (刘志和).



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## DEFINITIONS

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“Convertible Bonds Conversion Agreement”	the convertible bonds conversion agreement (债转股协议) dated 19 October 2020 entered into between Guidong Electric and Chesir Pearl for the purpose of exercising the conversion right attached with the 2019 Convertible Bonds
“Convertible Bonds Investment Agreement”	the convertible bonds investment agreement (可转债投资协议) dated 31 May 2019 entered into between the Bondholders and Chesir Pearl, see the section headed “History, Development and Reorganisation — Corporate history of our subsidiaries in the PRC — Chesir Pearl — Issuance of the 2019 Convertible Bonds” in this prospectus for further information
“Convertible Bonds Transfer Agreement”	the convertible bonds transfer agreement dated 16 October 2020 entered into between Guidong Electric and the Bondholders
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Cornerstone Investment Agreements”	the Cornerstone Investment (Shanghai Huijin) Agreement and the Cornerstone Investment (YBN Investments) Agreement
“Cornerstone Investment (Shanghai Huijin) Agreement”	the cornerstone investment agreement dated 23 June 2021 entered into between our Company, Shanghai Huijin, the Sole Sponsor and the Sole Global Coordinator, pursuant to which Shanghai Huijin has agreed to invest RMB32.0 million in such number of our International Offer Shares (to be issued and allotted to it or its nominee) at the Offer Price, further information on which is set forth in the section headed “Cornerstone Investment” in this prospectus
“Cornerstone Investment Shares”	the number of Shares to be subscribed for by the Cornerstone Investors in the International Offering in accordance with the terms and conditions of the Cornerstone Investment Agreements
“Cornerstone Investment (YBN Investments) Agreement”	the cornerstone investment agreement dated 23 June 2021 entered into between our Company, YBN Investments, the Sole Sponsor and the Sole Global Coordinator, pursuant to which YBN Investments has agreed to invest HK\$50.0 million in such number of our International Offer Shares (to be issued and allotted to it or its nominee) at the Offer Price, further information on which is set forth in the section headed “Cornerstone Investments” in this prospectus
“Cornerstone Investors”	Shanghai Huijin (and its nominee, Shanghai Huijin No. 3 Fund) and YBN Investments
“CSRC”	中国证券监督管理委员会 (China Securities Regulatory Commission), a regulatory body responsible for the supervision and regulation of the PRC national securities markets

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## DEFINITIONS

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“Deed of Non-Competition”	the deed of non-competition dated 2 June 2021 entered into by our Controlling Shareholders and our executive Directors in favour of our Company, see the section headed “Relationship with our Controlling Shareholders” in this prospectus for further information
“Director(s)”	the director(s) of our Company
“Downward Offer Price Adjustment”	an adjustment pursuant to which the Offer Price may be reduced up to 10% below HK\$3.52, being the low-end of the indicative range of the Offer Price
“EIT”	enterprise income tax in the PRC
“EIT Law”	the Enterprise Income Tax Law of the PRC (中华人民共和国企业所得税法)
“electronic application instruction(s)”	instruction given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for our Hong Kong Offer Shares
“Ertian International”	Ertian International Investment Limited (尔田国际投资有限公司), a company incorporated under the laws of the BVI with limited liability on 27 October 2020 and wholly-owned by Mr. SU, being one of our Pre-IPO Investors and Controlling Shareholders
“Euro” or “EUR”	Euro, the lawful currency of the European Union
“First Six-Month Period”	the period of six months from the Listing Date
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent market research and consulting company
“Frost & Sullivan Report”	the report commissioned by us and independently prepared by Frost & Sullivan on the industry in which we operate, a summary of which is set forth in the section headed “Industry Overview” in this prospectus
“GBP”	British pound sterling, the lawful currency of the United Kingdom
“General Mandate”	the general unconditional mandate granted to our Directors by our Shareholders in relation to the issue of new Shares, further information of which is set forth in the section headed “Share Capital” in this prospectus
“Generous Fortune”	Generous Fortune Limited (盛富有限公司), a company incorporated in the BVI with limited liability on 15 June 2018 and a wholly-owned subsidiary of our Company

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## DEFINITIONS

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“GF Qianhe”	GF Qianhe Investment Co., Ltd. (广发乾和投资有限公司), a company established under the laws of the PRC with limited liability on 11 May 2012 with a registered capital of RMB3.60 million, which is an equity holder of Chesir Pearl prior to the GF Share Swap
“GF Share Swap”	a share swap implemented and accepted by GF Qianhe, being part of the Reorganisation, whereby one share in Chesir Pearl was exchanged for one Share
“Global New Material (HK)”	Global New Material (China) Limited (环球新材(中国)有限公司), a company incorporated in Hong Kong with limited liability on 30 December 2019 and a wholly-owned subsidiary of our Company
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN application form(s)”	the application form(s) to be completed by the <b>HK eIPO White Form</b> Service Provider
“Group” or “our Group”, “we” or “us”	our Company and subsidiaries, or where the context so requires, in respect of the period prior to our Company becoming the holding company of the present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at that time
“Guangxi Industrial Investment”	Guangxi Industrial Investment Development Co., Ltd. (广西工业投资发展有限责任公司), a company wholly-owned by the People’s Government of Guangxi Zhuang Autonomous Region (广西壮族自治区人民政府), and is holding 39.96% equity interest in Chesir Luzhai
“Guidong Electric”	Guangxi Guidong Electric Power Co., Ltd. (广西桂东电力股份有限公司), a company established under the laws of the PRC with limited liability on 4 December 1998, whose shares have been listed on the Shanghai Stock Exchange since 28 February 2001 (stock code: 600310), which is one of our Pre-IPO Investors
“Guidong Lock-Up Deed”	the lock-up deed (禁售契据) executed by Guidong Electric, see the sections headed “Pre-IPO Investments” and “Underwriting — Underwriting Arrangements and Expenses — Undertakings given to the Company and the Sole Sponsor” in this prospectus for further information
“Guidong Share Swap”	a share swap implemented and accepted by Guidong Electric, being part of the Reorganisation, whereby one share in Chesir Pearl was exchanged for one Share

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## DEFINITIONS

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“GX Land & Sea”	GX Land & Sea Connectivity Holding Ltd, a company incorporated in the BVI with limited liability on 20 March 2020, which is one of our Pre-IPO Investors
“GX Lock-Up Deed”	the lock-up deed (禁售契据) executed by GX Land & Sea, see the sections headed “Pre-IPO Investments” and “Underwriting — Underwriting Arrangements and Expenses — Undertakings given to the Company and the Sole Sponsor” in this prospectus for further information
“GX Pre-IPO Investment Agreement”	the agreement (协议书) dated 19 October 2020 entered into between GX Land & Sea, Chesir Pearl, our Company and Mr. SU, a summary of its principal terms is set forth in the section headed “Pre-IPO Investments” in this prospectus
“HK eIPO White Form”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of <b>HK eIPO White Form</b> at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> or in the <b>IPO App</b>
“HK eIPO White Form Service Provider”	the <b>HK eIPO White Form</b> service provider designated by us, as specified on the designated website of <b>HK eIPO White Form</b> at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> or in the <b>IPO App</b>
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Offer Shares”	the 29,068,000 new Shares being initially offered by our Company for subscription pursuant to the Hong Kong Public Offering subject to re-allocation as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus

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## DEFINITIONS

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“Hong Kong Public Offering”	the offer for subscription of our Hong Kong Offer Shares by members of the public in Hong Kong (subject to re-allocation as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus) at the maximum Offer Price (plus brokerage fee of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) and on and subject to the terms and conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering whose names are set forth in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 29 June 2021 relating to the Hong Kong Public Offering entered into between our Company, our Controlling Shareholders, the Warranting Directors (as defined therein), Essence Corporate Finance (Hong Kong) Limited (acting as the Sole Sponsor), Essence International Securities (Hong Kong) Limited (acting as the Sole Global Coordinator) and the other Hong Kong Underwriters
“Hongzun Investment”	Guangxi Hongzun Investment Group Co., Ltd (广西鸿尊投资集团有限公司), a company established under the laws of the PRC with limited liability on 18 August 2010 and owned as to 51.0% and 49.0% by Mr. SU and Mr. ZHENG, respectively, being one of our Controlling Shareholders
“Hongzun International”	Hongzun Int Investment Group Ltd. (鸿尊国际投资集团有限公司), a company incorporated under the laws of the BVI with limited liability on 27 October 2020 and a wholly-owned subsidiary of Hongzun Investment, being one of our Controlling Shareholders
“IFRS”	International Financial Reporting Standards, as issued from time to time by the International Accounting Standards Board
“Independent Third Party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s) who/which, to the best knowledge, information and belief of our Directors, having made all reasonable enquiries, is/are not connected with our Company or our connected persons

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## DEFINITIONS

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“International Offer Shares”	261,606,000 Shares, being initially offered by our Company for subscription pursuant to the International Offering together with, where relevant, any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option, the number of which is subject to re-allocation as described in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Offering”	the conditional offering of our International Offer Shares for and on behalf of our Company outside the United States, including to professional investors and institutional investors in Hong Kong and outside the United States, as set forth in the section headed “Structure and Conditions of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Offering, who are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering expected to be entered into on the Price Determination Date between our Company, our Controlling Shareholders, the Warranting Directors (as defined therein), Essence Corporate Finance (Hong Kong) Limited (acting as the Sole Sponsor), Essence International Securities (Hong Kong) Limited (acting as the Sole Global Coordinator) and the other International Underwriters
“IPO App”	the mobile application for <b>HK eIPO White Form</b> service which can be downloaded by searching “IPO App” in App Store or Google Play or at <b>www.hkeipo.hk/IPOApp</b> or <b>www.tricorglobal.com/IPOApp</b>
“Latest Practicable Date”	Monday, 21 June 2021, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of our Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date, expected to be on or about Friday, 16 July 2021, on which our Shares are listed on the Stock Exchange and from which dealings in our Shares are permitted to commence on the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“Liuzhou Colorful LP”	Liuzhou Colorful Enterprise Management Partnership Enterprise (Limited Partnership) (柳州七彩企业管理合伙企业(有限合伙)), a limited partnership established in the PRC on 3 November 2020, which is (a) one of our Controlling Shareholders, the general partner of which is Mr. SU, and is owned as to 10,000 shares by Mr. SU, 1,500,000 shares by Mr. JIN and 2,988,158 shares by 18 original individual equity holders of Chesir Pearl acting as limited partners, who are Independent Third Parties and (b) one of our Pre-IPO Investors as it accepted the transfers of the shares of Chesir Pearl after the NEEQ Listing Withdrawal (such shares of Chesir Pearl have been exchanged for our Shares pursuant to the Chesir Pearl Equity Transfer Agreement and the Cayman Share Swap as part of the Reorganisation)
“Liuzhou Industrial Investment”	Guangxi Liuzhou Industrial Investment Development Group Co., Ltd. (广西柳州市产业投资发展集团有限公司), a State-owned management enterprise established in the PRC, which is wholly-owned and managed by the State-owned Assets Supervision and Administration Commission of Liuzhou City Municipal Government (柳州市人民政府国有资产监督管理委员会)
“Liuzhou Lianrun LP”	Liuzhou Lianrun Enterprise Management Partnership Enterprise (Limited Partnership) (柳州连润企业管理合伙企业(有限合伙)), a limited partnership established in the PRC on 3 November 2020, which is (a) one of our Controlling Shareholders, the general partner of which is Mr. SU, and is owned as to 11,000 shares by Mr. SU and 217,000 shares by 24 original individual equity holders of Chesir Pearl, acting as limited partners, who are Independent Third Parties and (b) one of our Pre-IPO Investors as it accepted the transfers of the shares of Chesir Pearl after the NEEQ Listing Withdrawal (such shares of Chesir Pearl have been exchanged for our Shares pursuant to the Chesir Pearl Equity Transfer Agreement and the Cayman Share Swap as part of the Reorganisation)
“Liuzhou Qise LP”	Liuzhou Qise Enterprise Management Partnership Enterprise (Limited Partnership) (柳州七色企业管理合伙企业(有限合伙)), a limited partnership established in the PRC on 3 November 2020, which is (a) one of our Controlling Shareholders, the general partner of which is Mr. SU, and is owned as to 10,000 shares by Mr. SU, 1,565,200 shares by Mr. JIN and 2,976,000 shares by 18 original individual equity holders of Chesir Pearl acting as limited partners, who are Independent Third Parties and (b) one of our Pre-IPO Investors as it accepted the transfers of the shares of Chesir Pearl after the NEEQ Listing Withdrawal (such shares of Chesir Pearl have been exchanged for our Shares pursuant to the Chesir Pearl Equity Transfer Agreement and the Cayman Share Swap as part of the Reorganisation)

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“Luzhai Capital Contribution Agreement”	the capital contribution agreement (增资协议) dated 18 January 2018 entered into between Liuzhou Industrial Investment, Chesir Pearl and Chesir Luzhai in relation to new equity investment of RMB150.0 million in Chesir Luzhai by Liuzhou Industrial Investment
“Luzhai Supplemental Agreement”	the supplemental agreement (补充协议) dated 18 September 2020 entered into between Liuzhou Industrial Investment, Chesir Pearl, Chesir Luzhai and Guangxi Industrial Investment in relation to the removal of certain protective provisions under the Luzhai Capital Contribution Agreement
“Luzhai Synthetic Mica Plant”	the production plant planned to be constructed with an estimated site area of 42,467.2 sq.m. for the production of synthetic mica flakes with an estimated designed annual production capacity of 30,000 tonnes, see the section headed “Future Plans and Proposed Use of the Net Proceeds from the Global Offering — Construction of our Luzhai Synthetic Mica Plant” in this prospectus for further information
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with GEM of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company, as amended from time to time, a summary of which is set forth in Appendix IV to this prospectus
“MOF”	中华人民共和国财政部 (The Ministry of Finance of the PRC)
“MOFCOM”	中华人民共和国商务部 (The Ministry of Commerce of the PRC)
“Mr. JIN”	Mr. JIN Zengqin (金增勤先生), one of our executive Directors and our Controlling Shareholders
“Mr. SU”	Mr. SU Ertian (苏尔田先生), our Chairman, Chief Executive Officer and one of our executive Directors and our Controlling Shareholders
“Mr. ZHENG”	Mr. ZHENG Shizhan (郑世展先生), one of our executive Directors and our Controlling Shareholders
“NDRC”	中华人民共和国国家发展和改革委员会 (The National Development and Reform Commission of the PRC)



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“NEEQ”	全国中小企业股份转让系统 (The National Equities Exchange and Quotations), an over-the-counter system for trading of the shares of public limited companies which are not listed on either the Shenzhen Stock Exchange or the Shanghai Stock Exchange operated by NEEQ Company and is generally known as the “New Third Board” (新三板)
“NEEQ Listing Withdrawal”	the withdrawal of quotation and termination of listing and trading of the shares of Chesir Pearl on NEEQ in September 2019 upon the application submitted by Chesir Pearl
“Nomination Committee”	a committee established by our Board to discharge our Board’s responsibilities relating to the nomination of Directors and senior management of our Company
“NPC Standing Committee”	全国人民代表大会常务委员会 (The Standing Committee of the National People’s Congress)
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) of not more than HK\$4.22 and expected to be not less than HK\$3.52 (subject to the Downward Offer Price Adjustment) which is expected to be determined by the Sole Global Coordinator (for itself and on behalf of the other Underwriters) and us on the Price Determination Date
“Offer Shares”	Hong Kong Offer Shares and International Offer Shares
“Other Shareholders Lock-Up Deeds”	the 17 lock-up deeds (禁售契据) executed by 17 existing Shareholders <sup>(1)</sup> , see the sections headed “Pre-IPO Investments” and “Underwriting — Underwriting Arrangements and Expenses — Undertakings given to the Company and the Sole Sponsor” in this prospectus for further information

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*Note:*

- (1) These Shareholders include (1) China Banyan Capital INT Holdings Ltd, (2) CHUANFU INT CAPITAL GROUP LTD (川富国际资本集团有限公司), (3) WEIXINGZHICHEN INTERNATIONAL INVESTMENT LTD, (4) LINGTAO Capital INT Group Limited (凌涛资本国际集团有限公司), (5) Zhejiang Venture Capital Group Co., Ltd, (6) Xuanhai Capital INT Group Limited, (7) Dice Hongze Ltd (迪策鸿泽有限公司), (8) Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) (福睿创信(厦门)新兴产业投资合伙企业(有限合伙)), (9) Zhuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.) (珠海格金广发信德智能制造产业投资基金(有限合伙)), (10) Capital Pearls International Investment Ltd, (11) Ronghui Longma Capital Ltd, (12) China Huazhen Equity Investment Co., Ltd. (中风投华臻股权投资有限公司), (13) JINYI Technology & Innovation Investment Management Co., Ltd., (14) GF Qianhe Investment Co., Ltd. (广发乾和投资有限公司), (15) LIU Zhihe (刘志和), (16) Dena Well Investment Limited and (17) GUOLING CAPITAL MANAGEMENT LTD (国瓴资本管理有限公司).

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## DEFINITIONS

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“Over-allotment Option”	the option expected to be granted by our Company to the Sole Global Coordinator, exercisable by the Sole Global Coordinator, pursuant to which our Company may be required to allot and issue up to 43,601,000 additional new Shares at the Offer Price, representing 15.0% of the initial number of our Offer Shares, to cover over-allocations in the International Offering, if any, see the section headed “Structure and Conditions of the Global Offering” in this prospectus for further information
“Phase 1 Production Plant”	the production plant currently used by us for the research and development and production of our pearlescent pigment products and synthetic mica powder and located in Liuzhou City, Guangxi Zhuang Autonomous Region, the PRC with a total site area of 99,688.2 sq.m. and an aggregate gross floor area of 56,445.6 sq.m. with designed annual production capacity of 13,740 tonnes of pearlescent pigment products and designed annual production capacity of 9,504 tonnes of synthetic mica powder for the year ended 31 December 2020, see the section headed “Business — Our production facilities” in this prospectus for further information
“Phase 2 Production Plant”	the production plant planned to be constructed with an estimated total site area of 148,713.7 sq.m. for the production of our pearlescent pigment products with an estimated designed annual production capacity of 30,000 tonnes, see the section headed “Future Plans and Proposed Use of the Net Proceeds from the Global Offering — Construction of our Phase 2 Production Plant” in this prospectus for further information
“Post-IPO Share Option Scheme”	the share option scheme conditionally approved and adopted by our Shareholders on 2 June 2021, the principal terms of which are summarised in the paragraphs under “D. Post-IPO Share Option Scheme” in Appendix V to this prospectus
“PRC Government”	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or any of them
“PRC Legal Advisers”	AllBright Law Offices (Fuzhou), our legal advisers as to PRC laws

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## DEFINITIONS

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“Pre-IPO Investments”	the equity investment to members of our Group by GX Land & Sea, Guidong Electric and Mr. SU and the shares transferred to shareholders of Chesir Pearl after the NEEQ Listing Withdrawal, which have been converted into our Shares pursuant to the Reorganisation, see the section headed “Pre-IPO Investments” in this prospectus for further information
“Pre-IPO Investors”	(a) GX Land & Sea (in relation to the subscription for 12,787,724 shares of Generous Fortune), Guidong Electric (in relation to the subscription for 8,000,000 shares of Chesir Pearl pursuant to the exercise of the conversion right attached with the 2019 Convertible Bonds) and Mr. SU (through Ertian International and Seven Color Pearl Investment) (in relation to the subscription for 12,000,000 shares of Chesir Pearl) and (b) the 25 equity holders of Chesir Pearl who accepted the transfer of the shares of Chesir Pearl after the NEEQ Listing Withdrawal (excluding Mr. SU and Mr. HU Yongxiang, both are Directors), a list of which is set forth in the section headed “Pre-IPO Investments — Equity holders of Chesir Pearl deemed to be our Pre-IPO Investors” in this prospectus
“Price Determination Date”	the date, expected to be on or about Wednesday, 7 July 2021 but in any event no later than Friday, 9 July 2021, on which the Offer Price is to be determined by agreement between the Sole Global Coordinator (for itself and on behalf of the other Underwriters) and our Company
“Relevant Persons”	the Sole Sponsor, the Sole Global Coordinator, the other Underwriters and any other parties involved in the Global Offering or any of their respective directors, officers or representatives
“Remuneration Committee”	a committee established by our Board to discharge our Board’s responsibilities relating to the remuneration of Directors and executive officers of our Company
“Reorganisation”	the corporate reorganisation steps undergone by our Group in preparation for the Listing, see the section headed “History, Development and Reorganisation — Reorganisation” in this prospectus for further information
“Reporting Accountants” or “Auditors”	RSM Hong Kong, a firm of certified public accountants in Hong Kong
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	国家外汇管理局 (The State Administration of Foreign Exchange of the PRC)

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## DEFINITIONS

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“SAT”	中华人民共和国国家税务总局 (The State Administration of Taxation of the PRC)
“Second Six-Month Period”	the period of six months commencing from the expiry of the First Six-Month Period
“Seven Color Pearl Investment”	Seven Color Pearl Investment Limited (七色珠光投资有限公司), a company incorporated under the laws of the BVI with limited liability on 27 October 2020 and wholly-owned by Mr. SU, being one of our Pre-IPO Investors and Controlling Shareholders
“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shanghai Huijin”	Shanghai Huijin Asset Management Co., Ltd. (上海汇瑾资产管理有限公), a company established under the laws of the PRC and a wholly-owned subsidiary of Shanghai Huijin Enterprise Management Group Co., Ltd., which is engaged in the business of asset management and investment management and an Independent Third Party being a party to the Cornerstone Investment (Shanghai Huijin) Agreement
“Shanghai Huijin No. 3 Fund”	Huijin Zunrui No. 3 Private-offered Securities Investment Fund (汇瑾尊睿3号私募证券投资基金), an investment fund managed by Shanghai Huijin, which will be the holder of the Cornerstone Investment Shares issued and allotted to Shanghai Huijin
“Shanghai Multicolor”	Shanghai Multicolor Pearl Effect Material Co., Ltd (上海万紫千红珠光效应材料有限公司), a company established under the laws of the PRC with limited liability on 14 January 2014 and a wholly-owned subsidiary of Chesir Pearl
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.10 each in the share capital of our Company
“Shareholder(s)”	holder(s) of our Shares from time to time
“Sole Global Coordinator”	Essence International Securities (Hong Kong) Limited, which is acting as the sole global coordinator and one of the joint bookrunners and joint lead managers of the Global Offering
“Sole Sponsor”	Essence Corporate Finance (Hong Kong) Limited
“Stabilizing Manager”	Essence International Securities (Hong Kong) Limited
“State Council”	中华人民共和国国务院 (The State Council of the PRC)

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## DEFINITIONS

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“Stock Borrowing Agreement”	the stock borrowing agreement that may be entered into between the Stabilizing Manager and Hongzun International on or about the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“SU Capital Contribution Agreement”	the capital contribution agreement (增资协议) dated 19 October 2020 entered into between Mr. SU and Chesir Pearl in relation to the subscription for 12,000,000 shares to be issued by Chesir Pearl, a summary of its principal terms is set forth in the section headed “Pre-IPO Investments” in this prospectus
“Takeovers Codes”	The Hong Kong Codes on Takeovers and Mergers and Share Buy-backs
“Track Record Period”	the three years ended 31 December 2020
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America, its territories and possessions, and all areas subject to its jurisdiction
“US dollars” or “US\$”	United States dollar, the lawful currency of the United States
“VAT”	value-added tax in the PRC
“ <b>WHITE</b> Application Form(s)”	the Application Form(s) for use by members of the public in Hong Kong who require such Hong Kong Offer Shares to be issued in the applicant’s own name
“Withdrawal Mechanism”	a mechanism which requires our Company to (a) issue a supplemental prospectus as a result of material changes in the information, such as changes in the Offer Price or the Listing timetable, in this prospectus and (b) extend the offer period and to allow potential investors, if they so desire, to confirm their applications using an opt-in approach, i.e. this will require the investors to confirm their applications for Shares in spite of the changes

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## DEFINITIONS

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“YBN Investments”	YBN Investments Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of YBN International Holdings Limited, a company incorporated under the laws of the BVI with limited liability, and an Independent Third Party and one of the Cornerstone Investors
“ <b>YELLOW</b> Application Form(s)”	the Application Form(s) for use by members of the public in Hong Kong who require such Hong Kong Offer Shares to be deposited directly into CCASS
“%”	percentage or per cent.

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## GLOSSARY OF TECHNICAL TERMS

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**This glossary contains certain definitions and technical terms used in this prospectus in connection with our business. As such, some terms and definitions may not correspond to standard industry definitions or usage of such terms.**

“Authorised Resellers”	selected trading company customers with which we have entered into sales framework agreements, and they are authorised to use our brand name, i.e. “授權品牌經銷商” (Authorised Reseller) in the sales of our pearlescent pigment products
“CAGR”	compound annual growth rate
“COVID-19”	coronavirus disease 2019, a respiratory illness caused by a new strain of coronavirus, which is characterised by fever, cough, and shortness of breath, and may progress to pneumonia and serious respiratory failure and fatalities
“GNI”	gross national income
“IATF 16949:2016”	the quality management system requirements for the design and development, production and, when relevant, installation and service of automotive-related products, throughout the automotive supply chain
“KKDIK”	Kimyasalların Kaydı Degerlendirilmesi izni Kisitlanmasi, a regulation in Turkey for regulating the safe use of chemicals in products imported into Turkish market
“mica”	a group of minerals normally in the shape of hexagonal or rhombic plates and prismatic crystals, which has good insulation, high temperature resistance, lustre, stable physicochemical properties and is being used in different industrial applications including pyrometallurgy, electricity and industrial coatings
“natural mica”	mica extracted from the earth and a kind of natural and non-renewable resources, which may be divided into muscovite, phlogopite and biotite based on the level of iron content
“mm”	millimetre, which is equivalent to $10^{-3}$ metres
“pearlescent effect”	peculiar optical effect and interference effect created by reflection on highly refractive materials in pearlescent pigment products
“pearlescent pigment”	pigment which simulates the lustre of natural pearls and give additional colour effects, such as angular colour dependence

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## GLOSSARY OF TECHNICAL TERMS

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“pigment”	a kind of colourant, which is normally in powder form and insoluble in water, grease, resin or organic solvent, and can be dispersed in and tint the medium whilst possessing certain hiding characteristic
“ppm”	one part per million, which denotes one in 1,000,000 parts
“REACH”	a regulation of the European Union, adopted to improve human health and environment from the risks posed by chemicals and applies to all chemical substances used in industrial processes and day-to-day lives
“silicon oxides”	an oxide of silicon commonly found in nature and exists as a compound of several minerals and as synthetic product, also known as silica
“oxide”	a chemical compound that contains at least one oxygen atom and one other element in its chemical formula
“sq.m.”	square metres
“synthetic mica”	a man-made synthetic alternative to natural mica, which is formed by synthesis and combination of various chemicals and minerals (such as silica, fused magnesia, alumina, potassium fluorosilicate and potassium carbonate) to simulate the composition and structure of natural mica to imitate the effect of natural mica, which has the characteristics of good insulation, high temperature resistance, lustre and corrosion protection
“UV”	ultraviolet, a form of electromagnetic radiation with wavelength shorter than that of visible light
“°C”	degree Celsius
“µm”	micrometre, which is equivalent to $10^{-6}$ metres



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## FORWARD-LOOKING STATEMENTS

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Our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about the businesses that we operate. The risks, uncertainties, and other factors, many of which are beyond our control, that could influence our actual results include, but are not limited to:

- our business and operating strategies and our ability to implement such strategies;
- our operations and business prospects;
- the future competitive environment of the industry in and the PRC in which we operate and our target markets;
- our ability to develop and manage our operations and business;
- our capital expenditure programs and future capital requirements;
- our ability to control costs;
- our dividend policy;
- technological breakthrough in relation to the production of pearlescent pigment products and synthetic mica;
- changes to regulatory and operating conditions in the industry and geographical markets in which we operate;
- the general economic trend in the PRC and our target markets; and
- all other risks and uncertainties described in the section headed “Risk Factors” in this prospectus

The words “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “plan”, “seek”, “will”, “would”, and similar expressions, as they relate to us, in particular, in the sections headed “Business” and “Financial Information” in this prospectus, are intended to identify a number of these forward-looking statements. These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. They reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Hence, should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our business and financial condition and operating results could be adversely affected and could vary materially from those described herein as anticipated, believed, or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section.

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## RISK FACTORS

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**An investment in our Shares involves various risks. You should consider carefully all the information set forth in this prospectus and, in particular, the risks and uncertainties described below before making an investment in our Shares.**

**As an investment in our Shares is meant to produce returns over the long-term, you should not expect to obtain short-term gains. The price of our Shares, and the income that may be derived from selling them, may rise or fall and may not fully reflect the underlying net assets attributable to them. You may not get back your original investment and you may not receive any distributions.**

**The occurrence of any of the following events could materially and adversely affect our business and financial condition, operating results and business prospects. If any of these events occurs, the trading price of our Shares could decline and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances.**

We believe there are certain risks and uncertainties involved in our operations, some of which are beyond our control. We have categorised these risks and uncertainties into: (a) risks relating to our business; (b) risks relating to the industry in which we operate; (c) risk relating to COVID-19; (d) risks relating to doing business in China; and (e) risks relating to the Global Offering.

### **RISKS RELATING TO OUR BUSINESS**

**Our sales are dependent on the PRC and global economy, and any significant economic downturn in the PRC and global economy could adversely affect our business, financial condition, results of operations and prospects.**

During the Track Record Period, a significant portion of our revenue was derived from sales to customers in the PRC. We also exported our products to the international markets, including countries and territories in Asia, Europe, Africa and South America. As our pearlescent pigment products and synthetic mica powder are raw materials for the manufacturing of a variety of products in various downstream applications, such as industrial coatings, plastics, textiles and leather, cosmetics and automotive coatings, the demand for our products is dependent on the demand from these downstream industries. The performance and growth of the downstream industries and thus the demand for our products is dependent on, among other things, the conditions of the global market and, in particular, the PRC economy. The general economic conditions, interest rate levels, inflation and unemployment rates, demographic trends, GDP growth and consumer confidence are, among other factors, that influence the growth of the downstream industries in which our pearlescent pigment products and synthetic mica powder are used or applied. As a result, any downturn in the relevant industries in the PRC or international markets could impact our sales, resulting in downward pressure on our selling price, sales volume and profit margins, which could materially and adversely affect our business, financial condition, results of operations and prospects.

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## RISK FACTORS

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The PRC economy and the demand from our customers have grown significantly in recent years. However, we cannot assure you that this level of growth will continue in the future. Any significant slowdown in economic growth and deteriorating economic conditions in the PRC and the international markets or downturn in our downstream industries may reduce the demand for our products and materially and adversely affect our business, financial condition, results of operations and profitability.

**Rising political tensions and current tensions in international trade may have an adverse effect on our business and expansion plans.**

International market conditions and the international regulatory environment have historically been affected by competition among countries and geopolitical frictions. Changes to trade policies, treaties and tariffs in the jurisdictions which our products are sold to or our raw materials are procured from, or the perception that these changes could occur, could adversely affect our financial position and results of operations. Recently there have been heightened tensions in international economic relations, in particular between the United States and China. While the two nations have reached a phase one trade agreement in January 2020, there remain uncertainties as to whether the United States will impose additional tariffs on Chinese products in the near future or trade tension may intensify between China and the United States. The amount of revenue generated from our sales in the PRC represented more than 90% of our total revenue during the Track Record Period. Should any of our major PRC customers become targeted under sanctions or export control restrictions, our business may be adversely affected. In particular, Chinese companies or individuals targeted under U.S. economic sanctions may lose access to the U.S. markets and the U.S. financial system, including the ability to use U.S. dollars to conduct transactions, settle payments or to maintain accounts with the U.S. financial institutions. Further, U.S. entities and individuals may not be permitted to do business with the sanctioned companies and persons and international banks and other companies may as a matter of law and/or policy decide not to engage in business or transaction with such companies or individuals.

Any escalation in trade tensions or the occurrence of a trade war, or the perception that such escalation or trade war would occur, may also have tremendous negative impact on the economies of not merely the two countries concerned, but the global economy as a whole. Any further escalation in trade or other tensions between the United States and China or news and rumours of any escalation, could introduce uncertainties to China's economy and the global economy. Rising political tensions could reduce levels of trades, investments and other economic activities between the two major economies, which would materially and adversely affect the global economic conditions and the stability of global financial markets and in turn adversely impacting our business, financial condition, and results of operations.

We sold our products to more than 30 countries and territories in Asia (excluding the PRC), Europe, Africa and South America and intend to expand our international sales in the future. The sales of our products to and the procurement of raw materials such as natural mica from international markets expose us to a number of risks, including foreign exchange rate fluctuations, increased security inspection standards, increased transportation costs, lack of experience in local market conditions, and failure to obtain or maintain qualifications for our products and raw materials overseas. We cannot predict whether overseas countries or regions would subject us to any additional tariffs or trade restrictions. To comply with various commercial and legal requirements overseas,

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## RISK FACTORS

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including unanticipated changes in prevailing economic conditions and regulatory environment as well as trade barriers on import, export or tariffs, will also increase our operation cost. If we fail to respond to these rapid changes and challenges timely and effectively, our business, financial conditions and results of operations may be materially and adversely affected.

**Our performance could be adversely affected by any decrease in our sales to our key customers.**

During the Track Record Period, sales to our five largest customers accounted for 20.2%, 17.8% and 16.8% of our total revenue, respectively, and sales to our largest customer, accounted for 5.0%, 4.2% and 3.6% of our total revenue, respectively. It is important that we maintain close relationships with our major customers. During the Track Record Period, we conduct business with a number of our customers by way of one-off purchase orders. As such, we cannot assure you that our major customers will continue to purchase from us in level comparable to the historical level. In addition, as we do not have long-term purchase commitments with our customers, we prepare our procurement of raw materials and production plans according to the indications from our customers on the likely amounts of purchase. Although some of our customers provide us with purchase forecasts, such forecasts are non-legally binding and may not be accurate. In light of the foregoing, we cannot assure you that our sales estimation in any particular period of time is accurate or that our production volume would be at appropriate levels taking into consideration the purchase orders from time to time confirmed by our customers.

Moreover, our revenue is also subject to our customers' business, sales strategy, industry conditions and the overall economic market environments. We cannot rule out the risk that our customers may cancel purchase orders placed previously with us, or become insolvent and fail to take delivery of our products in accordance with the purchase orders. Generally, there is limited financial information available about our customers. As a result, our counterparty risk is largely assessed on the basis of their market reputation and available public information. We cannot assure you that our customers will continue to purchase at the same levels as they did during the Track Record Period and that they can fulfil their payment obligations under the purchase orders. During the Track Record Period, we had not experienced any material difficulties in collecting payments from our customers, but we cannot assure you that we will not encounter such difficulties in the future. Any default by our customers on their obligations under the purchase orders could have an adverse effect on our business, financial position and results of operations.

**We are subject to the risk collecting trade receivables.**

We are subject to the risk in collecting trade receivables due from our customers. As of 31 December 2018, 2019 and 2020, the balance of our trade receivables (net of allowance for doubtful debt) amounted to RMB140.7 million, RMB119.9 million and RMB192.0 million, respectively. The trade receivable turnover days were 127.3 days, 108.7 days and 102.1 days during the Track Record Period, respectively. Although our trade receivable turnover days decreased continuously during the Track Record Period, we cannot assure you that all such amounts due to us will be settled promptly or within the anticipated timelines as agreed with our customers. Our operating results, liquidity, and profitability could be adversely affected.

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## RISK FACTORS

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**We may not be able to secure a stable supply of raw materials with acceptable quality or on acceptable prices which would adversely affect our operations and financial condition.**

Our continuing success depends on our ability to obtain adequate supply of raw materials of good quality on commercially acceptable terms and in a timely manner to support our operations and future plans. Costs of raw materials constituted the largest proportion of our cost of goods sold and amounted to RMB106.0 million, RMB144.1 million and RMB187.3 million for the Track Record Period, respectively, representing 63.5%, 66.0% and 66.9% of our cost of goods sold for the same year.

Natural mica flakes is a major raw material for the production of natural mica-based pearlescent pigment, which is one of our major products. We source natural mica flakes from India directly or through trading companies in the PRC. Cost of natural mica flakes accounted for 16.7%, 17.0% and 14.9% of our total cost of raw materials for the Track Record Period, respectively. As a non-renewable resource, natural mica reserves deplete with continual exploitation. To cope with the risk of exhaustion, many countries including India, limit the exploitation and export of natural mica. If there is an inadequate supply of natural mica from India, we would have to consider importing natural mica flakes from other overseas countries or regions, which may impose additional costs on us.

We maintain a list of qualified suppliers from which we procure our raw materials. Nevertheless, qualified suppliers may not always be readily available and they may not necessarily be able to supply as and when required. During the Track Record Period, we did not enter into any long-term agreements with our suppliers and we negotiated prices and placed purchase orders with our suppliers on a case-by-case basis. If we are unable to source the relevant raw materials, we may be required to source such raw materials at a higher price or on a delayed basis. If we are unable to find any alternative source of supply in a timely manner or at all, our business, reputation and results of operations may be adversely affected. In addition, we may not be able to monitor the quality of raw materials of the suppliers. If the quality of raw materials does not meet with our quality standards, our product quality may be affected, which could affect our reputation and potentially expose us to litigation and damage claims.

The prices and availability of our raw materials depend on a variety of factors which are beyond our control, for instance, the economy of the countries from which we procure our raw materials and their respective domestic government policies. We have no control over the cost of natural mica flakes. The cost of natural mica flakes may fluctuate significantly as a result of numerous factors, including conditions of exploitation, depletion level, general economic conditions and government policies in the relevant exporting countries. The cost of natural mica flakes experienced continuous increase during the Track Record Period, which resulted in increases in our cost of raw materials. See the section headed “Industry Overview — Overview of the global mica market — Average selling prices and average cost of mica products” in this prospectus for further information. If the cost of natural mica flakes increases significantly, our gross margin will decrease. As such, we cannot assure you that the raw material prices can remain stable at the current levels or we will not experience difficulties procuring sufficient supply of raw materials in the future. We cannot assure you that such increase in the selling price of our natural mica-based pearlescent pigment products will occur, or if they occur, will be proportionate to the increase in the cost of natural mica flakes.

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## RISK FACTORS

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Any supply disruptions or delays in delivery may significantly affect our production schedule and our delivery of products to customers in a timely manner. In case there is significant increase in the prices of our raw materials and we are unable to transfer such price increase to our customers, and/or to secure alternative sources of raw material supply at acceptable prices, or at all, our cost of sales may increase and our profit margins may decrease, which would materially and adversely affect our business and financial condition and results of operations.

**We rely on the trading company customers in the sales of our pearlescent pigment products.**

During the Track Record Period, our sales to the trading company customers amounted to RMB257.6 million, RMB346.6 million and RMB463.5 million, respectively, representing 80.9%, 78.7% and 81.4% of our sales revenue. We rely on the trading company customers in the sales of our pearlescent pigment products. During the Track Record Period, our products were sold to 212, 213 and 235 trading company customers, respectively, among which 12, 15 and 22 were Authorised Resellers. We have not entered into any long-term contract with any of the trading company customers and do not have control of any of them, nor are they exclusive in selling our pearlescent pigment products. We cannot therefore assure you that we will be able to attract sufficient number of trading companies as our customers and to leverage on their sales networks in selling and distributing our pearlescent pigment products. If the number of trading company customers decreases or the purchase orders from them reduce significantly, this could result in loss of sales opportunities and could have a material adverse impact on our business, results of operations, financial condition and prospects.

**Failure to monitor the inventory levels of the trading company customers in line with the level of demand for our products could have a material adverse effect on our business, financial conditions and results of operations.**

Although we monitor the inventory level of the trading company customers, we cannot assure you that such information would be reported to us accurately and/or in a timely manner. As our ability to directly track the inventory levels of the trading company customers is limited and may not be on a real-time basis, it is difficult for us to gather sufficient information and data regarding market acceptance for our products. As the tracking of inventory levels would provide us with useful information on market acceptance for our products in a particular region, limitation in accurately tracking the sales and inventory levels of the trading company customers may make it difficult for us to predict the sales trends, and we may not be able to implement effective marketing or product strategies. As a result, our business, financial condition and results of operations will be materially and adversely affected.

In addition, the trading company customers may be unable to sell adequate amounts of their inventories of our products in a given period to their own customers, which may result in an excessive build-up of inventory at the trading company customers. In such event, the trading company customers may reduce future orders until their inventory levels realign with demand from their own customers. The reduction in future orders from the trading company customers could have a material adverse impact on our sales to them and, accordingly, to our business, financial condition, results of operations and prospects.

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## RISK FACTORS

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**We have limited control on the Authorised Resellers, and we cannot assure you that the Authorised Resellers will operate in compliance with the relevant laws and regulations or their obligations under the sales framework agreements.**

Among the trading company customers in the PRC, we have entered into sales framework agreements with selected major trading companies, pursuant to which these Authorised Resellers are authorised to use our brand name. Despite our strict selection criteria for Authorised Resellers, we have limited control on the Authorised Resellers and we cannot assure you that the Authorised Resellers will operate their business in compliance with our sales framework agreements and the relevant laws and regulations. If the Authorised Resellers improperly use our brand name, it could damage our reputation and brand image, undermine customers' confidence in us and reduce their long-term demands for our products, which in turn will cause a material adverse effect on our business, financial conditions and results of operations.

**We may not be able to maintain our competitiveness in the market, and competition amongst the trading company customers could also affect our sales performance.**

We operate in a competitive market. Some of our competitors may have greater production capacity, manpower and other resources, stronger financial strengths, more established customer base, more diversified product offerings, more established brands and market recognition. Therefore, such competitors may be more capable than we do to respond promptly to the changes in market conditions. Intense competition will subject us to pricing pressure which may lower our profit margins and reduce our revenue. Moreover, we face increasing competition from market entrants. There are various barriers-to-entry, including technologies and know-how, capital investments, requisite licences and certificates, and established customer relationships. Nevertheless, new market entrants or existing competitors may develop or acquire the requisite technical capabilities and customer base to compete with us. In addition, increased exposure to international markets further creates new areas which we may not be familiar with and could place us in less advantaged position than the new market players. If we cannot maintain our competitiveness in the pearlescent pigment and synthetic mica-based pearlescent pigment markets, our business, results of operations or financial condition could be materially and adversely affected.

In addition, during the Track Record Period, our sales to the trading company customers amounted to RMB257.6 million, RMB346.6 million and RMB463.5 million, respectively, representing 80.9%, 78.7% and 81.4% of our sales revenue. We rely on the trading company customers and cannot assure you that there is no undesirable competition amongst the trading company customers, which could have an adverse impact on our sales levels and more importantly, the implementation of our sales strategies and the determination of the selling prices that we could ask for on our products.

Some of our pearlescent pigment products and synthetic mica powder are sold directly to the end user customers which use those products for the manufacturing of their end products. During the Track Record Period, revenue generated from our sales to end user customers amounted to RMB60.6 million, RMB94.0 million and RMB105.6 million, respectively, accounting for 19.1%, 21.3% and 18.6%, respectively, of our total revenue. Our end user customers are always able to source their raw

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## RISK FACTORS

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materials directly from us, and these direct sales could reduce their purchase from the trading company customers and could reduce our sales amount to the trading company customers, which might have an adverse impact on our sales and the establishment of sales network through the trading company customers.

**Our production and operation are subject to extensive environmental protection laws and regulations, and compliance with these laws and regulations may be costly.**

Our production and operation are subject to various environmental protection laws and regulations in the PRC in relation to the discharge of waste water, solid wastes and gases in the course of production. The relevant PRC authorities may impose penalties, suspend operations, order for rectification or close down the production facilities that fail to comply with such laws and regulations.

During our production process, waste water, waste gas and solid waste are discharged. In order to comply with the applicable environmental protection laws and regulations in the PRC, we have installed waste treatment facilities in our production plants. Our business operations also involve the use and storage of chemicals that are potentially dangerous.

Notwithstanding such safeguarding measures, we cannot assure you that we will be in full compliance with the relevant laws and regulations at all times. If we are not in compliance with the applicable PRC environmental protection laws and regulations, we may be required to rectify such non-compliance and may also be subject to fines and remedial measures, which may materially and adversely affect our business and financial performance.

Furthermore, the PRC Government is moving towards more rigorous enforcement and may promulgate new environmental protection laws and regulations in the future. As a result, additional costs may be incurred to introduce relevant preventive or remedial measures, adjust our production process, purchase new pollution control equipment and enhance our compliance and monitoring system to ensure compliance with such amended laws and, regulations. In addition, our budget with respect to environmental compliance may not be sufficient to cover such costs and we may need to allocate additional funds for such purpose, which may materially and adversely affect our operation and financial performance. If we fail to introduce new preventive or remedial measures, make relevant adjustment to our production process, purchase new pollution control equipment or establish effective compliance and monitoring systems in a timely manner or at all, we may be subject to substantial penalties or fines as a result of such non-compliance and our business operations may be disrupted, thus materially and adversely affect our operation and financial performance.

We cannot assure you that we will be in compliance with all applicable environmental laws and regulations at all times. Failure to meet the applicable environmental requirements and standards could lead to serious penalties, sanctions, and liabilities as well as substantial costs in connection with remedial measures which may materially and adversely affect our financial condition and results of operations.

We have been in compliance in all material respects with applicable environmental laws and regulations in the PRC during the Track Record Period. Our expenses incurred for environmental protection during the Track Record Period was RMB2.4 million, RMB4.2 million and RMB4.1 million, respectively. The increase in the environmental protection expenses during the year ended 31



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## RISK FACTORS

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December 2019 was mainly due to the depreciation charged to our environmental-related improvements of RMB1.2 million. See the section headed “Business — Environmental protection” in this prospectus for further information. In the event that the PRC Government imposes more stringent environmental protection laws and regulations, our production costs may substantially increase, or we may need to incur material capital expenditures or other costs in order to remain in compliance and we may not be able to pass on these additional costs to our customers. Our Directors expect that the environmental compliance cost would continue to increase due to the stringent standards of environmental protection laws and regulations currently in place in the PRC and such increasing compliance costs would affect our operating result.

**We may not be able to fully utilise our production capacity due to insufficient or unstable demand or interruption in the production process.**

Our pearlescent pigment products are primarily produced from natural mica and synthetic mica which are either sourced from independent suppliers or produced by us as part of our production process. As such, the utilisation of the production capacity for a particular semi-finished products, i.e. natural mica powder and synthetic mica flakes, could affect the efficiency of the entire production process of our finished products of pearlescent pigment products and synthetic mica powder. During the Track Record Period, we have gradually expanded our production capacity for our production facilities at our Phase 1 Production Plant. As a result of such expansion, our production volume of pearlescent pigment products increased from 8,809 tonnes in 2018 to 11,348 tonnes in 2019 and further to 13,503 tonnes in 2020. We expect that our production volume would continue to increase in 2021. Despite the increase in the production volume and the scale of production, we cannot assure you that the sales volume of our pearlescent pigment products would correspondingly increase. Our production facilities operate 24 hours a day except for inspections, repairs and maintenance of our plant and machinery and the annual overhaul which usually takes place during the Chinese New Year holiday. The continuous operations of our production facilities will have to be supported by continuous increases in our sales volume, otherwise we may need to partially shut down our production facilities which could result in the reduction of our utilisation rates and profitability. We cannot assure you that we can maintain high level of utilisation in the future. Our actual production volume varies with the level of demand for our pearlescent pigment products and synthetic mica powder, which in turn may be affected by customers’ preferences, market trend, or other factors beyond our control. If the orders from our existing customers are not sufficient and there is a lack of new customers for our pearlescent pigment products and synthetic mica powder for full utilisation of our production capacity, our production facilities might operate at utilisation rates below our desired level, which could adversely affect our business and financial condition and results of operations.

In addition, our production facilities are specifically designed and adjusted for the processing of our raw materials and production of our pearlescent pigment products and synthetic mica powder. If there is any interruption in the production process due to unanticipated technical issues, which could not be resolved within a short period of time, the entire production process could be affected, which could affect our production volume and extend the production lead time. If any or all of these issues happen, our business and financial conditions and results of operations could be materially and adversely affected.

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## RISK FACTORS

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**Our historical financial and operating results during the Track Record Period may not be indicative of our future growth and performance.**

During the Track Record Period, we had experienced rapid growth in our revenue and profit margin due to the expansion of our business operations. Our revenue increased by 38.5% from RMB318.2 million for the year ended 31 December 2018 to RMB440.6 million for the year ended 31 December 2019, and increased by 29.2% to RMB569.1 million for the year ended 31 December 2020. Our gross profit margin was 46.2%, 49.5% and 49.9% during the respective years.

However, we cannot assure you that our revenue will continue to grow at the same rate, or we will be able to achieve the same level of our gross profit margin comparable to those recorded during the Track Record Period. Our historical financial information is a mere analysis of our past performance and may not necessarily reflect or have any implication on our financial performance in the future. The future growth of our revenue or gross profit margin depends on a number of factors, some of which are beyond our control. For example, the changing regulatory, economic and competitive environment, the global economy, the types of products offered by us, selling prices of our pearlescent pigment products and synthetic mica powder, as well as costs of raw materials and labour and staff costs. Gross profit margin of our pearlescent pigment products and synthetic mica powder may fluctuate case by case due to factors such as our relationships with our customers, technical complexity in the manufacturing of the products, and delivery schedule required by our customers. If we fail to secure new businesses or control our cost, or fail to maintain our profit margin at a level comparable to that recorded during the Track Record Period, our financial conditions may be adversely affected.

In addition, our future business growth depends on the success of our business expansion and the general extension of pearlescent pigment products and synthetic mica powder to more downstream industries and applications. The implementation of our future business expansion plans as set forth in the section headed “Future Plans and Proposed Use of the Net Proceeds from the Global Offering” in this prospectus are subject to uncertainties and risks. Our business expansion plans are based on certain assumptions of future events which are inherently subject to uncertainties and risks. These assumptions may not be correct, which could affect the commercial viability of our business plans and strategies. If we are unable to implement our expansion plans and our business strategies successfully or effectively, our business, profitability and financial conditions in the future may be materially and adversely affected. See the section headed “Business — Our strategies” in this prospectus for further information. As a result, our past results may not be indicative of our future performance.

Further, our long-term success is also dependent on whether we can secure additional capital for our business expansion. If we fail to manage any or all of these critical factors, including the increases in costs, requirement for expertise and qualified personnel and implementation of the corresponding internal control measures, our capability to develop our business and expanding our operating scale could be undermined which could affect our future business growth.

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**We may not be able to anticipate and respond to the trends in technological development and evolving industry standards in an efficient and timely manner.**

We may not accurately anticipate the trends in technological development in the future, and may not utilise our capital expenditures to expand our production capacity for the products and applications with sufficient market demand. We may misjudge the market demand and expand our capacity for products and applications with small customer base or low demand. We cannot assure you that we will be successful in responding to the technological development and evolving industry standards. New technologies may render our existing products or technologies less competitive. If we are unable to anticipate the trends in technological development and develop products and applications required and well-received by our customers and the market, we may fail to compete effectively with our competitors, which could adversely affect our business, results of operations and financial condition.

**We may fail to derive benefits from our research and development efforts and our investments in new production facilities, keep pace with and respond to technological changes and evolving industry standards in an efficient and timely manner.**

We have our in-house research and development team. The success of our business is dependent upon our ability to continue to develop, in a timely manner, new products and new applications, and improve our production and processing technologies through research and development to cater to our customers' requirements and industry demand. We have applied for various patents to protect our technologies. We currently own patents to various patented technologies for the production of pearlescent pigment and synthetic mica products. For more information on our patents registered in the PRC, see the paragraphs under "B. Further information about the business of our Group — 2. Intellectual property" in Appendix V to this prospectus.

We are engaged in the production and sales of pearlescent pigment and synthetic mica products, which are subject to relevant industry standards and specification requirements of our customers. However, we cannot assure you that our existing or future products will always meet the evolving industry standards or our customers' requirements, or that we will not incur significant costs in ensuring our compliance with such standards or requirements. There can be no assurance that we will continue to be successful in responding to these technological changes and evolving industry standards. New products or technologies may render our existing products or technologies less competitive. If we fail to comply with these standards or requirements, we may be required to incur additional costs to change our product compositions or to improve our production processes and upgrade our production or processing technologies in order to align with the industry standards and customer demand, any of which would adversely affect our business and results of operations. If we fail to derive desired benefits from our product research and development efforts, or respond to technological changes and evolving industry standards in an efficient and timely manner, we may not be able to continue to effectively serve our customers' demands, and our business, financial conditions and results of operations may be materially and adversely affected.

During the Track Record Period, our research and development expenditures amounted to RMB10.7 million, RMB23.2 million and RMB29.3 million, respectively. The development of new products and new applications of our products or the development and improvement in our production and processing technology are time consuming and costly. We cannot assure you that our research and

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## RISK FACTORS

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development efforts will lead to any breakthroughs or that the results of such research and development efforts will result in commercialisation that could be accepted by our customers. If we are unsuccessful in researching and developing new products, new applications and new technology or if we are unable to commercialise our research and development efforts, our research and development expenditures will be wasted and we will be less competitive.

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

In addition, our future success will depend, to a large extent, on our ability to increase our production output and enhance our production efficiency. We have continuously upgrade our current manufacturing plant and machinery and install additional manufacturing plant and machinery to expand our production capacity and enhance our production efficiency. Nevertheless, our plant and machinery upgrade and capacity expansion are subject to the following inherent risks and uncertainties:

- the need to finance our upgrade and capacity expansion through equity or debt financing, which may not be available on commercially reasonable terms or at all;
- delay or failure to obtain relevant government approvals and permits necessary and required for our expansion;
- increase in depreciation charges; and
- cost overruns, construction delays, manufacturing problems, including delays in delivery and other operating difficulties.

Any of the above uncertainties could significantly delay or constrain our ability to execute our upgrade and capacity expansion as planned. As a result, our business, financial conditions and results of operations may be materially and adversely affected.

**Our strategy to increase sales of our pearlescent pigment products and synthetic mica powder to the international markets is subject to uncertainties and risks.**

During the Track Record Period, we sold a majority of our pearlescent pigment products and synthetic mica powder to customers in the PRC. We derive a portion of our revenue from international sales through the sales to the trading company customers. Our revenue derived from sales to overseas customers amounted to RMB25.0 million, RMB30.2 million and RMB29.9 million, representing 7.9%, 6.9% and 5.3% of our total revenue, respectively, during the Track Record Period. We sold our pearlescent pigment products and synthetic mica powder to overseas customers, a majority of which are trading companies, which in turn resell our pearlescent pigment products and synthetic mica powder to overseas end user customers. We have limited direct access to the end user customers of our pearlescent pigment products and synthetic mica powder in other countries.

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As a result, we are subject to various risks and uncertainties associated with conducting business in the international markets including the following:

- compliance with foreign laws, regulatory requirements and local industry standards, with which we may not be familiar;
- competition from foreign players or failure to anticipate changes to the competitive landscape in the international markets due to lack of familiarity with the local business environment;
- difficulty in managing relationships with foreign customers;
- political and economic instabilities;
- lack of familiarity with local operating and market conditions;
- cultural and language difficulties;
- exposure to increased litigation risks in the international markets; and
- foreign exchange rate exposure and risk of foreign exchange control.

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

**The construction of our Phase 2 Production Plant and our Luzhai Synthetic Mica Plant might not be completed as planned, may exceed our original budget and might not achieve the intended economic results or commercial viability.**

We intend to expand our production capacity by the construction of our Phase 2 Production Plant and our Luzhai Synthetic Mica Plant for the production of pearlescent pigment products and in particular, high-end pearlescent pigment products and synthetic mica powder.

The estimated investment amount of our Phase 2 Production Plant is RMB1,337.9 million. As of the Latest Practicable Date, we have used an aggregate amount of RMB304.6 million for the construction of our Phase 2 Production Plant, among which, RMB37.4 million has been used for the acquisition of five land parcels with an aggregate site area of 148,713.7 sq.m. We plan to use the net proceeds from the Global Offering of RMB493.7 million (equivalent to HK\$586.4 million) to partially finance the capital expenditures. The remaining balance of RMB539.6 million will be funded out of our internal and/or external financial resources.

The estimated investment amount of Luzhai Synthetic Mica Plant is RMB471.1 million. As of the Latest Practicable Date, we have used an aggregate amount of RMB29.4 million for the construction of Luzhai Synthetic Mica Plant, among which, RMB10.4 million has been used for the acquisition of a land parcel with a site area of 42,467.20 sq.m. We plan to use the net proceeds to partially finance the capital expenditures from the Global Offering of RMB302.2 million (equivalent to HK\$358.9 million). The remaining balance of RMB139.5 million will be funded out of our internal and/or external financial resources.

See the sections headed “Future Plans and Proposed Use of the Net Proceeds from the Global Offering — Construction of our Phase 2 Production Plant” and “— Construction of our Luzhai Synthetic Mica Plant” in this prospectus for further information.

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Our expansion of production capacity through the construction of our Phase 2 Production Plant and our Luzhai Synthetic Mica Plant may involve the following risks:

- *Operating at a utilisation rate lower than our expectation.* The actual production volume of our Phase 2 Production Plant and our Luzhai Synthetic Mica Plant depends on the demand for our pearlescent pigment products, which may be affected by the market trend, customers' preferences or other factors which are beyond our control. The demand for our products and revenue generated may not increase in line with our increase in production capacity. The demand for pearlescent pigment products might not be up to our expectation due to the reduction of orders from our existing customers or a lack of new customers, and as a result, the production facilities might operate at a utilisation rate below our expectation, which may adversely affect our profitability.
- *Adversely affecting our liquidity.* We expect to partially fund the construction of our Phase 2 Production Plant and our Luzhai Synthetic Mica Plant by the net proceeds from the Global Offering and our internal and/or external financial resources. Our liquidity may be adversely affected if we are not able to maintain our cash flow. We cannot assure you that we will be able to complete the construction of our Phase 2 Production Plant and our Luzhai Synthetic Mica Plant within budget, on schedule or at all.

Our expansion plan may be adversely affected by factors such as lack of utilities and personnel, unexpected technical problems, natural disasters, failure to obtain required governmental permits and approvals, logistic difficulties and any unforeseen legal or regulatory impediments. If there is any delay in the progress for the construction of our Phase 2 Production Plant and our Luzhai Synthetic Mica Plant or the expansion of our production capacity might not achieve the intended economic results or commercial viability, our competitive position could be weakened, which may adversely affect our business, results of operations and financial condition.

**Our plan to construct our Phase 2 Production Plant and our Luzhai Synthetic Mica Plant will increase our depreciation expense and could adversely affect our operating results and financial position.**

We plan to expand our production capacity for pearlescent pigment products by constructing our Phase 2 Production Plant and our Luzhai Synthetic Mica Plant and will use part of the net proceeds from the Global Offering for the purpose. See the sections headed "Future Plans and Proposed Use of the Net Proceeds from the Global Offering — Construction of our Phase 2 Production Plant" and "— Construction of our Luzhai Synthetic Mica Plant" in this prospectus for further information. As a result of the construction of new production facilities, based on the intended timing of deployment of the net proceeds from the Global Offering, our Directors expect that our depreciation expense will increase by RMB9.1 million, RMB49.9 million, RMB70.2 million, RMB88.1 million and RMB94.9 million for the five years ending 31 December 2025, respectively.

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### **We had accumulated loss brought forward as of 1 January 2018**

Chesir Pearl had accumulated loss of RMB23.3 million brought forward as of 1 January 2018, primarily due to the fact that Chesir Pearl had only commenced commercial operation during the year ended 31 December 2015, whilst it had made substantial amount of investments in production facilities and product development since its establishment in March 2011. Such amount of accumulated loss could not be offset by the operating profit of Chesir Pearl during the two years ended 31 December 2017.

We cannot assure you that we will not incur loss in the future primarily due to the decrease in sales or that our pearlescent pigment products are no longer commercially or technically viable. Our future revenue growth and profitability will depend on a variety of factors, many of which are beyond our control. We may also further encounter unforeseen expenses, difficulties, complications, delays and other unknown events. If we fail to continue our business growth or maintain our profit margin, we could not improve our profitability and may incur operating loss in the future.

### **Our business and financial conditions depend on our ability to effectively manage our inventories.**

Our inventory consists of raw materials, work-in-progress and finished products. Our business and financial conditions depend on our ability to manage and maintain a reasonable level of inventories. If we overstock our inventories, our required working capital would increase and additional financing costs would be incurred to monitor and warehouse our stocks. On the other hand, if we understock inventories, we may not be able to meet our customers' demand, which may in turn adversely affect our business and financial conditions. We cannot assure you that we would not experience overstocking or understocking in the future, or that any such instances would not adversely affect our business and financial conditions.

Further, the turnover rate of our inventories is susceptible to overall demand of customers and changes in consumer choice and preference, all of which are beyond our control, which exposes us to the risk of slow moving inventories. We rely on our sales forecasts to prepare our procurement plan and to manage our inventory of raw materials and finished products. Our customers may cancel or postpone the sales orders placed with us. Demand for our products may also change and our customers may not confirm the purchase order of products in such quantities pursuant to the sales forecast or initial indication provided by our customers. If we are not able to manage our inventory efficiently, we could be subject to the risk of inventory obsolescence, decline in the realisable value, and significant write-down of the value of our inventory of finished products. Any of these events could adversely affect our business and financial condition and operating results.

As of 31 December 2018, 2019 and 2020, we had inventories in the amount of RMB74.4 million, RMB80.1 million and RMB75.4 million, respectively, and we recorded average inventory turnover days of 141.4 days, 129.3 days and 101.6 days during the Track Record Period, respectively. Allowance for slow-moving inventories was made for the year ended 31 December 2018, 2019 and 2020 amounted to RMB9,000, nil and nil, respectively. We cannot assure you that our inventory turnover days will not increase in the future, and we may need to write off our slow moving inventories or sell our slow moving inventories at lower prices, any of which could adversely affect our business and financial conditions.

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**We may not successfully mitigate our exposures to foreign exchange risk.**

We undertake certain transactions denominated in foreign currencies instead of RMB, our functional currency. In addition to RMB, the majority of our cash and cash equivalents are denominated in U.S. dollars. The value of U.S. dollars against RMB and other foreign currencies is generally affected by, among others, changes in the worldwide economic and political conditions. There can be no assurance that the U.S. dollars will be stable. Any appreciation of RMB against U.S. dollars may, to some extent, adversely affect our financial conditions.

Currently, we do not have a foreign exchange hedging policy. Although we seek to manage our currency risks to minimise any negative effects caused by exchange rate fluctuations, there can be no assurance that we will be able to do so successfully. Our business, financial conditions and results of operations could nevertheless be adversely affected, particularly if any such exchange rate movements persist. As of 31 December 2018, 2019 and 2020, if U.S. dollars had weakened/strengthened by five per cent. against RMB with all other variables remain constant, our operating profit during the Track Record Period would have been RMB0.3 million, RMB0.5 million and RMB0.2 million lower/higher than the amount stated in the Accountants' Report.

**Increase in employee benefit expense as a result of our expansion could have an adverse effect on our business operations.**

As of 31 December 2020, we employed a total of 462 employees in the PRC. During the Track Record Period, we incurred total employee benefit expense (including salaries, wages, allowance, and benefits) of RMB41.0 million, RMB48.9 million and RMB50.6 million, respectively. The increase in employee benefit expense during the Track Record Period is mainly due to salary increment in order to enhance our competitiveness in retaining and recruitment of talents. Our expansion will depend to a significant extent on our ability to recruit and maintain our workforce, and to continue to increase our workforce at a rate commensurate with the growth of our business. Labour and staff costs have increased significantly in the PRC in recent years, and our Directors expect that our labour and staff costs will continue to increase in the future. If labour and staff costs in the PRC continue to increase and we are unable to pass such increase in costs to our customers in a timely manner or adopt effective measures to manage the increase in our labour and staff costs, our business and financial condition and operating results could be adversely affected.

**We enjoy certain preferential tax treatments and any expiration or change of these preferential tax treatments could have an adverse effect on our operating results.**

Chesir Pearl has been accredited as a High and New Technology Enterprise since 14 July 2014 and enjoyed a preferential EIT rate at 15% during the Track Record Period. See the section headed "Financial Information — Components of our consolidated statements of profit or loss — Income tax expenses" in this prospectus for further information. As a result, for the Track Record Period, our effective tax rates were 7.3%, 14.3% and 14.0%, respectively. Our effective tax rates may change from year to year due to the availability or expiration of any preferential tax treatments. We cannot assure you that we will continue to qualify for such preferential tax treatment, or that the policies providing for the preferential tax treatment will continue to be effective.



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In addition, as a High and New Technology Enterprise, we enjoy certain favourable regulatory treatments, particularly government grants, offered by the relevant government authorities. For the Track Record Period, we recognised government grants of approximately RMB4.3 million, RMB3.6 million and RMB13.2 million in our consolidated statements of profit or loss, respectively. See the section headed “Financial Information — Components of our consolidated statements of profit or loss — Other income and other gains or losses” in this prospectus for further information. However, it is at the sole and absolute discretion of the relevant government authorities and subject to relevant PRC laws, regulations and policies, to determine whether and when government grants would be provided to us, or at all. We cannot assure you that we will be able to receive government grants in the future.

The termination or expiration of our preferential tax treatments or the imposition of additional taxes on us may lead to an increase in our expenses, and the unavailability or reduction in the amount of government grants or other favourable treatments received by us may have a material adverse effect on our business, financial condition, results of operations and prospects.

**Certain components of our other income, including government grants, are of non-recurring nature, and the loss of these components of other income could materially and adversely affect our business, financial conditions and results of operations.**

We received government grants of RMB4.3 million, RMB3.6 million and RMB13.2 million for the Track Record Period, respectively. See “Financial Information — Components of our consolidated statements of profit and loss — Other income and gain or losses.” These components of our other income are of non-recurring nature and we cannot assure you that we would continue to receive government grants at the historical levels, or at all. If there is any change, suspension or termination of government grants, our business, financial conditions and results of operations could be materially and adversely affected.

**Any material disruption to the operation of our production facilities could materially and adversely affect our business and financial condition and operating results.**

We cannot assure you that there will be no disruptions to the operations of our production facilities in the future. If operations at our production facilities are materially disrupted as a result of fires, equipment failure, power outages, work stoppages, explosions, adverse weather conditions, natural disasters, labour disputes, workforce restructuring, transport and logistics issues, political turmoil or other factors, our business and financial condition and operating results could be adversely affected. The occurrence of any of these events could also require us to make significant unanticipated capital expenditures.

Our production process depends on a stable supply of electricity and water. If we encounter any shortage of supply of electricity and water, our production activities could be interrupted which could adversely affect our business and financial condition and operating results. Any fluctuation in the charges for electricity and water in the future could affect our production cost and our profitability, which could have a significant impact on our business and financial condition and results of operations.

Interruptions in production could increase our costs and delay our delivery of products, which may further subject us to penalties or other liabilities under the relevant sales arrangements with our

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customers. Production suspensions caused by such disruptions could cause a reduction in sales or delay in sales recognition. Lost sales or increased costs arising from such disruption of operations may not be recoverable under our existing insurance policies and any prolonged business disruption could also result in a loss of customers. In case of any of the above, our business and financial condition and operating results could be adversely affected.

**We are subject to a variety of occupational health and safety laws and regulations.**

We are subject to a variety of occupational health and safety laws and regulations imposed by the PRC Government. Compliance with existing and future health and safety laws and regulations could subject us to costs or liabilities, including monetary damages and fines, impact our production capabilities, result in suspension of our business operations, and impact our overall financial performance. Although we had not experienced any violations of health or safety laws and regulations during the Track Record Period and up to the Latest Practicable Date, we cannot assure you that such event will not happen in the future. If we are held liable for damages in the event of any injury or violation of applicable health or safety laws or regulations, we may also be subject to adverse publicity and our business, financial conditions and results of operations could be materially and adversely affected.

**Our business operations are subject to the risks relating to potential accidents arising from our operations and failure to comply with safety measures and procedures, and other unforeseen risks.**

Our business involves the operation of equipment and machinery, which, if improperly operated, may result in physical injuries or even fatalities. We require our employees to comply with relevant safety measures and procedures relating to operations and production, as stipulated in our internal policies. There is no assurance that such safety measures are strictly followed by our employees. We cannot assure you that these accidents, whether due to improper use or malfunctions of such equipment or machinery or other reasons, will not occur in the future. We cannot guarantee that material workplace accidents or fatal accidents will not occur in the future. In that case, we may be subject to government investigations and administrative penalties. Even if such accidents were not caused by our fault or negligence, such accidents may still cause us to incur substantial costs and damage to our reputation, such as negative publicity, which could adversely affect our business and financial condition and operating results. If work-related accidents resulting in employee injuries or deaths occur, we may be liable for medical and other payments to the employees and their families, in addition to fines or penalties. We cannot assure you that all such risks have been adequately covered by our existing insurance policies. If we incur substantial liabilities, which are not covered by our insurance policies, our business and financial condition and results of operations may be adversely affected.

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The production process of our pearlescent pigment and synthetic mica products involves the handling and processing of various chemicals, such as titanium tetrachloride and different kinds of chemical reactants and additives. Any accidents resulting from the improper handling of these chemicals during storage, transportation and production may cause serious environmental, health and safety issues for our employees or others, cause damage to our production facilities and result in production interruptions.

Our operations are also subject to unforeseen risks, such as political unrest and natural disasters. We cannot assure you that we are insured for any of these risks or that, if insured, we will be successful in making claims under our insurance policies or that the insurance proceeds will be sufficient to compensate the actual damage suffered, or at all. Any of these events may also lead to litigation, government fines or penalties, which in turn may adversely affect our business, reputation, financial condition and results of operations.

**We are subject to various regulatory and customer-imposed guidelines and may not be successful in maintaining an effective quality control system.**

We are subject to various laws and regulations in the jurisdictions where our pearlescent pigment products and synthetic mica powder are sold. To comply with such laws and regulations, we have to implement and maintain an effective quality control system and perform various inspections during our entire manufacturing process. Although we have been in full compliance with the quality control requirements during the Track Record Period, we cannot assure you that our quality control system will continue to be effective. Any significant failure or deterioration of our quality control system in respect of, among other things, our production process and product inspection, may seriously damage our product quality. Any decline in product quality will affect our reputation in the market and among our existing or prospective customers, which may lead to reduced orders or loss of customers, and will severely harm our business, financial conditions and results of operations.

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

We are required to maintain various approvals, licenses and qualification certificates in order to operate our business in accordance with the laws and regulations of the PRC. As of the Latest Practicable Date, as advised by our PRC Legal Advisers, we have obtained all relevant approvals, licenses and qualification certificates required for our operation of the business that we are currently engaged in. However, most of these approvals, licenses and qualification certificates are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal. See the section headed “Business — Licences and permits” in this prospectus for further information on the approvals, licenses and qualification certificates we are required to obtain to operate our business. For the issuance of these licences and permits, the relevant regulatory authorities would carry out regular inspections to ensure our compliance with applicable laws and regulations. We are also required to renew our licences and permits periodically. Failure to pass these inspections, loss of or failure to renew our licences and permits may result in temporary or permanent suspension of some or all of our production activities, and may disrupt our operations.

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During the Track Record Period, our operations have not been materially affected due to any of the above circumstances. We cannot assure you that we will be able to renew all of these approvals, licenses and qualification certificates and qualification certificates that are crucial to our operations when they expire. If we cannot obtain and maintain all approvals, licenses and qualification certificates required by us to operate our business, the continued operation of our business could be interrupted and we may incur fines and penalties, which could adversely affect our business, results of operations and financial condition.

**Our business depends on our key senior management members and key research and development personnel, and we may not be able to find suitable replacement in case of loss of service of any of them.**

Our business depends to a significant extent on the continued service of our senior executives and key research and development personnel. The experience and leadership of our key management team are critical to the success of our business. Our senior management team has extensive experience and expertise in the pearlescent pigment and synthetic mica industries and has made significant contributions to the growth and success of our business. Any unexpected loss of services of one or more of these individuals could have a material adverse effect on us. Our research and development team is critical to the research and development of new products and new applications. Our research and development team also focuses on research and development of new production and processing technology and improve production equipment pursuant to our production requirements and latest market trends. The continued service of our key senior management members is significant to our future development and expansion. We do not maintain key-person insurance for key members of our senior management team. If any of our key senior management members ceases employment with us, we may have difficulty finding suitable replacements with similar industry experience. The loss of service of any of our key senior management, or failure to find suitable replacements, could adversely affect our business operations, financial condition, results of operations and prospects. The departure of any of these individuals could have an adverse effect on our business and prospects.

Our future success also depends substantially on our ability to recruit, train and retain qualified management, research and development staff, technicians, engineers and other qualified personnel. Competition for talent in the pearlescent pigment and synthetic mica industries is intense and qualified individuals can be difficult to recruit. Consequently, we may not be able to easily or quickly replace lost personnel and we may incur additional expenses to recruit, train and retain new hires. In addition, we may incur additional expenses for the recruitment and training of new personnel, which could severely disrupt our business and expansion plans. Hence, our ability to attract and retain key personnel is critical to our overall competitiveness. In order to attract and retain these personnel, we may be required to offer higher compensation and other benefits, which would increase our operating expenses and, in turn, materially and adversely affect our financial condition and results of operations. If we are unable to attract or retain the personnel required to implement our business objectives, our business could be severely disrupted.

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**We may not be able to adequately protect our intellectual property rights and any unauthorised use of our intellectual property rights by competitors or third parties, and the expenses incurred in protecting such intellectual property rights, may adversely affect our business and reputation.**

We have proprietary intellectual property rights with respect to technologies developed for the production of pearlescent pigment and synthetic mica products. The success of our business to a certain extent is dependent upon our ability to continue to develop new products and new applications as well as developed and improved our production and processing technologies through research and development to cater to industry demand and requirement of our customers. We rely on intellectual property laws in the PRC to protect our intellectual property rights. As of the Latest Practicable Date, we had (a) 26 patents in PRC; (b) 13 trademarks in the PRC; (c) one domain name in the PRC; (d) four software copyrights in the PRC; (e) one trademark in Hong Kong; and (f) 14 patent applications for registration in the PRC under review. Further information on our registered intellectual property rights which we consider to be or may be material to our business are set forth in the paragraphs under “B. Further information about the business of our Group — 2. Intellectual property” in Appendix V to this prospectus.

Unauthorised use of our intellectual property by third parties may adversely affect our business. Preventing such unauthorised use of intellectual property is inherently difficult. If we are unable to prevent the misappropriation or unauthorised use of our intellectual property rights, competitive advantages of our proprietary technology could be reduced or eliminated, which could adversely affect our results of operation. In addition, there can be no assurance that we will be successful in bringing enforcement actions against parties who we believe have infringed upon our intellectual property rights. In addition, intellectual property laws in China, are still evolving and may not afford the same level of protection as the intellectual property laws of other jurisdictions. If we are unable to adequately protect our intellectual property rights to prevent misuse or misappropriation by any of our competitors, our brand and our business may be materially and adversely affected. Any occurrence of misappropriation could negatively impact our reputation and brand name, cause a decline in our sales and increase our administrative costs in litigation and enforcement actions.

In addition, seeking patent protection can be costly and time-consuming. There can be no assurance that pending or future patent applications will be granted or that, if such patents are granted, they will provide meaningful protection to us. In the future, if suspected infringement arises, litigation may be necessary to enforce our intellectual property rights and to protect our intellectual property. Future litigation could result in substantial costs and diversion of resources. Moreover, there can be no assurance that our intellectual property rights will be upheld by the courts in the future.

**We may be subject to intellectual property infringement claims from third parties, which may be expensive to defend and may disrupt our business and operations.**

We cannot be certain that our operations or any aspects of our business do not or will not infringe upon or otherwise violate trademarks, patents, know-how or other intellectual property rights held by third parties. We may be from time to time subject to legal proceedings and claims relating to the intellectual property rights of others. In addition, there may be third-party trademarks, patents, copyrights, know-how or other intellectual property rights that are infringed by our pearlescent pigment products and synthetic mica powder or other aspects of our business without our awareness. Our employees may unknowingly use intellectual property owned by others in their work for us. For

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instance, our employees may have used computer software for which we have not obtained the relevant user license. Holders of such intellectual property rights may seek to enforce such intellectual property rights against us in various jurisdictions. If any third-party infringement claims are brought against us, we may be forced to divert management time and other resources from our business and operations to defend against these claims, regardless of their merits.

Additionally, the application and interpretation of intellectual property right laws and the procedures and standards for granting trademarks, patents, know-how or other intellectual property rights are evolving and may be uncertain, and we cannot assure you that courts or regulatory authorities would agree with our analysis. If we were found to have violated the intellectual property rights of others, we may be subject to liability for our infringement activities or may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives of our own. As a result, our business, financial conditions and results of operations may be materially and adversely affected.

**Our business depends on our reputation, and any negative publicity on us could have a material adverse effect on our business and financial condition and operating results.**

Our business is dependent on our reputation. Negative publicity arising from, but not limited to, product defects and non-compliance with relevant laws and regulations or product quality standards are potential threats to our reputation. If we fail to promote and protect our reputation, we may not be able to maintain our sales, attract new customers, and expand into new markets. As a result, our business and financial condition and operating results could be adversely affected. Further, any negative claims against us could divert our management's attention and resources from other business concerns, even if such negative claims are unfounded, which could adversely affect our business and financial condition and operating results.

We are subject to risks affecting the pearlescent pigment and synthetic mica industries. Negative publicity or media report on the industries could materially undermine the confidence of our customers or prospective customers in our pearlescent pigment products and synthetic mica powder. Such negative publicity could also have a negative impact on our pearlescent pigment and synthetic mica powder products and as such may affect the demand for our products which could adversely affect our business and financial condition and operating results.

**We may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC national laws and regulations.**

Under relevant PRC laws and regulations, we are required to make social insurance fund and housing provident fund contributions for our employees. During the Track Record Period, we did not make the social insurance fund and housing provident fund contributions in full for employees of Chesir Pearl and Chesir Luzhai. In this connection, we have made provisions for social insurance fund and housing provident fund contributions in the aggregate amount of RMB11.0 million during the Track Record Period. As advised by our PRC Legal Advisers, in respect of the outstanding social insurance contributions, the relevant PRC authorities may demand us to pay the outstanding social insurance funds within a stipulated deadline and we may be liable for a late payment fee equal to 0.05% of the outstanding amount for each day of delay; if we fail to make such payments, we may be liable for payment of fines equivalent to one to three times the amount of the outstanding

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contributions. In respect of the outstanding housing provident fund contributions, we may be demanded by the relevant PRC authorities to settle the underpaid amount to the housing provident fund within a prescribed time limit, failing which we may be subject to the compulsory enforcement by the People's Court.

Our PRC Legal Advisers are of the opinion that the risk of us being fined is remote provided that we pay the unpaid amount for social insurance and housing provident funds in full in a timely manner after receiving notices to rectify such non-compliance from the relevant PRC authorities. As of the Latest Practicable Date, except as disclosed in "Business — Non-compliance matters," we had not received any notification from the relevant authorities demanding for payment of the outstanding contributions to the social insurance and the housing provident funds or fine in relation thereto.

However, we cannot assure you that we will not be subject to any order to rectify any non-compliance in the future, nor can we assure you that there will not be any employee complaints regarding payment of the outstanding amount of the social insurance and housing provident funds contributions against us, or that we will not receive any claims in respect of the outstanding amount of the social insurance and housing provident funds contributions under national laws and regulations proceed granted. In addition, we may incur additional expenses in order to comply with such laws and regulations promulgated by the PRC Government or relevant local authorities.

### **Our insurance coverage might not be adequate to cover all the risks.**

We take out property insurance for our buildings, assets and actual damages arising from our production activities. These insurance policies cover the risk of damage arising from natural disasters and certain accidents, such as fire and explosion, as well as vehicle damage due to accidents. However, most of our insurance policies are subject to standard deductions, exclusions and limitations. We believe these insurance policies are generally consistent with the customary industry practices, with respect to deductibles and limits of coverage, but we cannot be fully insured against all potential hazards incidental to our business, including losses resulting from business interruptions, or all potential losses, including damage to our reputation. If we were to incur significant liabilities for which we are not fully insured, it may have an adverse effect on our results of operations. In light of the change of market conditions, premiums and deductibles for certain insurance policies may increase substantially and, in some instances, certain insurance policies may become unavailable at a reasonable cost or available only for certain risks. If for any reason we were no longer covered by our existing insurance policies, we may not be able to obtain replacement of insurance policies on acceptable terms or at all, which may have an adverse effect on our results of operations.

### **Our business relies on the proper operation of our information technology systems, any malfunction of which for extended periods could materially and adversely affect our business, financial conditions and results of operations.**

Our business relies on the proper functioning of our information technology systems. We use our information technology systems to retrieve and analyse operational data, including procurement, sales, inventory, logistics and production, as well as financial information effectively and efficiently. We also use our information technology systems to assist us in planning and managing our production,

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budgeting, human resources, inventory, sales and financial reporting. As a result, our information technology system is critical for our daily operations. Although we did not experience any information technology system breakdown during the Track Record Period, we cannot assure you that our information technology systems will always operate well without any interruption.

Any malfunction to a particular part of our information technology systems may adversely affect our operations and our results of operations. There can be no assurance that there will not be any failure or breakdown of these systems in the future. Any system failure or breakdown could interrupt our normal business operations and result in a significant slowdown in operational and management efficiency. Any prolonged failure or breakdown could have a material adverse effect on our business and results of operations. In addition, we need to constantly upgrade and improve our information technology systems to keep up with the continuous growth of our operations and business. We may not always be successful in installing, running or implementing new software or advanced information technology systems as required by our business development. All of these may have a material and adverse impact on our business, financial conditions and results of operations.

**We could be adversely affected as a result of our sales to customers in certain countries which are subject to evolving economic sanctions of the US, EU, Australia, and UN and other relevant sanctions authorities.**

The US and other jurisdictions, including the EU and Australia, maintain broad economic sanctions targeting certain countries or territories such as Cuba, Crimea region of Ukraine, Egypt, Iran, North Korea, Russia, Serbia, Syria, Tunisia and Venezuela. In addition, the US and other jurisdictions have implemented country-based or activity-based targeted sanctions programmes that target sanctioned parties or economic sectors.

During the Track Record Period, the trading company customers included companies and entities in countries like Russia, Tunisia, Serbia, Egypt and Ukraine, but the aggregate sales to these customers in each year was less than one per cent. of our revenue. Our Directors believe that such sales were immaterial to our business, and we will cease our sales to countries or territories which are subject to international sanctions programmes following the Listing.

To our knowledge, our customers are not subject to the Targeted Sanctions Programmes. However, we cannot assure you that if the scope of the sanctions were expanded or if our safeguards to prevent sales to any sanctioned person were to fail, our business and financial condition and results of operations would not be materially and adversely affected.

Our Company has undertaken to the Stock Exchange that members of our Group will not use the net proceeds from the Global Offering to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, the countries subject to international sanctions programmes. Further, our Company has undertaken not to enter into any transaction that would cause any member of our Group, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders to violate or become a target of international sanctions programmes. Our Company will also make timely disclosure on the Stock Exchange's website and on our own website if we believe that any of our business transactions would put any member of our Group or our Shareholders at the risk of being sanctioned and will disclose in our annual reports or interim reports our efforts on monitoring our



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business exposure to sanctions risks and our business intentions relating to the countries subject to international sanctions programmes. If our Company were in breach of such undertakings to the Stock Exchange, our Company would be subject to the risk of possible delisting of our Shares on the Stock Exchange.

We cannot assure you that our future business will be free of sanctions risk. Our business and reputation could be adversely affected if the government of the United States, EU, Australia, or any other country material to our business were to determine that any of our activities constitute a violation of the sanctions they impose or provide a basis for designating us as a sanctioned entity. In addition, as the sanctions programmes are revised from time to time, new requirements or restrictions could come into effect which could increase the level of scrutiny on our business.

### **RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE**

**If the pearlescent pigment market does not grow at the rate that we have expected, or at all, or if a substitute product for pearlescent pigment product is released to the market, our business, results of operations and financial condition may be adversely affected.**

Our growth depends on the stable demand for our pearlescent pigment products in various downstream application. Although the demand has grown rapidly in the past, such growth rate may not remain the same or increase in the future. Any decrease in demand or any downturn in the relevant downstream sectors could materially and adversely affect our sales and profitability. Furthermore, if there is a change in market preference due to the release of a substitute product for pearlescent pigment products to the market, we may not be able to achieve the growth as expected and our business could be materially and adversely affected.

**Our business is affected by changes in customer requirements and preferences, industry demands and the perceptions for pearlescent pigment products and synthetic mica powder products generally.**

Customer requirements and preferences, industry demands and the perceptions for pearlescent pigment products and synthetic mica powder products are constantly changing in response to changes in market trend, technological development and customer needs. In light of the changing and diversified customer requirements and preferences, our future growth depends on our ability to adapt to market trends and introduce new products and new applications in a timely manner that can satisfy the requirements of our consumers. We cannot assure you that our pearlescent pigment products and synthetic mica powder products will continue to be accepted by our customers or that we will be able to anticipate or respond to changes in consumer preferences in a timely manner. Our failure to anticipate, identify or respond to these changes could adversely affect our sales performance and operating results.

Research and development of new products and applications can be expensive, and we cannot assure you that our new products and applications will be well-received and recognised by the market or that it will generate acceptable profits. We may spend significant amount of resources to develop and market new products or new applications which may turn out not meeting our anticipated sales

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levels. If we are unable to effectively respond or adjust to the market trends and successfully identify and develop new products or new applications in response to the changing demand, our business and financial condition and operating results and our competitive position could be adversely and materially affected.

### **RISK RELATING TO COVID-19**

Since early 2020, there have been reported cases of COVID-19 in the PRC and around the world. The World Health Organization has declared that the outbreak of COVID-19 is a global pandemic, which had more than 170.8 million confirmed cases and 3.5 million casualties worldwide as of the Latest Practicable Date. The COVID-19 pandemic has also resulted in international economic recession, closure of businesses, country and city lockdowns and significant reductions in international trade, travelling and business activities.

In response to the COVID-19 pandemic, the PRC Government has initiated various measures, which include quarantining of individuals, requiring residents to stay at home and avoid public gathering. The pandemic has also resulted in the closure of offices, retail stores, schools, and manufacturing facilities across China, during which restrictions on movement were imposed throughout the country.

Due to the production delay caused by the extension of the 2020 Chinese New Year holiday and quarantines of our employees because of the COVID-19 pandemic, our operation has been affected slightly and our production volume was slightly lower than our planned production volume during the first quarter of 2020. Our sales revenue and sales volume decreased slightly in the first quarter of 2020, primarily due to the interruption of production and, to a lesser extent, the impact on our sales to the trading companies and manufacturers.

During the Track Record Period, we sourced natural mica flakes from India directly or through trading companies in the PRC. On 25 March 2020, the government of India announced a national lockdown in response to the COVID-19 pandemic. As of the Latest Practicable Date, our procurement of natural mica from India has not been impacted. However, if the government of India imposes measures to restrict the export of natural mica or if there exists any adverse change in the natural mica trading environment, our raw material supply of natural mica could be adversely affected, which will adversely impact our business and operation.

In case of severe outbreak, in order to contain the spread of COVID-19 pandemic, the PRC Government may require us to suspend our production activities, close down our production facilities temporarily and impose travel restrictions among cities and provinces, which may affect the supply and delivery of raw materials to our production plant and delivery of our products to our customers both domestically and overseas. Our business operations could also be disrupted if any of our employees is suspected of contracting COVID-19 requiring quarantines and our production plant may also be shut down for disinfection.

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As of the Latest Practicable Date, there remained substantial uncertainties as to how the COVID-19 pandemic would develop and we could not yet fully ascertain the expected impact on our operations or our financial position, and also the impact which may have on our customers or suppliers. If our production plant is forced to halt production activities or the supply of raw materials for our production is disrupted, we may not be able to deliver products in a timely manner to our customers, which may adversely affect our business reputation, financial performance and results of operations.

Other countries may also impose travel restrictions, which may impact our overseas sales efforts. Any local restrictions in the PRC could also affect our sales activities domestically. Further, the PRC and global economies may also be adversely affected, which may lead to reduced demand for our products, cancellation of purchase orders placed previously or request for delay in payments. Any material adverse change in demand for our products or financial health of our PRC and overseas customers would affect our business, financial condition, results of operations and profitability. Further, as we intend to apply a certain portion of our net proceeds from the Global Offering to enhance our production capacity, any material adverse change in demand for our products may also affect our expansion plan and the intended use of the net proceeds from the Global Offering.

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

#### **The legal system in the PRC embodies uncertainties which could limit the legal protections available to us.**

The legal system in the PRC is a civil law system based on written legislation. Unlike common law systems, it is a system in which decided legal cases have little precedential value. The legal system in the PRC evolves rapidly, and the interpretations of many laws, regulations and rules may contain inconsistencies. These uncertainties could limit the legal protections available to us. In addition, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or their pre-emption of local regulations by national laws. Such unpredictability towards our contractual, property (including intellectual property) and procedural rights could adversely affect our business and impede our ability to continue our operations. Furthermore, any litigation in the PRC may be protracted and result in substantial costs and diversion of management resources.

#### **Political and economic policies of the PRC could affect our business.**

Before its adoption of the economic reforms and open policy in late 1970s, the PRC had been primarily a planned economy. With the commencement of the PRC Government's effort to reform the Chinese economy in 1978, the PRC Government introduced changes to its economic system, as well as the government structure. These reforms have led to significant economic growth and progress in social development. Although the PRC Government still owns a significant portion of the productive assets in China, economic reform policies have placed much emphasis on creating autonomous enterprises and the utilisation of market mechanisms. Factors that may cause the PRC Government to modify, delay or even discontinue the implementation of certain reform measures include political changes and political instability and such economic factors as changes in rates of national and regional economic growth, unemployment and inflation.

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Our Directors anticipate that the PRC Government will continue to further implement these reforms, further reduce government interference on enterprises, and rely more on free market mechanisms for the allocation of resources, bring positive effect on our overall and long-term development. Any changes in the political climate, economic and social situation, the laws, regulations and policies of the PRC arising therefrom, may have an adverse effect on the present or future operations of our Group. With our business and operations based in the PRC, our operation and financial results could be adversely affected by the restrictive or austere policies introduced by the PRC Government. We may not be able to capitalise on economic reform measures adopted by the PRC Government. We cannot assure you that the PRC Government will not impose economic and regulatory controls that may adversely affect our business, financial positions and results of operations.

**Government control on currency conversion and changes in the exchange rate between RMB and other currencies could negatively affect our financial condition, operations and our ability to pay dividends.**

RMB is currently not a freely convertible currency and our Group needs to convert RMB into foreign currency for payment of dividends, if any, to Shareholders. Our PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE regulates the conversion of RMB into foreign currencies. Foreign investment entities are required to apply to relevant bank for direct investment-related foreign exchange registration.

Under relevant PRC foreign exchange laws and regulations, payment of current account items, including profit distributions and interest payments are permitted to be made in foreign currencies without prior government approval but are subject to certain procedural requirements. Strict foreign exchange control continues to apply to capital account transactions, which must be approved by and/or registered with SAFE, its local branches or relevant banks. We cannot assure you that the PRC regulatory authorities will not impose further restrictions on foreign exchange transactions for current-account items, including payment of dividends.

Furthermore, in 2005, the PRC revalued the exchange rate of the RMB to the US dollars and abolished the RMB to peg solely to the US dollars as applied in the past. Instead, it is pegged against a basket of currencies which can rise or drop by as much as 0.3% each day. We cannot assure you that in the future PRC will not revalue RMB or permit its substantial appreciation. Any increase in the value of RMB may adversely affect the growth of the PRC economy and competitiveness of various industries in the PRC, including the industries in which our Group operates, which could in turn affect the financial condition and results of operations of our Group.

Currently, some of our revenue, expenses and bank loans are denominated in RMB, however we cannot guarantee that our financial portfolio will be free from any foreign currencies denominated securities or investments in the future.

The global financial crisis in 2008 has adversely affected the United States and other world economies. Although there are signs of recovery in the global and Chinese economy, there can be no assurance that any such recovery is sustainable. The ongoing uncertainties in the global investment environment may cause fluctuations in exchange rates which may in turn adversely affect the value

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of our net assets, earnings or any declared dividends. Also, any unfavourable movement in the exchange rate or the value of US dollars may lead to an unfavourable exposure to foreign exchange losses, which could in turn materially and adversely affect our financial conditions and results of operations.

### **Distribution and transfer of funds may be subject to restrictions under the PRC law.**

Our Company is a holding company incorporated in the Cayman Islands and does not have any business operations other than investments in the subsidiaries. Our Company relies entirely on the dividend payments from our subsidiaries. Under the PRC laws, dividends from our subsidiary in the PRC may only be paid out of distributable after-tax profits, less any recovery of accumulated losses and allocations to statutory funds which are not available for distribution as cash dividends. Any distributable profits that are not distributed in a given year will be retained and made available for distribution in subsequent years. The calculation of distributable profits under the PRC accounting principles is different in many respects from Hong Kong accounting principles. Distributions by our subsidiaries in the PRC to our Company may be subject to bank procedures and taxation. These requirements and restrictions may affect our ability to pay dividends to our Shareholders. Any transfer of funds from our Company to our subsidiaries in the PRC, either as a shareholder loan or as an increase in registered capital, is subject to registration and/or approval granted by the PRC SAFE its local branch or relevant banks. These limitations on the free flow of funds between our Company to subsidiaries in the PRC could restrict our ability to act in response to changing market conditions in a timely manner. Furthermore, members of our Group may obtain credit facilities in banks in the future which restrict them from paying dividends to their Shareholders, which may have an adverse impact on their ability to pay dividends to their Shareholders.

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

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

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

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### **PRC tax law may affect tax liabilities on dividends received by our Company and Shareholders and increase our enterprise income tax rate.**

Our Company is incorporated under the laws of the Cayman Islands and holds interests in our PRC subsidiaries through a number of subsidiaries incorporated in the BVI and Hong Kong. The EIT Law has become effective as of 1 January 2008. If our subsidiary is deemed to be a non-PRC tax resident enterprise without an office or premises in the PRC, a withholding tax at the rate of 10% will be applicable to any dividends paid to our subsidiary, unless our subsidiary is entitled to reduction or elimination of such tax, including by tax treaties. Under an arrangement between the PRC and Hong Kong, such dividend withholding tax rate is reduced to five per cent. if a Hong Kong tax resident enterprise owns over 25% of the equity interests of the PRC company distributing the dividends. Pursuant to the Announcement on Promulgating the Administrative Measures for Convention Treatment for Non-resident Taxpayers (《關於發佈非居民納稅人享受協定待遇管理辦法的公告》), which came into effect on 1 January 2020, any non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the collection and preservation of relevant materials for review pursuant to the measures and the subsequent administration by the tax authorities.

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

#### **The Offer Price may be lower than the low-end of the indicative range of the Offer Price of HK\$3.52 if the Downward Offer Price Adjustment is made.**

We have the flexibility to reduce the Offer Price up to 10% below the low-end of the indicative range of the Offer Price if the Downward Offer Price Adjustment is made. Hence, it is possible that the Offer Price will be determined at HK\$3.17 following the Downward Offer Price Adjustment to be made in full by 10.0%. The Global Offering will proceed and the Withdrawal Mechanism will not apply. If the Offer Price is determined at HK\$3.17, the amount of the estimated net proceeds from the Global Offering will be reduced to HK\$856.6 million, assuming that the Over-allotment Option is not exercised, and such reduced amount of the net proceeds from the Global Offering will be used for such purposes as described in the section headed “Future Plans and Proposed Use of the Net Proceeds from the Global Offering — Proposed use of the net proceeds from the Global Offering” in this prospectus.

#### **A time gap of 10 calendar days exists between the date on which the Application Lists open and close and the Listing Date.**

Under the expected timetable for the Listing, the latest time and date for lodging applications under the Hong Kong Public Offering would be 12:00 noon on Tuesday, 6 July 2021 and that the Listing Date would be on Friday, 16 July 2021. Investors would only be informed on the results of the Hong Kong Public Offering by way of announcement and various channels set forth in the section headed “How to Apply for our Hong Kong Offer Shares” in this prospectus on Thursday, 15 July 2021. Investors should be aware that during the time period between Tuesday, 6 July 2021 and Thursday, 15 July 2021, our Company would not be obliged to issue any announcement on the results of the Hong Kong Public Offering or proceed to refund of the application monies for wholly- or partially-unsuccessful applications under the Hong Kong Public Offering or in the event that the Offer Price as finally determined is less than the high-end of the indicative range of the Offer Price. In

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addition, our Shares will not commence trading on the Stock Exchange until the Listing Date, and investors would not be able to sell or otherwise deal in our Shares until the Listing Date. Accordingly, investors of our Hong Kong Offer Shares would be subject to the risk that the market prices of our Shares when trading begins on the Stock Exchange could be lower than the Offer Price or otherwise subject to material fluctuations as a result of any unexpected adverse event or development during the period.

**There has been no prior public market for our Shares, and an active trading market may not develop.**

Prior to the Global Offering, no public market for our Shares existed. Following completion of the Global Offering and the Capitalisation Issue, the Stock Exchange will be the only market on which our Shares will be publicly traded. We cannot assure our investors that an active trading market for our Shares will be developed or be sustained after the Global Offering. In addition, we cannot assure our investors that our Shares will be traded in the public market subsequent to the Global Offering at or above the Offer Price. The Offer Price for our Shares is expected to be fixed on Price Determination Date by an agreement to be entered into between the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) and us, and may not be indicative of the market price of our Shares following the completion of the Global Offering. If an active trading market for our Shares does not develop or is not sustained after the Global Offering, the market price and liquidity of our Shares could be materially and adversely affected.

**The trading volume and share price of our Shares may fluctuate.**

The price and trading volume of our Shares may be highly volatile, which may be subject to a number of factors, including but not limited to:

- variations in our revenue, earnings and cash flow;
- announcements made by us or our competitors;
- environmental accidents suffered by us;
- loss of key personnel;
- developments in the pearlescent pigment industry;
- immediate dilution in the unaudited pro forma adjusted consolidated net tangible asset value;
- changes in ratings by financial analysts and credit rating agencies;
- involvement in litigation;
- fluctuations in stock market prices and volume;
- fluctuations in the market prices for the products sold; or
- future disposal or perceived disposal of a substantial number of Shares of our existing Shareholders in the public market.

We cannot assure you that our major Shareholders would not dispose of their shareholdings. Any significant disposal of our Shares by any of the major Shareholders could materially affect the prevailing market price of our Shares. In addition, these disposals may make it more difficult for us to issue new Shares in the future at a time and price we deem appropriate, thereby limiting our ability to raise further capital. We cannot predict the effect of any significant future disposal on the market price of our Shares.

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We may need to raise additional funds due to changes in business conditions, or to finance our future plans, whether in relation to our existing operations or any future acquisitions. If additional funds are raised by way of issuing Shares or equity-linked securities other than on a pro-rata basis to existing Shareholders our existing Shareholders' shareholding may be reduced, the earnings per Share and the net tangible asset value per Shares would diminish and/or such newly issued securities may have rights, preferences and privileges superior to our Shares of our existing Shareholders.

**We cannot assure you that we will pay dividends in the future.**

We cannot assure you that our Group will declare dividends. The declaration and payment of dividends during the Track Record Period should not be considered as a guarantee or indication that we will declare and pay dividends in such manner in the future, or will declare and pay any dividends in the future at all. Whether dividends will be distributed and the amount of dividends to be paid will depend upon, among other things, our profitability, financial condition, business development requirements, future prospects and cash requirements of our Group. See the section headed "Financial Information — Dividends" in this prospectus. We cannot assure investors when or whether we will pay dividends in the future.

**The interest of our Controlling Shareholders may not always coincide with the interest of our Group and those of our other Shareholders.**

Our Controlling Shareholders have significant influence over the operations and business strategies of our Group, and may have the ability to require our Group to effect corporate actions according to their own desires by virtue of their shareholding in our Group. The interests of our Controlling Shareholders may not always coincide with the best interests of other Shareholders. If the interests of any of our Controlling Shareholders conflict with the interests of other Shareholders, or if any of our Controlling Shareholders chooses to cause our business to pursue strategic objectives that conflict with the interests of other Shareholders, our Group or those other Shareholders' interest may be adversely affected as a result.

**Shareholders' interests may be diluted as a result of additional equity fund-raising.**

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

For the purpose of further expansions or new developments in our existing operations, our Group may need to raise additional funds in the future by way of issue of new equity or equity-linked securities of our Company to finance further expansion of our business, joint ventures or other strategic partnerships and alliances. Such fund-raising exercises may not be conducted on a pro-rata basis to existing Shareholders. As such the shareholding of the then-Shareholders may be reduced or diluted, and such new securities may confer rights and privileges that take priority over those conferred by our Shares.



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**Future sales of substantial amounts of our Shares in the public market may adversely affect the prevailing market price of our Shares.**

Except for Offer Shares, our Company has agreed with the Sole Global Coordinator (for itself and on behalf of the other Underwriters) not to issue any of our Shares or securities convertible into or exchangeable for our Shares during the period beginning from the date of this prospectus and continuing through the date which is six months from the date on which dealings in our Shares commence on the Stock Exchange, except with the prior written consent of the Sole Global Coordinator (for itself and on behalf of the other Underwriters). Further, our Shares held by our Controlling Shareholders are subject to certain lock-up undertakings for periods commencing on the date of this prospectus and up to twelve months from the Listing Date. After these restrictions lapse, the market price of our Shares may decline as a result of sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur. This may also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem appropriate.

**Investors should not place undue reliance on facts, statistics and data contained in this prospectus with respect to the economies and our industry.**

Certain facts, statistics and data in this prospectus are derived from various sources including various official government sources that we believe to be reliable and appropriate for such information. However, we cannot guarantee the quality or reliability of such source materials. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Whilst our Directors have taken reasonable care in extracting and reproducing the information, they have not been prepared or independently verified by us and the Relevant Persons. Therefore, none of them makes any representation as to the accuracy or completeness of such facts, statistics and data. Due to possibly flawed or ineffective collection methods or discrepancies between published information, market practice and other problems, the statistics in this prospectus may be inaccurate or may not be comparable to statistics produced for other publications or purposes and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such information or statistics.

**You should read the entire prospectus and we strongly caution you not to place any reliance on any information contained in press articles or media regarding us or the Global Offering.**

There may be press and media coverage regarding us or the Global Offering, which may include certain events, financial information, financial projections and other information about us that do not appear in this prospectus. We have not authorised the disclosure of any other information not contained in this prospectus. We do not accept any responsibility for any such press or media coverage and we make no representation as to the accuracy or completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for them. Accordingly, we strongly caution prospective investors to not rely on any such information. In making your decision as to whether to subscribe for and/or purchase our Shares, you should rely only on the financial, operational and other information included in this prospectus.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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

### MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

We do not have sufficient management presence in Hong Kong for the purposes of satisfying the requirements under Rule 8.12 of the Listing Rules. Our management, business operations and assets are primarily based outside Hong Kong. The principal management headquarters and senior management of our Group are primarily based in China. Our Directors consider that the appointment of executive Directors who will be ordinarily resident in Hong Kong would not be beneficial to, or appropriate for, our Group and therefore would not be in the best interests of our Company and our Shareholders as a whole. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. We will ensure that there is an effective channel of communication between us and the Stock Exchange by way of the following arrangements:

- (a) pursuant to Rule 3.05 of the Listing Rules, we have appointed and will continue to maintain two authorised representatives, namely Mr. SU and Mr. NG Cheuk Ming, to be the principal communication channel at all times between the Stock Exchange and our Company. Each of our authorised representatives will be readily contactable by the Stock Exchange by telephone, facsimile and/or e-mail to deal promptly with enquiries from the Stock Exchange. Both of our authorised representatives are authorised to communicate on our behalf with the Stock Exchange;
- (b) we will implement a policy to provide the contact details of each Director (such as mobile phone numbers, office phone numbers, residential phone numbers, email addresses and fax numbers) to each of the authorised representatives, to their alternate representative and to the Stock Exchange. This will ensure that each of the authorised representatives, the alternate representative and the Stock Exchange will have the means to contact all our Directors (including the independent non-executive Directors) promptly as and when required, including means to communicate with our Directors when they are traveling;
- (c) we will ensure that all our Directors who are not ordinarily resident in Hong Kong have valid travel documents to visit Hong Kong and will be able to come to Hong Kong to meet with the Stock Exchange within a reasonable period of time when required;
- (d) we have retained the services of the Compliance Adviser, in accordance with Rule 3A.19 of the Listing Rules. The Sole Sponsor submits, on behalf of our Company, that the Compliance Adviser will serve as an additional channel of communication with the Stock Exchange in addition to the authorised representatives of our Company. The Compliance Adviser will provide our Company with professional advice on ongoing compliance with the Listing Rules. We will ensure that the Compliance Adviser has prompt access to our Company's authorised

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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representatives and Directors who will provide to the Compliance Adviser such information and assistance as the Compliance Adviser may need or may reasonably request in connection with the performance of the Compliance Adviser's duties. The Compliance Adviser will also provide advice to our Company when consulted by our Company in compliance with Rule 3A.23 of the Listing Rules; and

- (e) meetings between the Stock Exchange and our Directors could be arranged through the authorised representatives or the Compliance Adviser, or directly with our Directors within a reasonable time frame. Our Company will inform the Stock Exchange as soon as practicable in respect of any change in the authorised representatives and/or the Compliance Adviser in accordance with the Listing Rules.

### APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, we must appoint a company secretary who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Note 1 to Rule 3.28 of the Listing Rules further provides that the Stock Exchange considers the following academic or professional qualifications to be acceptable:

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

In assessing the "relevant experience", the Stock Exchange will consider the individual's:

- (a) length of employment with the issuer and other issuers and the roles he/she played;
- (b) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Codes;
- (c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and
- (d) professional qualifications in other jurisdictions.

Our Company has appointed Mr. ZHOU Fangchao ("Mr. ZHOU"), an executive Director, as a joint company secretary with effect on 22 December 2020. Mr. ZHOU has joined our Group since April 2014 and has extensive experience in the daily business operations and administration of our Group. Since September 2018, Mr. ZHOU has acted as the secretary of the board of directors of Chesir Pearl. Mr. ZHOU is capable of discharging his function as a company secretary of our Company. However, Mr. ZHOU does not possess any of the qualifications under Rules 3.28 and 8.17 of the

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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Listing Rules and may not be able to fulfil the requirements of the Listing Rules. Therefore, our Company has also appointed Mr. NG Cheuk Ming (“Mr. NG”), an associate member of both The Hong Kong Institute of Chartered Secretaries and the Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom, to act jointly with Mr. ZHOU as a joint company secretary of our Company for an initial period of three years from the Listing Date to enable Mr. ZHOU to acquire the “relevant experience” under Note 2 to Rule 3.28 of the Listing Rules for the purpose of complying with the requirements under Rules 3.28 and 8.17 of the Listing Rules.

Accordingly, our Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules on the basis of the following:

- (a) The waiver is valid for an initial period of three years from the Listing Date and is granted on condition that we engage Mr. NG to assist Mr. ZHOU in discharging his duties as a company secretary and in obtaining the “relevant experience” as required under Rule 3.28 of the Listing Rules. The waiver can be revoked if there are material breaches of the Listing Rules by our Company.
- (b) Our Company undertakes to re-apply to the Stock Exchange for a waiver from strict compliance with the company secretary qualification requirements under Rules 3.28 and 8.17 of the Listing Rules if Mr. NG ceases to meet the requirements under Rule 3.28 of the Listing Rules or otherwise ceases to act as a joint company secretary of our Company.
- (c) Mr. ZHOU will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will endeavour to attend relevant training courses, including introduction on the latest changes to the relevant applicable Hong Kong laws and regulations and the Listing Rules, that may be organised by our Hong Kong legal advisers on an invitation basis and seminars organised by the Stock Exchange (or other recognised course providers in Hong Kong) for listed issuers from time to time.
- (d) Before the expiration of the initial period of three years, the qualifications and experience of Mr. ZHOU will be re-assessed by the Stock Exchange for the purpose of determining whether the requirements under Rules 3.28 and 8.17 of the Listing Rules can be satisfied and whether the need for the ongoing assistance of Mr. NG will be required. We will liaise with the Stock Exchange to enable the Stock Exchange to assess whether Mr. ZHOU, having benefited from the assistance of Mr. NG for the preceding three years, has acquired the skills and the knowledge necessary to carry out the duties of company secretary and the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules.

See the section headed “Directors, Senior Management and Employees” in this prospectus for further information on Mr. ZHOU and Mr. NG’s qualifications and experience.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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### CONSENT TO THE PROPOSED ALLOCATION OF SHARES TO A CONNECTED CLIENT OF THE SOLE GLOBAL COORDINATOR

Paragraph 5(1) of Appendix 6 to the Listing Rules provides that no allocations will be permitted to “connected clients” of the lead broker or of any distributors without the prior written consent of the Stock Exchange.

Shanghai Huijin has agreed to participate in the International Offering and has appointed Essence Securities Asset Management Co., Ltd. (the “**QDII Manager**”), an asset manager that is a qualified domestic institutional investor as approved by the relevant PRC authority, in the name of Essence Securities Asset Management Co., Ltd. - QDII2021-02, to subscribe for and hold our International Offer Shares allocated to it (or its nominee) on a discretionary basis on behalf of the Shanghai Huijin. Following the Listing, Shanghai Huijin No. 3 Fund will hold our International Offer Shares issued and allotted to Shanghai Huijin. As the QDII Manager and Essence International Securities (Hong Kong) Limited, the Sole Global Coordinator, are within the same group of companies, the QDII Manager is a connected client of the Sole Global Coordinator under paragraph 13(7) of Appendix 6 to the Listing Rules.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a consent under paragraph 5(1) of Appendix 6 to the Listing Rules to permit our Company to allocate Shares to the QDII Manager. See the section headed “Cornerstone Investments” in this prospectus for further information.

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

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Company. Following the Listing, Shanghai Huijin No. 3 Fund and YBN Investments will hold our International Offer Shares issued and allotted to Shanghai Huijin and YBN Investments, respectively.

Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all materials respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

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

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain all the terms and conditions of the Hong Kong Public Offering. Further information on the terms of the Global Offering is set forth in the section headed “Structure and Conditions of the Global Offering” in this prospectus.

Our Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set forth herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator and the other Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Further information on the structure of the Global Offering, including its conditions, is set forth in the section headed “Structure and Conditions of the Global Offering” in this prospectus, and the procedures for applying for our Hong Kong Offer Shares is set forth in the section headed “How to Apply for our Hong Kong Offer Shares” in this prospectus and in the relevant Application Forms.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as of any subsequent time.

We may make the Downward Offer Price Adjustment to provide flexibility in determining the Offer Price. The ability to make the Downward Offer Price Adjustment does not affect our Company's obligation to issue a supplemental prospectus and to offer investors a right to withdraw their applications if there is a material change in circumstances not being disclosed in this prospectus. If the Offer Price is proposed to be determined at such amount which is more than 10% below the low-end of the indicative range of the Offer Price, the Withdrawal Mechanism will be applied if the Global Offering is to proceed.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of holding and dealing in our Shares. None of the Relevant Persons and any member of our Group and its directors, officers, agents, employees and representatives accepts responsibility for any tax effects or liabilities of holders of our Shares resulting from the subscription, purchase, holding or disposal of, dealing in, or exercising any rights in relation to, our Shares.

Global Offering	<p>290,674,000 Shares (excluding any Shares to be allotted and issued pursuant to the Over-allotment Option) comprising 29,068,000 Hong Kong Offer Shares and 261,606,000 International Offer Shares, in each case subject to adjustment. All Offer Shares are new Shares to be allotted and issued by our Company.</p> <p>See the section headed “Structure and Conditions of the Global Offering” in this prospectus for further information on the structure and conditions of the Global Offering.</p>
Indicative range of the Offer Price	HK\$3.52 to HK\$4.22 (subject to the Downward Offer Price Adjustment)
Procedures for application for our Hong Kong Offer Shares	See the section headed “How to Apply for our Hong Kong Offer Shares” in this prospectus and the relevant Application Forms for the application procedure for our Hong Kong Offer Shares for further information.
Stock borrowing arrangements in connection with settlement	<p>The Stabilizing Manager or any person acting for it may borrow from Hongzun International up to 43,601,000 Shares in order to cover over-allocations or effect transactions with a view to supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager or any person acting for it to do this. Such stabilisation action, if taken, may be discontinued at any time and is required to be brought to an end after a limited period. An announcement will be made to the public within seven days after the end of the stabilising period as required under the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong).</p> <p>See the section headed “Structure and Conditions of the Global Offering — Stabilisation” in this prospectus for further information.</p>

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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Number of Shares to be issued under the Over-allotment Option	Up to 43,601,000 new Shares to be allotted and issued by our Company.
Number of Shares in issue following completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised)	1,162,695,586 Shares
Number of Shares in issue following completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is exercised in full)	1,206,296,586 Shares
Listing Date	<p>Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 16 July 2021, dealings in our Shares on the Main Board will commence at 9:00 a.m. on Friday, 16 July 2021. Shares will be traded in board lots of 1,000 Shares.</p> <p>The stock code of our Shares will be 6616.</p>
Lock-up undertakings by our Company and our Shareholders	See the sections headed “Underwriting — Hong Kong Public Offering — Undertakings given to the Stock Exchange pursuant to the Listing Rules”, “— Undertakings given to the Hong Kong Underwriters” and “— Undertakings given to the Company and the Sole Sponsor” in this prospectus for further information.
Voting rights	Holder of each Share is entitled to one vote at our general meetings.



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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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### Share Registers and Hong Kong stamp duty

Our Company's principal register of members will be maintained by our Cayman Principal Registrar in the Cayman Islands and our Company's branch register of members will be maintained by our Hong Kong Share Registrar in Hong Kong. All Shares to be issued pursuant to the Global Offering, the Capitalisation Issue and any Shares to be issued upon exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme will be registered on our Company's branch register of members in Hong Kong. Only Shares registered on our Company's branch register of members maintained in Hong Kong may be traded on the Stock Exchange.

No stamp duty is payable by applicants in the Global Offering.

Dealings in our Shares registered in the branch register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty. The stamp duty in Hong Kong is charged to each of the seller and purchaser at the ad valorem rate of 0.1% of the consideration for, or (if greater), the value of, the Shares transferred. In other words, a total of 0.2% of the consideration is currently payable on a typical sale and purchase transaction of the Shares. In addition, a fixed duty of HK\$5.00 is charged on each instrument of transfer (if required).

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the Shareholders listed on our Company's branch register of members in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder, or if joint Shareholders, to the first-named therein in accordance with the Articles of Association.

### Restrictions on offers and offers for sale

No action has been taken to permit a public offering of our Offer Shares in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the Application Forms 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.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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Our Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. No person is authorised in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company and the Relevant Persons.

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

The distribution of this prospectus and the offering of our 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 and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exception therefrom. In particular, our Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC.

### Application for the Listing

Application has been made to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus (including Shares to be issued pursuant to the Capitalisation Issue, Shares which may fall to be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme) on the Main Board. No part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought. All our Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange. The Listing is sponsored by the Sole Sponsor.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Offer 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 the Stock Exchange.

### Underwriting

Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters. The International Offering is managed by the Sole Global Coordinator. The International Underwriting Agreement is expected to be entered into on or about the Price Determination Date, subject to the agreement on the Offer Price between the Sole Global Coordinator (acting for itself and on behalf of the other Underwriters) and us.

If, for any reason, the Offer Price is not agreed upon amongst the Sole Global Coordinators (acting for itself and on behalf of the other Underwriters) and us, the Global Offering will not proceed and will lapse. Further details about the Underwriters and the underwriting arrangements is set forth in the section headed “Underwriting” in this prospectus.

### Shares will be 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 our Shares on the Main Board or any other date as HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stock brokers or other professional advisers for details of the settlement arrangements that may affect their rights and interests. All necessary arrangements have been made for our Shares to be admitted into CCASS.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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Rounding	<p>In this prospectus, where information is presented in hundreds, thousands, ten thousands, millions, hundred millions or billions, certain amounts of less than one hundred, one thousand, ten thousand, one million, a hundred million or a billion, as the case may be, have been rounded to the nearest hundred, thousand, ten thousand, million, hundred million or billion, respectively. Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.</p>
Language	<p>If there is any inconsistency between the English version of this prospectus and its Chinese translation, the English version of this prospectus shall prevail. If there is any inconsistency between the Chinese names of individuals, entities, departments, facilities, certificates, titles, laws, regulations and the like mentioned in this prospectus and their English translations, the Chinese names shall prevail.</p>
Exchange rate conversion	<p>For the purpose of illustration only and unless otherwise specified in this prospectus, (a) the translation of Renminbi into Hong Kong dollars is made at the rate of RMB1.00 to HK\$1.1877 and (b) the translation of US\$ into Hong Kong dollars is made at the rate of US\$1.00 to HK\$7.7640.</p> <p>The above conversion are provided for reference and convenience only, and no representation is made, and no representation should be construed as being made, that any amounts in RMB or HK\$ can be or could have been at the relevant dates converted at the above rate or any other rates or at all.</p>
Website	<p>The contents of any website mentioned in this prospectus do not form a part of this prospectus.</p>

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

<u>Name</u>	<u>Residential address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. SU Ertian (苏尔田先生) (Chairman and Chief Executive Officer)	Room 201, Unit 2, 7 Building No. 28 Beique Road Liubei District Liuzhou City Guangxi Zhuang Autonomous Region PRC	Chinese
Mr. ZHENG Shizhan (郑世展先生)	No. 22, Nanqiao Alley Huangsheyue Second Village Mayu Town Ruian City Zhejiang Province PRC	Chinese
Mr. JIN Zengqin (金增勤先生)	Room 1303, Unit 2, District 1 No. 1 Wenzhou Street Liunan District Liuzhou City Guangxi Zhuang Autonomous Region PRC	Chinese
Mr. ZHOU Fangchao (周方超先生)	Collective households No. 18 Hexi Road Liunan District Liuzhou City Guangxi Zhuang Autonomous Region PRC	Chinese
<i>Non-executive Directors</i>		
Mr. QIN Min (秦敏先生)	Room 201, Unit 2, Building 5 No. 48-2 Botanical Road Qingxiu District Nanning City Guangxi Zhuang Autonomous Region PRC	Chinese

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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<u>Name</u>	<u>Residential address</u>	<u>Nationality</u>
Mr. HU Yongxiang (胡永祥先生)	Room 101, Unit 3, Building 5 Jialu Garden Zijin Garden Xihu District Hangzhou City Zhejiang Province PRC	Chinese
<i>Independent non-executive Directors</i>		
Mr. MAK Hing Keung, Thomas (麥興強先生)	Room D2, 11/F Block D, Kingsford Garden 202 Tin Hau Temple Road North Point Hong Kong	Canadian
Professor HAN Gaorong (韩高荣教授)	Room 801, Unit 1 Building 12, Meilin Spring Shanshui Renjia Xihu District Hangzhou City Zhejiang Province PRC	Chinese
Mr. LEUNG Kwai Wah Alex (梁貴華先生)	Flat 6C, Block 1 Woodland Crest 33 Tin Ping Road Sheung Shui New Territories Hong Kong	Chinese

See the section headed “Directors, Senior Management and Employees” in this prospectus for further information on our Directors.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### PARTIES INVOLVED IN THE GLOBAL OFFERING

<b>Sole Sponsor</b>	Essence Corporate Finance (Hong Kong) Limited 39th Floor One Exchange Square Central Hong Kong <i>Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO)</i>
<b>Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager</b>	Essence International Securities (Hong Kong) Limited 39th Floor One Exchange Square Central Hong Kong <i>Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities (as defined in the SFO)</i>
<b>Joint Bookrunners and Joint Lead Managers</b>	BOCOM International Securities Limited 9th Floor, Man Yee Building 68 Des Voeux Road, Central Hong Kong <i>Licensed corporation under the SFO to engage in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 5 (advising on futures contracts) regulated activities (as defined in the SFO)</i>
	China Industrial Securities International Capital Limited 32nd Floor, Infinitus Plaza 199 Des Voeux Road Central Sheung Wan Hong Kong <i>Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO)</i>

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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China PA Securities (Hong Kong) Company Limited  
Unit 3601, 07 and 11-13  
36th Floor, The Center  
99 Queen's Road Central  
Central, Hong Kong

*Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities (as defined in the SFO)*

CMBC Securities Company Limited  
45th Floor  
One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

*Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities (as defined in the SFO)*

GF Securities (Hong Kong) Brokerage Limited  
29-30/F, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

*Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities (as defined in the SFO)*

Guosen Securities (HK) Capital Company Limited  
Suites 3207-3212  
Level 32, One Pacific Place  
88 Queensway  
Hong Kong

*Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO)*

Guotai Junan Securities (Hong Kong) Limited  
27th Floor, Low Block  
Grand Millennium Plaza  
181 Queen's Road Central  
Hong Kong

*Licensed corporation under the SFO to engage in type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities (as defined in the SFO)*



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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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Shenwan Hongyuan Securities (H.K.) Limited  
Level 19  
28 Hennessy Road  
Hong Kong  
*Licensed corporation under the SFO to engage in type 1 (dealing in securities) regulated activity (as defined in the SFO)*

SPDB International Capital Limited  
33rd Floor, SPD Bank Tower  
One Hennessy  
1 Hennessy Road  
Hong Kong  
*Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities (as defined in the SFO)*

Yue Xiu Securities Company Limited  
1003-1005, 10/F Siu On Centre  
188 Lockhart Road  
Wan Chai  
Hong Kong  
*Licensed corporation under the SFO to engage in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 5 (advising on futures contracts) regulated activities (as defined in the SFO)*

### **Joint Lead Managers**

Futu Securities International (Hong Kong) Limited  
Unit C1-2  
13th Floor, United Centre  
No.95 Queensway  
Admiralty  
Hong Kong  
*Licensed corporation under the SFO to engage in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 3 (leveraged foreign exchange trading), type 4 (advising on securities), type 5 (advising on futures contracts), type 7 (providing automated trading services) and type 9 (asset management) regulated activities (as defined in the SFO)*

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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Fuyuan Securities Limited  
Suite 4806-07, 48th Floor  
Central Plaza  
18 Harbour Road, Wanchai  
Hong Kong

*Licensed corporation under the SFO to engage in type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts) and type 9 (asset management) regulated activities (as defined in the SFO)*

HK Monkey Securities Limited  
Suite 2302-2303  
23rd Floor, Tower 1  
Lippo Centre  
89 Queensway  
Admiralty  
Hong Kong

*Licensed corporation under the SFO to engage in type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities (as defined in the SFO)*

Soochow Securities International Brokerage Limited  
Level 17  
Three Pacific Place  
1 Queen's Road East  
Hong Kong

*Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities (as defined in the SFO)*

Valuable Capital Limited  
Room 3601, 36th Floor  
China Merchants Tower  
Shun Tak Centre  
168-200 Connaught Road Central  
Hong Kong

*Licensed corporation under the SFO to engage in type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 9 (asset management) regulated activities (as defined in the SFO)*

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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Zhongtai International Securities Limited  
19/F, Li Po Chun Chambers,  
189 Des Voeux Road Central  
Hong Kong

*Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) regulated activities (as defined in the SFO)*

### **Legal advisers to our Company**

*As to Hong Kong law:*

Squire Patton Boggs  
29th Floor  
Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

*As to PRC law:*

AllBright Law Offices Fuzhou Office  
37th Floor, International Financial Center  
No.1 Wanglong 2nd Avenue  
Taijiang District  
Fuzhou 350005  
PRC

*As to Cayman Islands law and BVI law:*

Conyers Dill & Pearman  
29th Floor  
One Exchange Square  
8 Connaught Place  
Central, Hong Kong

*As to French law:*

Squire Patton Boggs (UK) LLP  
7, rue du Général Foy  
75008 Paris  
France

*As to international sanctions law:*

Squire Patton Boggs (US) LLP  
2550 M Street, NW  
Washington, D.C. 20037  
United States

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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<b>Legal advisers to the Sole Sponsor and the Underwriters</b>	<p><i>As to Hong Kong law:</i> Deacons 5th Floor, Alexandra House 18 Chater Road Central Hong Kong</p> <p><i>As to PRC law:</i> Tian Yuan Law Firm 10th Floor, CPIC Plaza No. 28 Fengsheng Lane Xicheng District Beijing 100032 PRC</p>
<b>Reporting Accountants and Auditors</b>	<p>RSM Hong Kong <i>Certified Public Accountants</i> 29th Floor, Lee Garden Two 28 Yun Ping Road Hong Kong</p>
<b>Industry consultant</b>	<p>Frost &amp; Sullivan (Beijing) Inc., Shanghai Branch Co. Room 1018, Tower B Greenland Hui Center No. 500 Yunjin Road Xuhui District 200232 Shanghai PRC</p>
<b>Property valuer</b>	<p>Jones Lang LaSalle Corporate Appraisal and Advisory Limited 7th Floor, One Taikoo Place 979 King's Road Hong Kong</p>
<b>Compliance Adviser</b>	<p>Essence Corporate Finance (Hong Kong) Limited 39th Floor One Exchange Square Central Hong Kong</p>
<b>Receiving bank</b>	<p>Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong</p>

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## CORPORATE INFORMATION

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<b>Registered office in the Cayman Islands</b>	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Principal place of business in Hong Kong</b>	Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal place of business in China</b>	Pearlescent Industrial Park No. 380, Feilu Road Luzhai Town Luzhai County Liuzhou City Guangxi Zhuang Autonomous Region PRC
<b>Company's website</b>	www.chesir.net <i>(information contained in this website does not form part of this prospectus)</i>
<b>Joint company secretaries</b>	Mr. ZHOU Fangchao (周方超先生) Collective households No. 18 Hexi Road Liunan District Liuzhou City Guangxi Zhuang Autonomous Region PRC  Mr. NG Cheuk Ming (吳卓明先生) ACG, ACS Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Authorised representatives under the Listing Rules</b>	Mr. SU Ertian (苏尔田先生) Mr. NG Cheuk Ming (吳卓明先生)
<b>Authorised representatives under the Companies Ordinance</b>	Ms. HO Wing Tsz Wendy (何咏紫女士) Mr. NG Cheuk Ming (吳卓明先生)
<b>Audit Committee</b>	Mr. MAK Hing Keung, Thomas (麥興強先生) <i>(Chairman)</i> Professor HAN Gaorong (韩高荣教授) Mr. LEUNG Kwai Wah Alex (梁貴華先生)
<b>Remuneration Committee</b>	Mr. LEUNG Kwai Wah Alex (梁貴華先生) <i>(Chairman)</i> Professor HAN Gaorong (韩高荣教授) Mr. ZHOU Fangchao (周方超先生)

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## CORPORATE INFORMATION

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<b>Nomination Committee</b>	Mr. SU Ertian (苏尔田先生) ( <i>Chairman</i> ) Professor HAN Gaorong (韩高荣教授) Mr. MAK Hing Keung, Thomas (麥興強先生)
<b>Principal Share Registrar and Transfer Office</b>	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Hong Kong Branch Share Registrar</b>	Tricor Investor Services Limited Level 54 Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal banks</b>	<i>In Hong Kong:</i> Citibank (Hong Kong) Limited Citi Tower, One Bay East 83 Hoi Bun Road Kwun Tong, Kowloon Hong Kong  <i>In the PRC:</i> Bank of Liuzhou Co., Ltd. 12 Dongdi Road Liuzhou City Guangxi Zhuang Autonomous Region  Liuzhou Urban Rural Credit Cooperative Union Jianpanshan Mansion 341 Pingshan Avenue Liuzhou City Guangxi Zhuang Autonomous Region

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## APPLICABLE LAWS AND REGULATIONS

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**The following is a brief summary of the laws and regulations in the PRC that currently materially affect our business. 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 which may be important to potential investors. Investors should note that the following summary is based on laws and regulations in force as of the date of this prospectus, which may be subject to change.**

### LAWS AND REGULATIONS RELATED TO PRODUCTION SAFETY

#### Work safety law of the PRC

Pursuant to the Work Safety Law of the PRC (《中華人民共和國安全生產法》) promulgated on 29 June 2002 and amended on 27 August 2009 and 31 August 2014, any containers of hazardous substances, means of conveyance as well as special equipment concerning life safety or with significant dangers used by any enterprises, shall, according to the relevant provisions of the state, be manufactured by specialised manufacturing enterprises, and may only be utilised after they have passed the examinations and tests of institutions which have relevant professional qualifications and been awarded a certificate for safe use or a mark of safety. In addition, the production, operation, transportation, storage and use of any hazardous substances or the disposal of abandoned hazardous substances shall, according to the provisions of the relevant laws and regulations, national standards and industrial standards, be subject to the approval as well as the supervision and administration of relevant administrative departments.

The major person-in-charge of an enterprise shall undertake the overall responsibility for the safety in production. Enterprises shall provide education and training to employees on safety in production. They shall also provide employees with articles of labour protection which meet the national or industrial standards, and supervise and guide employees to use of these articles according to instructions.

#### Production safety licence

Pursuant to the Regulations on Production Safety Licences (《安全生產許可證條例》) which was promulgated on 13 January 2004, subsequently amended on 18 July 2013 and 29 July 2014, respectively, and last amended on 29 July 2014, and Measures for Implementation of the System of Production Safety Licences of Hazardous Chemicals Production Enterprises (《危險化學品生產企業安全生產許可證實施辦法》) promulgated on 5 August 2011 and last amended on 6 March 2017, the PRC central government has implemented a licensing system for production safety of mining enterprises, construction companies and enterprises producing hazardous chemical products, fireworks and civil explosive materials. No enterprise producing hazardous chemical products may engage in production activities without holding a production safety licence. While the regulatory authorities for production safety of the State Council is responsible for the issuance and administration of production safety licences for hazardous chemical production enterprises (headquarters) under the administration of the central government or directly held by the central

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## APPLICABLE LAWS AND REGULATIONS

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government, the regulatory authorities for production safety of the people's governments of provinces, autonomous regions and municipalities directly under the central government of the PRC will be responsible for the issuance and administration of production safety licences for other hazardous chemical production enterprises.

The period of validity of a production safety licence shall be three years. Where any enterprise needs to extend the period of validity of its production safety licence, the enterprise shall apply for extension three months prior to the expiration date.

### Use of hazardous chemicals

Pursuant to the Regulations on the Safety Administration of Hazardous Chemicals (《危險化學品安全管理條例》) promulgated on 26 January 2002 and subsequently amended on 2 March 2011 and 7 December 2013, an entity using hazardous chemicals shall comply with the provisions of laws and administrative regulations and the requirements of national standards and industrial standards in terms of use conditions (including techniques), and shall, in accordance with the types and hazard characteristics of the used hazardous chemicals as well as the amount and mode of use, establish and perfect the safety administration regulations and safety operating rules for the use of hazardous chemicals so as to guarantee the safe use of hazardous chemicals. A chemical enterprise that uses hazardous chemicals to conduct production and of which the use amount reaches the stipulated amount shall obtain a safety use permit of hazardous chemicals. Pursuant to the Quantity Standards for the Use of Hazardous Chemicals(2013), the catalogue of 75 kinds of hazardous chemicals that requires safety use permits was determined and promulgated by the work safety supervision and administration department under the State Council jointly with the administrative departments of public security and agriculture of the State Council. And an entity whose use amount of  $TiCl_4$  reached 2,700 tons per year shall obtain a safety use permit of hazardous chemicals. Pursuant to the Catalogue of Industries Applicable to Safe Use of Dangerous Chemicals (2013) (《危險化學品安全使用許可適用行業目錄(2013年版)》), the industries that shall obtain a safety use permit of hazardous chemicals include 5 categories, 11 medium categories and 25 subcategories.

Pursuant to Administrative Measures on Operating Licence for Hazardous Chemicals (《危險化學品經營許可證管理辦法》), promulgated on 17 July 2012 and amended on 27 May 2015, enterprises that engage in operating (including storage) hazardous chemicals which are listed in the Catalogue of Hazardous Chemicals (《危險化學品目錄》) shall obtain operating licence.

As advised by our PRC Legal Advisers,  $TiCl_4$  is the Hazardous Chemical we mainly use in the production process and is also listed in the Quantity Standards for the Use of Hazardous Chemicals(2013)(《危險化學品使用量的數量標準(2013年版)》).A chemical enterprise that uses  $TiCl_4$  to conduct production and of which the use amount reaches the stipulated amount shall obtain a safety use permit of hazardous chemicals. According to the safety production standardisation certificate issued by Liuzhou City Emergency Management Bureau on 15 October 2020, Chesir Pearl is a light industry corporation rather than a chemical enterprise, Chesir Pearl does not need to apply for the safety use permit or operating licence for hazardous chemicals. Although we are involved in the use and storage of the  $TiCl_4$  in the production process, we are not a manufacturer of hazardous chemicals listed in 25 subcategory that need to obtain a safety use permit for hazardous chemicals. In addition, according to the certificate issued by the Luzhai Emergency Management Bureau on 26 January 2021, our use and storage of hazardous chemicals meet the requirements of laws and administrative



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## APPLICABLE LAWS AND REGULATIONS

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regulations and national standards and industry standards. We are not the hazardous chemical enterprise that needs to obtain the safety use permits or operation permits for hazardous chemicals. According to the certificate issued by Liuzhou City Emergency Management Bureau on 29 March 2021, Chesir Pearl does not belong to the chemical enterprises that need to apply for the safety use permit or operating licence for hazardous chemicals. As advised by our PRC Legal Advisers, the Luzhai Emergency Management Bureau and Liuzhou City Emergency Management Bureau are the competent authority of the Chinese government who has the right to issue the certificate.

### LAWS AND REGULATIONS RELATED TO PRODUCT QUALITY

#### Product quality law of the PRC

The Product Quality Law of the PRC (《中華人民共和國產品質量法》), which was promulgated by the SCNPC on 22 February 1993 and amended on 8 July 2000, 27 August 2009 and 29 December 2018, applies to all production and marketing activities within the territory of the PRC. Producers and sellers are responsible for the product quality according to the provisions of this law.

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

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

### REGULATION RELATING TO COMPANY ESTABLISHMENT AND FOREIGN INVESTMENT

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》) (the “**PRC Company Law**”), which was promulgated on 29 December 1993, came into effect on 1 July 1994 and was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018. Foreign investor in the PRC corporate entities are also regulated by the Foreign Investment Law of the People’s Republic of China (《中華人民共和國外商投資法》) (the “**Foreign Investment Law**”), which was promulgated by the National People’s Congress On 15 March 2019, and came into effect on 1 January 2020 and provided that foreign investor refers to foreign natural persons, enterprises or other organisations who directly or indirectly carry out foreign investment activities in China (the “**Foreign Investors**”), including the following: (1) Foreign Investors establishing foreign-invested

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## APPLICABLE LAWS AND REGULATIONS

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enterprises in China alone or collectively with other investors; (2) Foreign Investors acquiring shares, equities, properties or other similar rights of Chinese domestic enterprises; (3) Foreign Investors investing in new projects in China alone or collectively with other investors; and (4) Foreign Investors investing through other ways prescribed by laws and regulations or the State Council. The State adopts the management system of pre-establishment national treatment and negative list for foreign investment. The pre-entry national treatment means the treatment given to Foreign Investors and their investments at the stage of investment access is not lower than that of domestic investors and their investments. The negative list management system means that the state implements special administrative measures for access of foreign investment in specific fields. Foreign investors shall not invest in any forbidden fields stipulated in the negative list and shall mean the conditions stipulated in the negative list before investing in any restricted fields. The negative list is released upon approval of the State Council.

The Implementation Regulations for the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) was adopted at the 74th executive meeting of the State Council on 12 December 2019 and came into effect on 1 January 2020. The purpose of the Implementation Regulations for the Foreign Investment Law of the PRC is to encourage and promote foreign investment, protect the legitimate rights and interests of investors, regulate the administration of foreign investment, and continuously optimise the foreign investment environment. For those sino-foreign joint venture in the PRC established prior to the implementation of the Foreign Investment Law, they can retain their organisational forms and organisational structures within the transitional period of 5 years under the Foreign Investment Law.

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment (《外商投資產業指導目錄》) (the “**Catalogue**”), which was jointly issued by the National Development and Reform Commission (國家發展和改革委員會) and the MOFCOM in 1995, and amended in 1997, 2002, 2004, 2007, 2011, 2015, 2017 and 2019. The current effective Catalogue was issued on 30 June 2019, and came into force on 30 July 2019. The Catalogue contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries.

Under the PRC Company Law, PRC companies are classified into limited liability companies and joint stock limited companies. A joint stock limited company shall meet the following conditions: (1) the promoters meet the quorum; (2) the total amount of share capital subscribed or the total amount of paid-up share capital raised by all promoters is in compliance with the articles of association; (3) the issuance and organisation of shares are in compliance with the laws; (4) the promoters shall formulate the articles of association and adopt the same at the inaugural meeting; (5) have the company name and establish an organisation that meets the requirements of a joint stock limited company; (6) have the domicile of the company. A joint stock limited company may be incorporated by a minimum of two but not more than 200 promoters, and at least half of the promoters must have residence within the PRC.

After the implementation of the Foreign Investment Law since 1 January 2020, newly established foreign-invested enterprises, whether within the scope of the “negative list”, are not required to report to the MOFCOM for approval at the time of establishment, but are directly registered by the market regulatory authorities in accordance with the entry requirements. The applicant should sign a letter of undertaking as required when making the application.

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## APPLICABLE LAWS AND REGULATIONS

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The Special Administrative Measures (Negative List) for the Access of Foreign Investment (2020) (《外商投資准入特別管理措施(負面清單)》(2020年版)) (the “**Negative List**”) was approved by the Communist Party of China Central Committee and the State Council and was issued jointly by the National Development and Reform Commission and the Ministry of Commerce of the PRC (“**MOFCOM**”) on 23 June 2020, and came into effect on 23 July 2020. The Negative List specifies prohibitions or restrictions on foreign investment in some industries. According to the Negative List, the Special Administrative Measures for the Access of Foreign Investment (Negative List)(2019) 《外商投資准入特別管理措施(外商投資准入負面清單)(2019年版)》 is repealed and replaced by it.

Our PRC operating entities are currently engaging in manufacturing and selling of industrial chemical products which does not belong to the restricted or prohibited foreign-invested industries enumerated in the Negative List.

The M&A Rules were jointly promulgated by the MOFCOM, the State-Owned Assets Supervision and Administration Commission of the State Council, the SAT, the SAIC, the CSRC, and the SAFE on 8 August 2006 and was amended by MOFCOM on 22 June 2009. The M&A Rules provides that a foreign investor is required to obtain necessary approvals when it: (1) acquires equity interests in a domestic enterprise or subscribes to additional shares of a domestic enterprise; (2) purchases the assets of a domestic enterprise through establishment of a foreign-invested enterprise; or (3) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets. In particular, any PRC company, enterprise or individual is required to obtain approval from the MOFCOM and comply with applicable laws and regulations if it establishes an offshore company and attempts to acquire a domestic enterprise related to such offshore company.

### **Regulations on Protection of Domestic Shareholders’ Rights**

Shareholders of a joint stock limited company have the right to inspect the articles of association, share register, counterfoil of company debentures, minutes of shareholders’ general meetings, resolutions of meetings of the board of directors, resolutions of meetings of the board of supervisors and financial and accounting reports and to make proposals or enquiries in respect of the company’s operations.

The general meetings of a joint stock limited company consist of all shareholders. The shareholders’ general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law. Shareholders’ general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting. Where the board of directors is incapable of performing or not performing its duties of convening the shareholders’ general meeting, the board of supervisors shall convene and preside over such meeting in a timely manner; where the board of supervisors fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company’s shares for 90 days consecutively may unilaterally convene and preside over such meeting. Shareholders present at the shareholders’ general meeting have one vote for each share they hold. However, shares of the Company held by the Company do not carry voting rights. Resolutions of the shareholders’ general

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## APPLICABLE LAWS AND REGULATIONS

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meeting must be adopted by more than half of the voting rights held by the shareholders present at the meeting. However, resolutions of the shareholders' general meeting regarding any amendment to the articles of association, increase or reduction of registered capital, and merger, division, dissolution or change of corporate form of the company must be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting.

Notice of the shareholders' general meeting shall state the time and venue of and matters to be considered at the meeting and shall be given to all shareholders 20 days before the meeting. Notice of an extraordinary general meeting shall be given to all shareholders 15 days before the meeting; and announcement of the time and venue of and matters to be considered at the meeting shall be made 30 days before the meeting. Shareholders individually or jointly holding more than 3% of the company's shares may submit ad hoc proposals in writing to the Board of Directors 10 days before the general meeting is convened. The Board of Directors shall notify other shareholders within two days after receipt of such proposals and submit such ad hoc proposals to the general meeting for consideration. The contents of an interim proposal shall fall within the scope of authority of the general meeting and shall have a clear subject and specific matters to be resolved. The general meeting shall not resolve on matters not specified in the preceding two notices. Holders of bearer shares who attend a shareholders' general meeting shall deposit their share certificates with the Company five days before the meeting is held and until the conclusion of the shareholders' general meeting.

Where a shareholder requests to inspect or copy certain documents of the company in accordance with the PRC Company Law or the articles of association, the people's court shall accept such request.

### REGULATION IN RELATION TO INTELLECTUAL PROPERTY RIGHTS

In terms of international conventions, China has entered into (including but not limited to) the Agreement on Trade-Related Aspects of Intellectual Property Rights (《與貿易有關的知識產權協定》), the Paris Convention for the Protection of Industrial Property (《保護工業產權巴黎公約》), the Madrid Agreement Concerning the International Registration of Marks (《商標國際註冊馬德里協定》) and the Patent Cooperation Treaty (《專利合作協定》).

#### Patents

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》), or the Patent Law, promulgated by the SCNPC on 12 March 1984, amended on 4 September 1992, 25 August 2000 and 27 December 2008 and effective from 1 October 2009 and the Implementation Rules of the Patent Law of the PRC (《中華人民共和國專利法實施細則》), promulgated by the State Council on 15 June 2001 and amended on 28 December 2002 and 9 January 2010, respectively, patents in China fall into three categories: invention patents, utility model patents and design patents. The term of patent protection starts from the date of application and lasts 20 years for invention patents and 10 years for utility model patents and design patents. Any individual or entity that utilises a patent or conducts any other activity that infringes a patent without the patent holder's authorisation shall pay compensation to the patent holder and be subject to a fine imposed by regulatory authorities and, if such behaviour constitutes a crime, shall be held criminally liable in accordance with applicable laws. According to the Patent Law of the PRC, any organisation or individual that applies for a patent in a foreign country for an invention or utility model patent established in China is required to report to the SIPO for confidentiality examination.

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## APPLICABLE LAWS AND REGULATIONS

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### Trade secrets

Pursuant to the PRC Anti-Unfair Competition Law (《中華人民共和國反不正當競爭法》) promulgated by the SCNPC in September 1993, as amended in 4 November 2017 and 23 April 2019 respectively, the term “trade secrets” refers to technical and business information that is unknown to the public, has utility, may create business interests or profits for its legal owners or holders, and is maintained as a secret by its legal owners or holders. Under the PRC Anti-Unfair Competition Law, business persons are prohibited from infringing others’ trade secrets by: (1) obtaining trade secrets from the legal owners or holders by any unfair methods, such as theft, bribery, fraud, coercion, electronic intrusion, or any other illicit means; (2) disclosing, using or permitting others to use the trade secrets obtained illegally under item (1) above; or (3) disclosing, using or permitting others to use the trade secrets, in violation of any contractual agreements or any requirements of the legal owners or holders to keep such trade secrets in confidence. If a third party knows or should have known of the above-mentioned illegal conduct but nevertheless obtains, uses or discloses trade secrets of others, the third party may be deemed to have committed a misappropriation of the others’ trade secrets. The parties whose trade secrets are being misappropriated may petition for administrative corrections, and regulatory authorities may stop any illegal activities and impose fines on the infringing parties.

### Trademarks

In accordance with the Trademark Law of the PRC (《中華人民共和國商標法》), which was promulgated by the SCNPC on 23 August 1982, amended on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019 and came into effect on 1 November 2019, a registered trademark is valid for a period of 10 years commencing from the date on which the registration is approved. Upon expiration of the trademark, the registrant shall apply for renewal within twelve months prior to the expiration date if it intends to maintain exclusive use of the trademark. If the registrant fails to apply for renewal, a grace period of six months may be granted. Each renewal of registration is valid for a period of 10 years commencing from the next day of the expiration date of the last valid period of the trademark. In the absence of a renewal upon the expiration of a trademark registration, the registered trademark shall be cancelled. Industrial and commercial administrative authorities have the authority to investigate any behaviour that may constitute an infringement of the exclusive right under a registered trademark. Any person who infringes the law shall be promptly referred to the judicial authorities for handling according to the law.

### Domain names

Domain names are protected under the Administrative Measures on the Internet Domain Names (《互聯網域名管理辦法》), which was promulgated by the Ministry of Industry and Information Technology, or the MIIT, on 24 August 2017 and came into effect on 1 November 2017, and the Implementing Rules of China Internet Network Information Center on the Registration of Domain Names (《中國互聯網絡信息中心域名註冊實施細則》) issued by China Internet Network Information Center on 28 May 2012 and came into effect on 29 May 2012. Domain names in the internet of the PRC are mainly administered by the MIIT. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicant becomes domain name holder upon successful registration.

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## APPLICABLE LAWS AND REGULATIONS

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### OTHER LAWS

#### Environmental protection

In accordance with the Environmental Protection Law of the PRC (中華人民共和國環境保護法) promulgated on 26 December 1989 and last amended on 24 April 2014 by the SCNPC, the Law on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法) promulgated on 11 May 1984 and last amended on 27 June 2017 by the SCNPC, the Law on the Prevention and Control of Air Pollution (中華人民共和國大氣污染防治法) promulgated on 5 September 1987 and last amended on 26 October 2018 by the SCNPC, the Law on the Prevention and Control of Solid Waste Pollution (中華人民共和國固體廢物污染環境防治法) promulgated on 30 October 1995 and last amended on 29 April 2020 by the SCNPC, and the Law on the Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法) promulgated by the SCNPC on 29 October 1996 and amended on 29 December 2018, the construction of any project that causes pollution shall adopt measures to prevent and control pollution and damage to environment caused by waste gas, waste water, waste residue, medical wastes, dust, malodorous gases, radioactive substances, noise, vibration, optical radiation, electromagnetic radiation, and other substances generated during construction. Different penalties may be imposed for violation of above laws depending on individual circumstances and the extent of contamination. Such penalties may include warnings, fines, orders to stop production or close down, specifically, non-compliance with the Law on the Prevention and Control of Air Pollution (中華人民共和國大氣污染防治法) by a company could cause the company be liable to a fine of RMB100,000 to RMB1,000,000 upon conviction, non-compliance with the Law on the Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法) by a company could result in a fine for both the company and the person-in-charge, non-compliance with the Law on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法) by a company could cause the company be subject to a fine of RMB20,000 to RMB200,000 upon conviction, and non-compliance with the Law on the Prevention and Control of Solid Waste Pollution (中華人民共和國固體廢物污染環境防治法) by a company may result in a fine of RMB50,000 to RMB1,000,000 upon conviction.

Pursuant to the Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法) promulgated by the SCNPC on 28 October 2002 and last amended on 29 December 2018, the Administrative Regulations on Environmental Protection for Development Projects (建設項目環境保護管理條例) promulgated by the State Council on 29 November 1998 and last amended on 16 July 2017, Category-based Management Directory on the Environmental Impact Assessment for Construction Projects (建設項目環境影響評價分類管理名錄) promulgated by the Ministry of Environmental Protection on 2 September 2008 and last amended on 30 November 2020, depending on the impact of the project on the environment, either an environmental impact study report, an environmental impact analysis table or an environmental impact registration form shall be submitted by a property developer before the relevant authorities granting approval for the commencement of construction projects. The project construction shall not proceed in case its environmental impact assessment documents fail to pass the review of the competent authority in accordance with the laws and regulations or which are disapproved after review.

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## APPLICABLE LAWS AND REGULATIONS

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Pursuant to the Environmental Protection Tax Law of the PRC (中華人民共和國環境保護稅法) issued by the SCNPC on 26 October, 2018 and became effective on the same date, enterprises, entities and other production operators that discharge taxable pollutants directly to the environment within the territorial areas of the PRC and other sea areas under the jurisdiction of the PRC are the taxpayers of the environmental protection tax and should pay environmental protection tax based on the requirements of the law. Pursuant to Article 62 of the Law of Administration of Tax Collection of the PRC, where, within the prescribed time limit, a taxpayer fails to go through the formalities for tax declaration and submit information on tax payment or a withholding agent fails to submit to the tax authorities statements on taxes withheld and remitted or collected and remitted and other relevant information, he or she shall be ordered by the tax authorities to rectify within a time limit and may be liable for a fine not more than RMB2,000; and if the circumstances are deemed serious, he or she may be liable for a fine not less than RMB2,000 but not more than RMB10,000.

The Chinese government's environmental protection regulatory requirements and administrative penalties for violations of the law during the construction process and the entire production process are becoming stricter. Administrative penalties and administrative compulsions imposed by Environmental protection departments at all levels on construction units, environmental assessment units and their related staff are required to be included in the national or regional credit information sharing platform. Each department implements a cross-departmental joint disciplinary mechanism, to restricts or prohibits market access, administrative licensing, or financing behaviours on relevant entities, legal representatives, and related responsible personnel that are seriously untrustworthy in accordance with laws and regulations, and stops enforcing their enjoyment of environmental protection, finance, and taxation.

We strictly complied with the applicable environmental laws and regulations in the construction of our factory. According to the certificate issued by the ecological and Environmental Bureau of the local government, since the establishment of the company, there has been no environmental pollution accident, no violation of relevant national and local laws and regulations on environmental protection, and no administrative punishment by the environmental management department.

### **Foreign exchange control**

Pursuant to the Foreign Exchange Administration Regulations of the PRC (《中華人民共和國外匯管理條例》), promulgated on 29 January 1996 and amended on 14 January 1997 and 5 August 2008, and the Regulation on the Administration of the Foreign Exchange Settlement, Sales and Payment (《結匯、售匯及付匯管理規定》), or the Settlement Regulations, promulgated by the People's Bank of China on 20 June 1996 and came into effect on 1 July 1996, foreign exchanges required for profit distributions and dividend payments may be purchased from designated foreign exchange banks in the PRC upon presentation of a board resolution authorising distribution of profits or payment of dividends.

According to the Notice of SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies on 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》) and its appendix, the Operating Rules for Foreign Exchange Issues with Regard to Direct Investment under Capital Account (《資本項目直接投資外匯業務操作規程》), promulgated on 19 November 2012 and amended on 4 May 2015 by the State Administration of Exchange Control, or the SAFE, (1) the opening of and payment into foreign exchange accounts under direct investment

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## APPLICABLE LAWS AND REGULATIONS

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accounts are no longer subject to approval by the SAFE; (2) reinvestment with legal income of foreign investors in China is no longer subject to approval by SAFE; (3) the procedures for capital verification and confirmation that foreign-funded enterprises need to go through are simplified; (4) purchase and external payment of foreign exchange under direct investment accounts are no longer subject to approval by SAFE; (5) domestic transfer of foreign exchange under direct investment account is no longer subject to approval by SAFE; and (6) the administration over the conversion of foreign exchange capital of foreign-invested enterprises is improved.

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

The Provisions on the Administration of Foreign Exchange in Domestic Direct Investments by Foreign Investors (《外國投資者境內直接投資外匯管理規定》), or the FDI Provisions, which were promulgated by the SAFE on 11 May 2013 and became effective on 13 May 2013, and last amended on 10 October 2018, regulate and clarify the administration over foreign exchange administration in domestic direct investments by foreign investors.

Pursuant to the Circular on the Reform of the Management Method for the 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》) promulgated by the SAFE on 30 March 2015 and became effective on 1 June 2015, and the Circular on the Reform and Standardisation of the Management Policy of the Settlement of Capital Projects (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) promulgated by the SAFE on 9 June 2016, the settlement of foreign exchange by foreign invested enterprises shall be governed by the policy of foreign exchange settlement on a discretionary basis. However, the settlement of foreign exchange shall only be used for its own operation purposes within the business scope of the foreign invested enterprises in accordance with the principle of authenticity.

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles (《國家外匯管理局境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (“Circular 37”), a PRC resident shall register with the local SAFE branch before he or she directly established overseas or indirectly controlled an overseas enterprise for the purpose of engaging in investment and financing with the domestic enterprise assets or interests he legally holds, or with the overseas assets or interests he legally holds. Failure to comply with the SAFE registration requirements could result in penalties for evasion of foreign exchange controls. The Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies provides that banks can directly handle the initial foreign exchange registration and amendment registration under the Circular 37. As of the date of this prospectus, all PRC ultimate individual shareholders of the Company who are PRC residents have completed the foreign exchange registration under the Circular 37 on 28 November 2020.



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## APPLICABLE LAWS AND REGULATIONS

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### **Labour and social insurance**

Pursuant to the Labour Law of the PRC (《中華人民共和國勞動法》), which was promulgated by the SCNPC on 5 July 1994, implemented on 1 January 1995 and amended on 27 August 2009 and 29 December 2018, the PRC Labour Contract Law (《中華人民共和國勞動合同法》), which was promulgated by the SCNPC on 29 June 2007, implemented on 1 January 2008, and amended on 28 December 2012 and implemented on 1 July 2013, and the Implementing Regulations of the Labour Contracts Law of the PRC (《中華人民共和國勞動合同法實施條例》), which was promulgated by the State Council on 18 September 2008, labour contracts shall be concluded in writing if employment relationships are to be or have been established between employers and employees. In addition, employee wages cannot be lower than local standards on minimum wages. Employers shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate employees in occupational safety and sanitation in the PRC. Occupational safety and sanitation facilities shall comply with state-fixed standards. Enterprises and institutions shall provide employees whose work involves occupational hazards with health examinations on a regular basis.

According 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 effective from 1 July 2011 with last amendment on 29 December 2018, the Interim Regulations on the Collection and Payment of Social Security Funds (《社會保險費征繳暫行條例》), which was promulgated by the State Council on 22 January 1999 and amended on 24 March 2019, and the Administrative Regulations on the Housing Provident Funds (《住房公積金管理條例》), which was promulgated by the State Council on 3 April 1999 and amended on 24 March 2002 and 24 March 2019, employers are required to make contributions, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, occupational injury insurance, maternity insurance and to housing provident funds. Any employer who fails to make contributions may be fined and ordered to make good the deficit within a stipulated time limit.

### **Enterprise income tax**

According to the EIT Law, which was promulgated by the National People's Congress on 16 March 2007, effective on 1 January 2008 and amended on 24 February 2017 and 29 December 2018, and the Implementation Regulations for the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) promulgated by the State Council on 6 December 2007 and became effective on 1 January 2008, other than a few exceptions, the income tax rate for both domestic enterprises and foreign-invested enterprises is 25%. Enterprise taxpayers are classified as either resident enterprises or non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose de facto management bodies are located in China, and are subject to EIT rate of 25% of their global income. Non-resident enterprise refers to an entity established under foreign law whose de facto management bodies are not within the PRC but which have an establishment or place of business in the PRC, or which do not have an establishment or place of business in the PRC but have income sourced within the PRC. An income tax rate of 10% will

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## APPLICABLE LAWS AND REGULATIONS

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normally be applicable to dividends declared to non-PRC resident 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, to the extent such dividends are derived from sources within the PRC.

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Incomes (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), or the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under the Double Tax Avoidance Arrangement, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, pursuant to the Circular on Certain Issues Relating to the Implementation of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) issued on 20 February 2009 by the State Administration of Taxation, or the SAT, if a PRC tax authority determines, in its discretion, that a company benefits from such reduced income tax rate as a result of an arrangement that is primarily tax-driven, such PRC tax authority may adjust the preferential tax treatment of the company. Based on the Announcement on Certain Issues with Respect to the Beneficial Owner in Tax Treaties (《國家稅務總局關於稅收協定中受益所有人有關問題的公告》) issued by the SAT on 3 February 2018 and effective on 1 April 2018, if an applicant's business activities do not constitute substantive business activities, it could result in the negative determination of the applicant's status as a beneficial owner, and consequently, the applicant could be precluded from enjoying the above-mentioned reduced income tax rate of 5% under the Double Tax Avoidance Arrangement.

### Value-added tax

Pursuant to the Interim Regulations of the PRC on Value-Added Tax (《中華人民共和國增值稅暫行條例》) (the “**VAT Interim Regulations**”) which was promulgated by the State Council on 13 December 1993 and amended on 10 November 2008, 26 February 2016 and 19 November 2017, its Implementation Regulations (《中華人民共和國增值稅暫行條例實施細則》) which was last amended on 28 October 2011, and the Notice of the Ministry of Finance and the SAT on Adjusting Value-added Tax Rates (《財務部、稅務總局關於調整增值稅稅率的通知》) which was issued on 4 April 2018 and became effective from 1 May 2018, the Value-added Tax (the “**VAT**”) rate of 16% shall be applicable to taxpayers engaging in the sale or import of goods, provision of labour services, tangible movable property leasing services shall generally be 16%; the VAT rate of 10% shall be applicable to taxpayers providing transportation, postal, basic telecommunications, construction, or immovable leasing services, selling immovable, transferring the rights to use lands, or selling or importing goods specified by the VAT Interim Regulations; and the VAT rate of 6% shall be applicable to other modern service industries. Our business shall be subject to VAT with reference to the above rules. Pursuant to the Announcement of the Ministry of Finance, SAT 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 issued on 20 March 2019 and became effective on 1 April 2019, the tax rate of 16% applicable to the VAT taxable sale or import of goods by a general VAT taxpayer shall be adjusted to 13%; and the tax rate of 10% applicable to such taxpayer shall be adjusted to 9%.

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## APPLICABLE LAWS AND REGULATIONS

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### **VAT export refund**

According to the Administrative Measures for Tax Rebate (Exemption) of Exported Goods (Trial Implementation) (《出口貨物退(免)稅管理辦法(試行)》), which was promulgated by the SAT on 16 March 2005 and became effective on 1 May 2005 and was partially amended on 15 June 2018, unless otherwise prescribed, upon declaration of export and financial accounting for sale, the VAT in relation to the goods exported by export agents can be rebated or exempted upon approval by competent tax authorities.

### **Urban maintenance and construction tax**

Pursuant to the Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharge Paid by Domestic and Foreign-invested Enterprises and Individuals (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》) which was issued on 18 October 2010 and effective on 1 December 2010, the Interim Regulations of the PRC on Urban Maintenance and Construction Tax (《中華人民共和國城市維護建設稅暫行條例》), came into effect on 1 January 1985 and amended on 8 January 2011, and the Interim Provisions on the Collection of Educational Surcharges (《徵收教育費附加的暫行規定》), amended on 8 January 2011, the collection of urban maintenance and construction tax and educational surcharges shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

According to the Interim Regulations of the PRC on Urban Maintenance and Construction Tax, any enterprise or individual who is liable to pay consumption tax, value-added tax and business tax shall also pay urban maintenance and construction tax. The amount of consumption tax, value-added tax and business tax actually paid by a taxpayer shall be the taxation basis of urban maintenance construction tax. The urban maintenance construction tax shall be paid simultaneously when consumption tax, VAT and business tax are paid. Furthermore, the rates of urban maintenance and construction tax shall be 7% for a taxpayer domiciles in a city, 5% for a taxpayer domiciles in a county or a town, and 1% in other places.

### **Foreign trade**

The Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) which was adopted by the SCNPC on 12 May 1994, and amended on 6 April 2004 and 7 November 2016, provides that foreign trade operators who engage in the import and export of goods or technologies shall file records with the administrative department of the foreign trade of the State Council or its authorised agency, unless provided otherwise by the laws, administrative regulations or the stipulations by the administrative department of foreign trade of the State Council. Foreign trade operators which have not filed for registration in accordance with the relevant laws, regulations or stipulations will be declined by the customs to carry out the customs clearance and inspection procedures for import and export of goods. More specifically, according to the Measures for the Record-Filing and Registration of Foreign Trade Operators (《對外貿易經營者備案登記辦法》), which was promulgated by the MOFCOM on 25 June 2004 and amended on 18 August 2016, 11 November 2019 and 30 November 2019, foreign trade operators who engage in the import and export of goods or technologies shall go through the formalities for record-filing and registration with the MOFCOM or an authority authorised by the MOFCOM. If foreign trade operators fail to go through the formalities for record-filing and registration in accordance with the provisions of these Measures, customs shall refuse to handle the

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## APPLICABLE LAWS AND REGULATIONS

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declaration and clearance formalities of their imports and exports. Pursuant to the MOFCOM Notice of Further Optimising the Recordation and Registration of Foreign Trade Operators (《商務部關於進一步優化對外貿易經營者備案登記工作的通知》), which was promulgated on 18 February 2019 and became effective on 1 March 2019, the collection of paper application materials have been simplified and foreign trade operators may upload and scan in the application for the recordation and registration. When a foreign trade operator applies for or changes the recordation and registration, it may submit online a copy of its business license, a signed or sealed scanned copy of the original application form for recordation and registration of foreign trade operators and other application materials.

### Customs

According to the Customs Laws of the PRC (《中華人民共和國海關法》), which was promulgated by the SCNPC on 22 January 1987 and amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017, unless otherwise stipulated, the declaration of import and export goods may be completed by consignees and consignors themselves, and such formalities may also be completed by their entrusted customs brokers that have registered with the customs. The declaration of import and export goods may be completed by the owners of such goods or their entrusted person. In addition, the consignors and consignees of the goods exported or imported and the customs brokers must register themselves for declaration activities with the customs office. Enterprises engaged in processing trade shall undergo recordation formalities at the customers office in accordance with the provisions of the General Administration of Customs (海關總署). The amount of raw materials consumed during the production of the finished products shall be decided by the customs office. The finished products of a processing trade shall be re-exported within the stipulated time limit.

Pursuant to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated by the General Administration of Customs on 13 March 2014, amended on 20 December 2017 and 29 May 2018, and came into effect on 1 July 2018, and the Announcement on Including the Registration Certificate for a Customs Declaration Entity (for the Consignees or Consignors of Imported or Exported Goods) into the Reform of “Integrating Certificates into One” (《關於《報關單位註冊登記證書》(進出口貨物收發貨人)納入“多證合一”改革的公告》) issued by the State Administration for Market Regulation (國家市場監督管理總局) and General Administration of Customs (海關總署) on 9 January 2019 and became effective on 1 February 2019, the consignor or consignee of imported and exported goods shall apply for customs recordation or registration at the time when it applies for registration with the State Administration for Market Regulation or its local counterparts.

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## INDUSTRY OVERVIEW

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**The information contained in this section and elsewhere in this prospectus have been derived from various official government and other publications generally believed to be reliable and the Frost & Sullivan Report which we commissioned. We believe that the sources of such information and statistics are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. None of our Company, our Directors or any of the Relevant Persons (which, for the purpose of this paragraph, excludes Frost & Sullivan) has independently verified such information and statistics and none of them gives any representation as to the accuracy of such information and statistics. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.**

### SOURCE OF INFORMATION

We commissioned Frost & Sullivan, an independent market research and consulting firm, to conduct an analysis of, and to prepare a report on the global and the PRC pigment, pearlescent pigment and mica markets. The report prepared by Frost & Sullivan for us is referred to in this prospectus as the Frost & Sullivan Report. We have agreed to pay Frost & Sullivan a fee of RMB0.5 million which we believe reflects market rates for reports of this type.

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

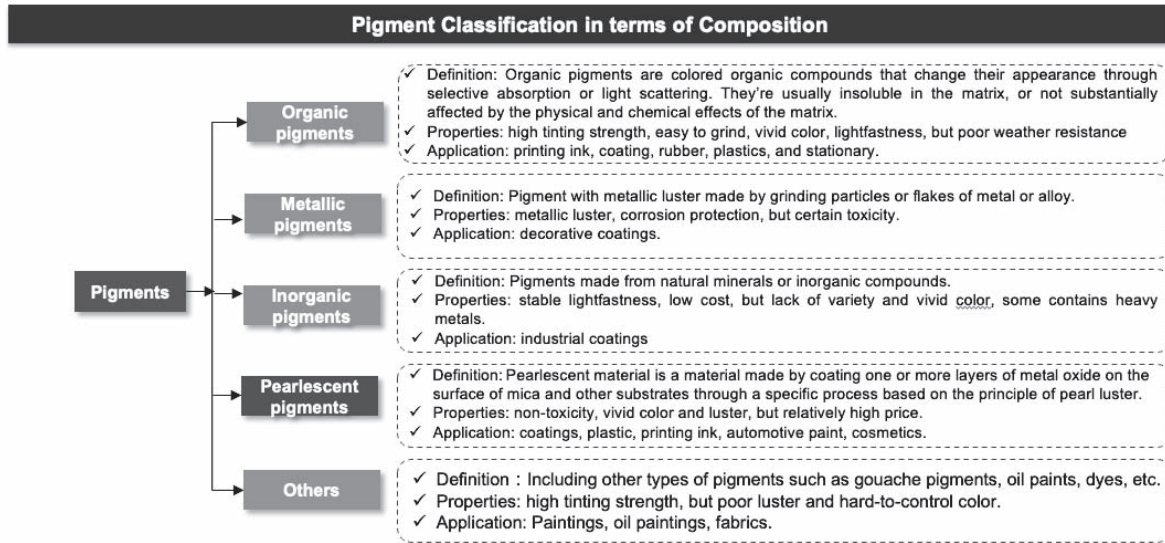
We have included certain information from the Frost & Sullivan Report in this prospectus because we believe this information facilitates an understanding of the global and the PRC pigment, pearlescent pigment and mica markets for the prospective investors. Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources in respect of the global and the PRC pigment, pearlescent pigment and mica markets. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report, various official government publications and other publications.

In compiling and preparing the research, Frost & Sullivan assumes that the social, economic and political environments in the relevant markets are likely to remain stable in the period during which Frost & Sullivan has made estimates, which ensures stable and healthy development of the global and the PRC pigment, pearlescent pigment and mica markets.

Our Directors are of the view that there has been no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information therein.

# INDUSTRY OVERVIEW

## OVERVIEW OF THE GLOBAL PIGMENT MARKET



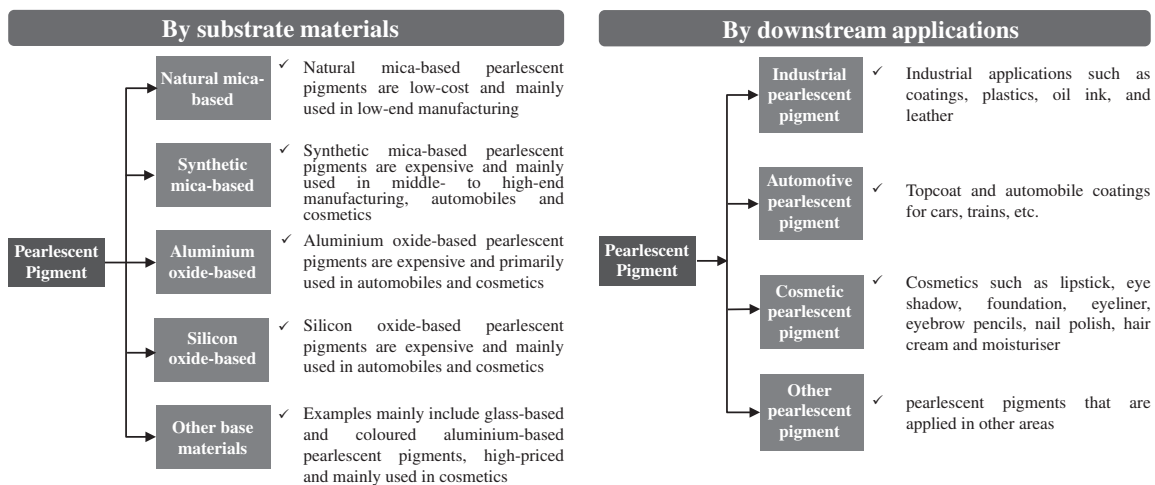
Source: Frost & Sullivan

Compared to other pigments, such as organic pigments, metallic pigments, inorganic pigments and others, pearlescent pigments have superior properties such as good lustre, decent decorative finish, non-toxicity, strong lightfastness, heat resistance and chemical stability. Hence, pearlescent pigments can apply in a wide range of industries and is expected to replace other pigments gradually in the future.

## OVERVIEW OF THE GLOBAL PEARLESCENT PIGMENT MARKET

### Classification of pearlescent pigment products

The diagram below illustrates different types of pigment in terms of their composition, properties and applications:



Source: Frost & Sullivan

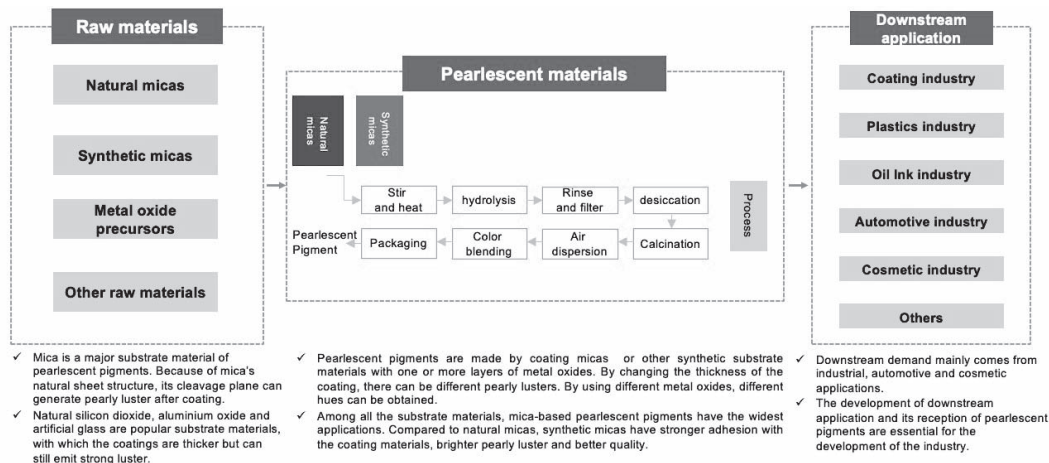
## INDUSTRY OVERVIEW

Pearlescent pigment is an optical pigment. Based on how pearls generate lustre, pearlescent pigments are made by coating micas with one or more layers of metal oxide through special techniques.

Substrate materials of pearlescent pigments include natural micas, synthetic micas, aluminium oxides, silicon oxides and glass. Pearlescent pigments are widely applied in manufacturing, automobile and cosmetics.

### Value Chain of Pearlescent Pigments Industry

The pearlescent pigment producers are the major participants in the industry. At present, downstream customers in the pearlescent pigments industry mainly include direct customers (such as cosmetics manufacturers, automotive paint manufacturers, etc.) and pearlescent pigments trading companies. Pearlescent pigments trading companies are more inclined to cooperate with larger pearlescent pigments manufacturers due to its rich product variety and better cost price control.

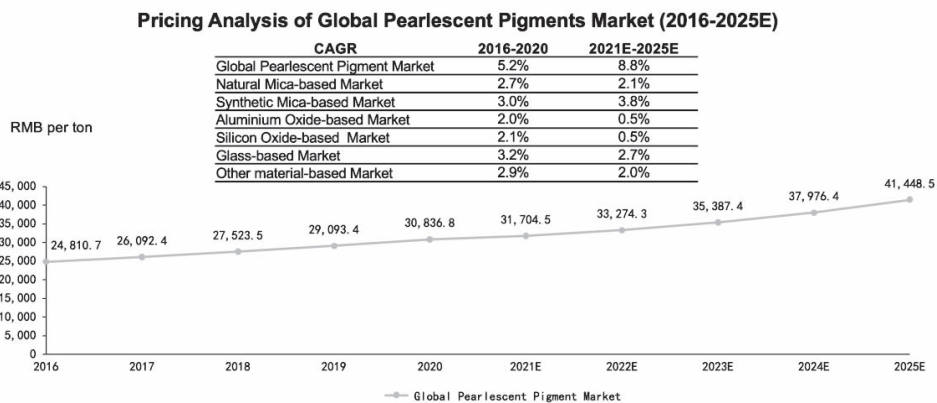


Source: Frost & Sullivan

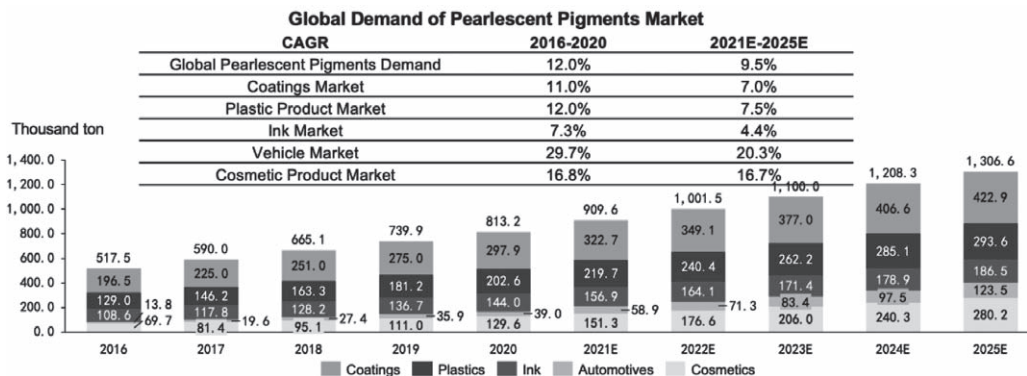
## INDUSTRY OVERVIEW

### Average selling prices of pearlescent pigment products

Recently, owing to progress in pearlescent pigments technology and growing market demand for pigments products of better quality, the price of pearlescent pigments are rising. The product and pricing structure continuously optimise, leading to increasing profitability. From 2016 to 2020, the price of global pearlescent pigments increased from RMB 26,092.4 per tonne to RMB 31,932.0 per tonne, representing a CAGR of 5.2%. With future advancements of production techniques in pearlescent pigments and raw material (such as synthetic micas), the global pearlescent pigments will improve in quality, profitability and penetration rate in various application scenarios. It is estimated that the price of global pearlescent pigments will rise to RMB44,673.3 per tonne with a CAGR of 6.9% from 2021 to 2025.



Source: Frost & Sullivan, China Non-metallic Mineral Information Platform, U.S. Geological Survey, India Bureau of Mines, OECD, Expert Interview



Source: Frost & Sullivan, Organisation Internationale des Constructeurs d'Automobiles, World Paint & Coatings Industry Association, Expert Interview

First of all, the premium product quality is one of the reasons for the increasing market demand. The Group's well-designed production facilities and proprietary production technologies also contribute to the improvements in the quality of the Group's synthetic mica-based pearlescent pigment products, which drives the customers to try using the synthetic mica-based pearlescent pigments instead of other pigment products. Also, as the natural mica minerals are becoming depleted due to continual exploitation and the production of synthetic mica-based pearlescent pigments is clean and



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## INDUSTRY OVERVIEW

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environmentally friendly, Frost & Sullivan believes that the synthetic mica-based pearlescent pigment products will be increasingly popular.

Second, as the applications of the synthetic mica accelerate, the market competition in the industry is increasing. Small and medium-sized manufacturers are expected to be weeded out by larger manufacturers, which increases the market concentration. Large manufacturers which have outstanding production technologies and established market position, like Chesir Pearl, are expected to attract more demand for the pigment products.

Third, pricing power is also another reason for the Company to be able to attract increasing market demand for the Company's synthetic mica-based pearlescent pigment products. Economies of scale will also improve profitability and production efficiency. Advantages in the production capacity also gives mica producers certain pricing power and ability to guarantee a stable supply. Thus, companies which enjoy the economies of scale could receive sufficient market demand from the existing customers and new customers in the future.

In recent years, the application and demand of pearlescent pigments have shown a trend of rapid growth. The 2016-2020 CAGR reached 12.0%, and the global demand reached 813.2 thousand tons in 2020. Because of its characteristics of safety, non-toxicity, pollution-free, and bright colours, pearlescent pigments have a high substitution effect in the downstream market, and the future market space is huge. Among them, industrial-grade pearlescent pigments account for about 84.0% of the total demand. The emergence of synthetic mica pearlescent pigments has greatly expanded the market share of pearlescent materials in coatings and inks industry. In the high-end market, as the penetration rate of pearlescent pigments in the vehicle industry continues to increase, the CAGR of demand for vehicle-used pearlescent pigments is the highest of all downstream markets, reaching 29.7%. The demand for cosmetic-grade pearlescent pigments has a CAGR of 16.8%. The booming beauty industry has effectively stimulated the demand for pearlescent materials.

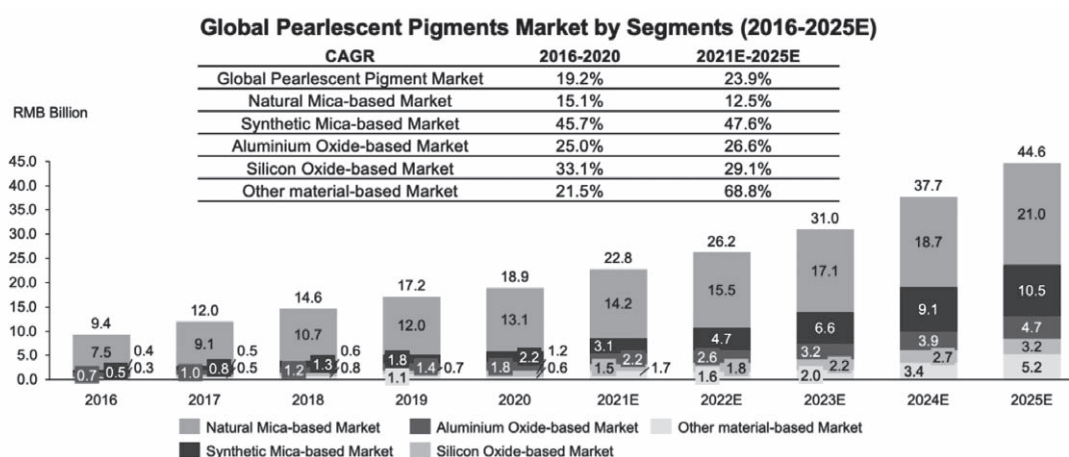
It is expected that the global demand for pearlescent materials will sustain the growth from 2021 to 2025. It is estimated that the total global demand in 2025 will reach 1,306.6 thousand tons. The potential substitution effect and increased penetration rate will allow the pearlescent material market to remain optimistic in the future. Global demand for the pearlescent pigments is expected to maintain a sustainable growth based on the pivotal assumptions as follows: (i) the broad-based availability of an effective vaccine could allow containment policies and mobility in most countries to normalise gradually and should allow a meaningful economic rebound in 2021 and 2022. For example, countries such as the UK, the USA, Canada, Germany and Japan are preparing to launch large-scale vaccine injection plans in an attempt to control the COVID-19 pandemic. (ii) a majority of economies have launched supportive government policies such as loans with low interest rate, employment subsidies and other funding schemes, which are expected to contribute to the global economic recovery; (iii) in China, as the COVID-19 pandemic has been gradually under control since March 2020 and both the upstream and downstream manufacturers as well as logistics companies have gradually resumed operation, the domestic demand has picked up gradually since March 2020; (iv) The availability of self-developed effective vaccine is expected to further control the transmission of COVID-19 and promote the economic recovery nationwide; (v) GDP per capita in China in 2019 exceeded USD10.0 thousand and the GDP exceeded RMB100.0 trillion, which will further contribute to the recovery of domestic consumer market; (vi) the central government have issued a series of notice such as *Implementation Opinions on Promoting the Expansion and Quality of Consumption and Accelerating*

## INDUSTRY OVERVIEW

*the Formation of a Strong Domestic Market* (《關於促進消費擴容提質加快形成強大國內市場的實施意見》) in an attempt to create a better environment for consumption. The regional government also took various measures to encourage consumption. For example, the Foshan government launched policy to encourage the purchase of “National VI” cars, providing subsidies of RMB2,000-5,000 per car; (vii) the population of e-commerce channels and the popularity of live streaming helped to boost the recovery of home appliance industry, which is also one of the pivotal downstream users of industrial-grade pearlescent pigments; (viii) according to *Outline of the Fourteenth Five-Year Plan for the National Economic and Social Development of the People’s Republic of China* (《中華人民共和國國民經濟和社會發展第十四個五年規劃綱要》), manufacturing is one of the focal industries for economic development, and the development of advanced manufacturing is encouraged. (ix) The urbanisation rate in China has witnessed a sustainable growth from 56.1% in 2015 to 60.6% in 2019. Driven by the favourable policies such as The State Council on Issuing the National Population Development Plan (2016-2030) (《國務院關於印發國家人口發展規劃(2016-2030年)》), the urbanisation rate in China is expected to reach 65.7% in 2024. The rising urbanisation rate is expected to provide more market opportunities for the manufacturing, the pearlescent pigments as well as the mica products industry in the PRC despite the COVID-19 pandemic.

### Market size of the global pearlescent pigment market

The global pearlescent pigments market showed stable growth in the last few years, reaching RMB 18.9 billion in 2020 with a CAGR of 19.2% from 2016 to 2020. With consumption upgrade and pearlescent pigments gradually replace other pigments, Frost & Sullivan estimates that the global pearlescent pigments market will grow at a CAGR of 23.9% from 2021 to 2025 and reach RMB44.6 billion in 2025. For synthetic mica-based pearlescent materials, as people’s recognition and acceptance of synthetic mica-based pearlescent materials will increase in the future, and people’s consumption levels will gradually increase, synthetic mica-based pearlescent materials will be used in various application fields and hence its market share will realise a sustainable growth. The market share of synthetic mica-based pearlescent pigments increased from 5.3% in 2016 to 11.7% in 2020. Driven by the advancing technologies and production of synthetic mica, the market share of synthetic mica-based pearlescent pigments in the global market is expected to reach 23.6% in 2025.



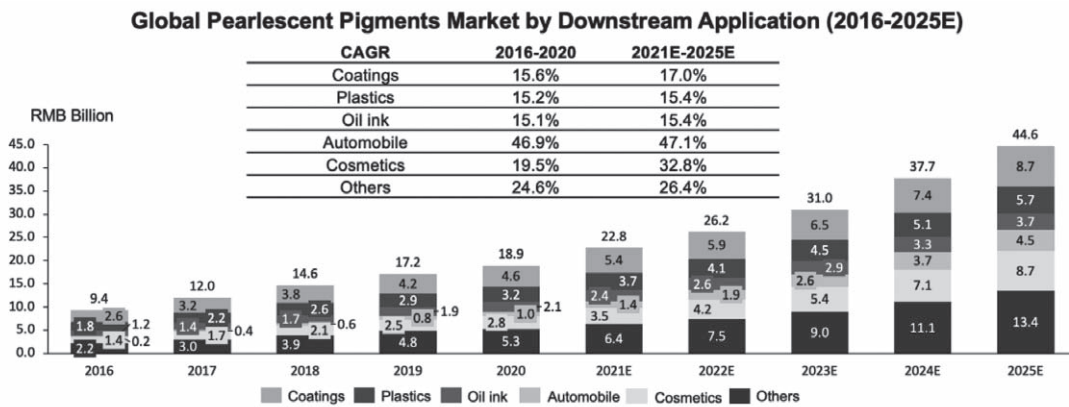
Source: Frost & Sullivan, China Non-metallic Mineral Information Platform, U.S. Geological Survey, India Bureau of Mines, OECD, Expert Interview

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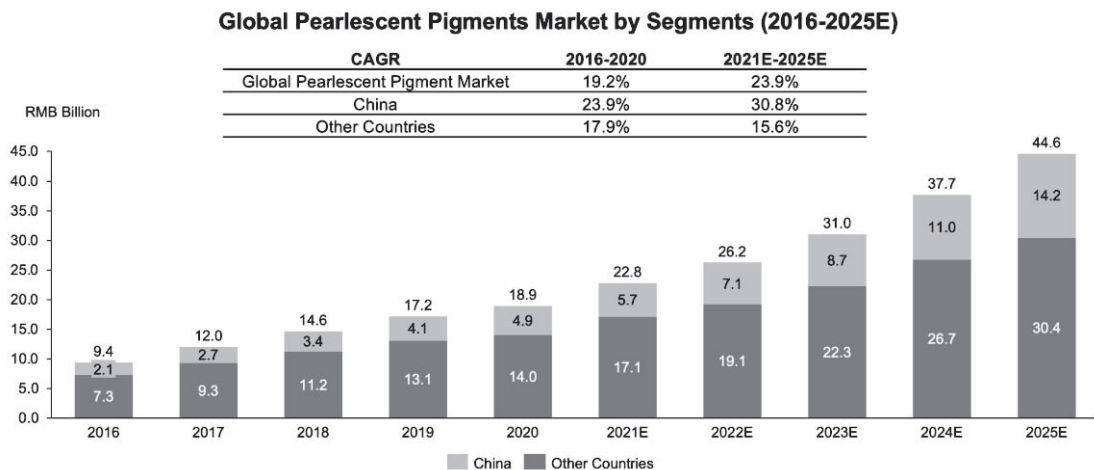
### Downstream applications of pearlescent pigment products

In 2020, within the industrial pearlescent pigments market, coatings, plastics and oil ink markets reached RMB 4.6 billion, RMB 3.2 billion and RMB 2.1 billion respectively.

While the automotive pearlescent pigments market enjoys stable growth thanks to increasing penetration, volumes of production and car ownership as well as the new product development which leads to increase applications in automotive and cosmetics products. In cosmetics, due to increasing plausible income, consumption upgrade and rising awareness of appearance, the global cosmetics market has witnessed robust growth, driving along the growth of cosmetic pearlescent pigments market with a CAGR of 19.5% from 2016 to 2020.



Source: Frost & Sullivan, Organisation Internationale des Constructeurs d'Automobiles, World Paint & Coatings Industry Association, Expert Interview



Source: Frost & Sullivan, National Bureau of Statistics of China

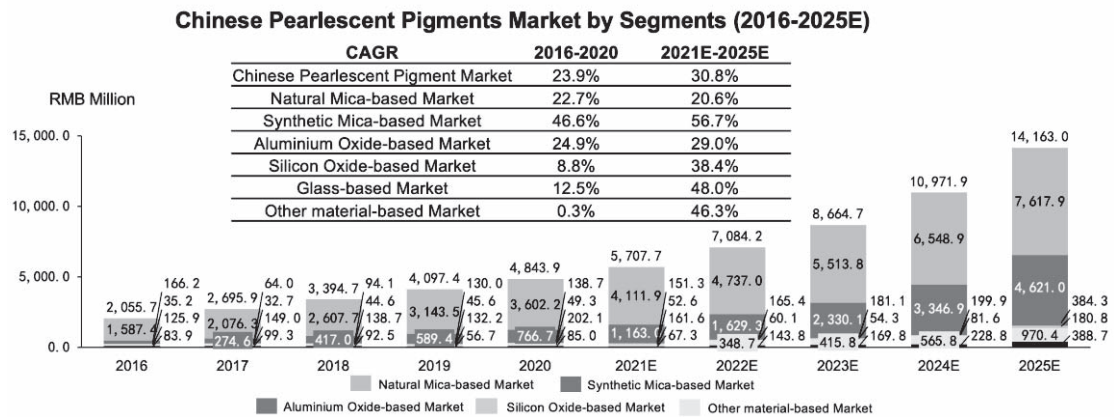
## INDUSTRY OVERVIEW

The global pearlescent pigments market showed stable growth in the last few years, reaching RMB18.9 billion in 2020 with a CAGR of 19.2% from 2016 to 2020. As one of the pivotal components of the global pearlescent pigments market, the Chinese pearlescent pigments market witnesses faster growth with the CAGR of 23.9% during 2016 and 2020, increasing from RMB 2.1 billion to RMB4.9 billion in 2020. The market share of Chinese market increased from 21.9% in 2016 to 25.6% in 2020 and is expected to reach 31.7% in 2025.

### OVERVIEW OF THE PRC PEARLESCENT PIGMENT MARKET

#### Market size of the PRC pearlescent pigment market

Recently, the Chinese pearlescent pigment market has stably grown its market size and proportion at the global market. In 2020, the market reaches RMB 4,843.9 million by rising at a CAGR of 23.9% from 2016 to 2020, among which the natural mica-based, synthetic mica-based, aluminium oxide-based, and silicon oxide-based pearlescent pigments markets took up a market share of 74.4%, 15.8%, 2.9% and 1.0% respectively.

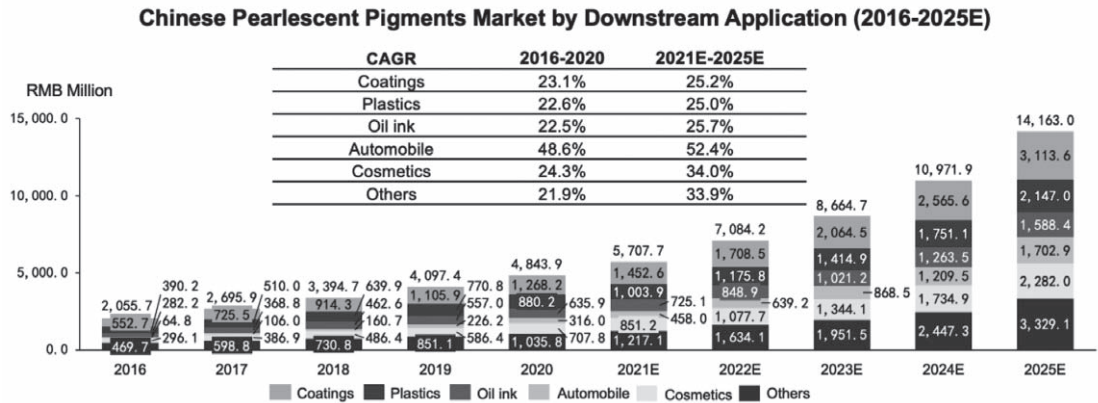


Source: Frost & Sullivan, National Bureau of Statistics of China

Thanks to improvement of synthetic mica technology and pearlescent pigments related production techniques, the automotive pearlescent pigments market witnesses the fastest growth among all downstream applications, growing at a CAGR of 48.6% from 2016 to 2020 and amounted to RMB316.0 million in 2020. It is predicted that with improvements of living standards, consumption upgrade, and growth of vehicles per capita, the Chinese automotive pearlescent pigments market will reach RMB1,702.9 million in 2025, with a CAGR of 52.4%.

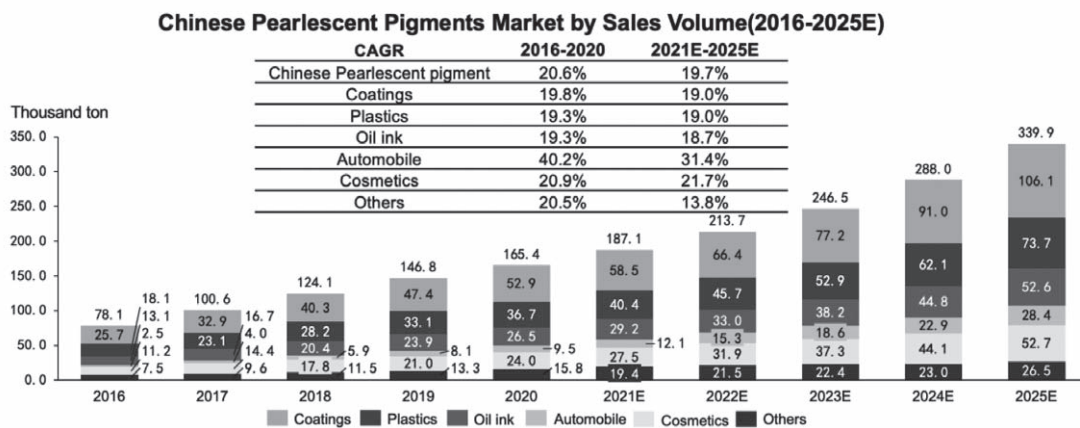
## INDUSTRY OVERVIEW

The cosmetic pearlescent pigments market has also grown at a high speed, CAGR of 24.3% and reached RMB707.8 million in 2020. It is anticipated that with rising living standards, disposable income and awareness of appearance, the demand for cosmetics will be boosted, promoting the cosmetic pearlescent pigments market to grow at a CAGR of 34.0% from 2021 to 2025 and hit 2,282.0 million RMB in 2025.



Source: Frost & Sullivan, National Bureau of Statistics of China

The sales volume in Chinese cosmetic pearlescent pigments market grew. With its good lustre and high durability, pearlescent pigments are replacing other colourants. In addition, because colourants take only a small proportion of cosmetic production cost, the cosmetic industry is relatively insensitive to price changes, which is helpful for increasing penetration of pearlescent pigments in cosmetics. It is estimated that the sales volume in Chinese cosmetic pearlescent pigments market will reach 52.7 thousand tons in 2025.



Source: Frost & Sullivan, National Bureau of Statistics of China

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## INDUSTRY OVERVIEW

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Frost & Sullivan is considering the financial recession caused by the COVID-19 pandemic. Many leading business markets are suffering from operating losses. However, the pearlescent pigment market is generally less sensitive to the economic downturn mainly due to the two following reasons.

First, pearlescent pigments are used in different industries, such as cosmetic, automotive, coatings. Although these industries are generally adversely affected by the COVID-19 pandemic, the percentage of the cost of purchase of pigments only represents a very insignificant portion of the total production costs and hence, there is no direct and immediate impact on the Group by reduced usage of the pigment products.

Second, the Group is not relying on a particular industry or customers in a particular industry. The demand for the pearlescent pigment products is rapidly growing driven by post-COVID19 resumption of business and production activities.

Third, there is an increasing number of manufacturers in the PRC planning to source raw materials (including pigment products) in the PRC. This will increase the demand for pearlescent pigment products in the PRC market.

### FUTURE DEVELOPMENT OF THE PEARLESCENT PIGMENT MARKET

#### Opportunities

- **National government policy support:** Pearlescent pigment is one of the most potential and widely applications. They are listed in the PRC's *Advanced Materials High Technology Export Catalogue* (《新材料高新技術產品出口目錄》) and enjoy export tax benefits. According to the PRC's 'The Catalogue of Industries for *Encouraged Foreign Investment (2019 Edition)*' (《鼓勵外商投資產業目錄 (2019年版)》), pearlescent pigments production (particle size of 3-150µm) is listed as an encouraged industry.
- **Extending downstream applications:** With its unique lustre and widespread colour spectrum, pearlescent pigments have broad downstream applications, from automotive topcoats to home furnishings. Meanwhile, more cosmetics manufacturers are using pearlescent pigments as colourants.
- **Breakthroughs in substrate material related technologies:** Technological breakthroughs in synthetic mica-based pearlescent pigments give producers more choices of substrate materials. Synthetic micas products work better with coating and therefore create better pearly lustre and qualities, breaking the scale constraints brought by natural micas shortage.

#### Market drivers of the pearlescent pigments market

##### *Technological capabilities in production*

The principles of producing pearlescent pigments are easy but difficult to implement. Technological breakthroughs can provide a strong impetus to the industry development. The global leading companies in pearlescent pigments have accumulated abundant R&D experience and a series of patents for invention, establishing their competitive advantage in the industry. Technological

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## INDUSTRY OVERVIEW

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breakthroughs are also one of the major drivers of the rapid development of pearlescent pigments industry. For example, the globally prominent pearlescent pigment company Chesir invented self-developed synthetic mica production method, such as: a wet synthesis method for preparing  $\text{KMg}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$  crystal powder, a method for preparing conductive sericite powder. With these technologies, the pearlescent material products produced by Chesir are widely used in high-end areas such as automobiles and cosmetics markets.

### *Extending downstream applications*

In the global market, automotive and cosmetic pearlescent pigments experienced stable growth as their penetration increases. They are likely to benefit from expanding markets of downstream applications as well as extension into more downstream applications. For instance, thanks to steady growth in volume of production and car ownership, the penetration of automotive pearlescent pigments continuously climb. Frost & Sullivan estimates that with future vehicle popularisation and upgrading demand, the automotive pearlescent pigments market could further expand. Besides, with consumption upgrade and increasing awareness of appearance, the cosmetics industry could have larger market potential, leading to the rapid development of cosmetic pearlescent pigments industry.

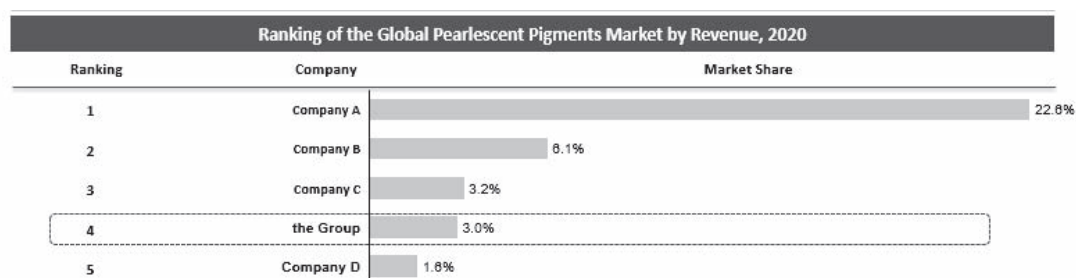
### *Support of favourable policies*

Supported by favourable policies from the state, the pearlescent material industry witnessed a fast growth. In the global market, according to the amendment to the Federal Regulations Act (21CFR73.350) (《聯邦規則法案》(21CFR73.350)修正案) promulgated in April 2019, the safe use of mica pearlescent pigments prepared from titanium dioxide and mica in beverages such as sweet wines has further broadened the application of pearlescent pigments, which served as strong support for upstream manufacturers to expand production capacity.

In the Chinese market, according to the Industrial Structure Adjustment Guidance Catalogue (2019 Edition) (revised in 2019) (《產業結構調整指導目錄(2019年本)》(2019年修訂)) promulgated in November 2019, pearlescent pigments belong to the nationally encouraged high-tech industry, and these industry may enjoy the corresponding encouragement policy support. Also, according to the “Classification of Strategic Emerging Industries (2018)” (National Bureau of Statistics Order No. 23) (《戰略性新興產業分類(2018)》(國家統計局令第23號)), the manufacturing of mica products with number of 3082, belongs to the new energy material manufacturing and functional filler manufacturing sectors in strategic emerging industries. Additionally, the mica-based pearlescent pigments whose number is 2643 is classified as other new functional materials, which belong to the pigments manufacturing section in the strategic emerging industries. The strategic emerging industries enjoy encouragement policy support such as tax reductions and financial benefits.

## INDUSTRY OVERVIEW

### OUR RANKING IN THE GLOBAL PEARLESCENT PIGMENT MARKET

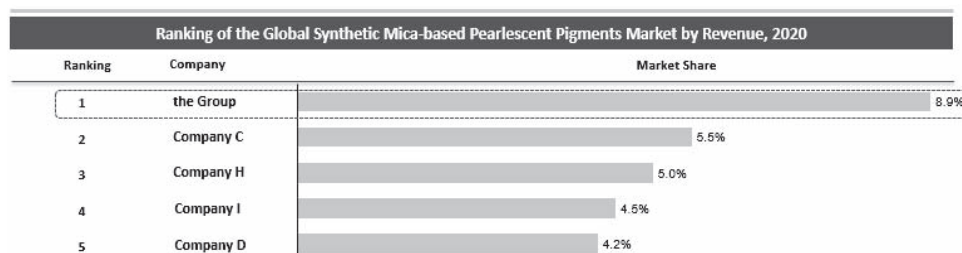


Source: Frost & Sullivan, Expert Interview, Financial statements of market players

With the presence of a few major players, the global pearlescent pigments market is moderately concentrated. The total market size by revenue of pearlescent pigments reached RMB18,942.0 million in 2020. The aggregate market share of the top five players in global pearlescent pigments market in terms of revenue from pearlescent pigments was 36.5% in 2020. Among all the players, the Group ranked the fourth with the market share of 3.0%.

Among the global pearlescent pigments providers, the role of synthetic mica-based pearlescent pigments providers is increasingly important. The synthetic mica-based pearlescent pigments have the characteristics of temperature resistance, wear resistance, light resistance, water resistance, and colour fastness. Compared with pearlescent pigments with other base, the synthetic mica-based pearlescent pigments are environmentally friendly, clean, and free of heavy metals. As a result, synthetic mica-based pearlescent pigments providers are well positioned to catch the high growth of the pearlescent pigments market.

### OUR RANKING IN THE GLOBAL SYNTHETIC MICA-BASED PEARLESCENT PIGMENTS MARKET



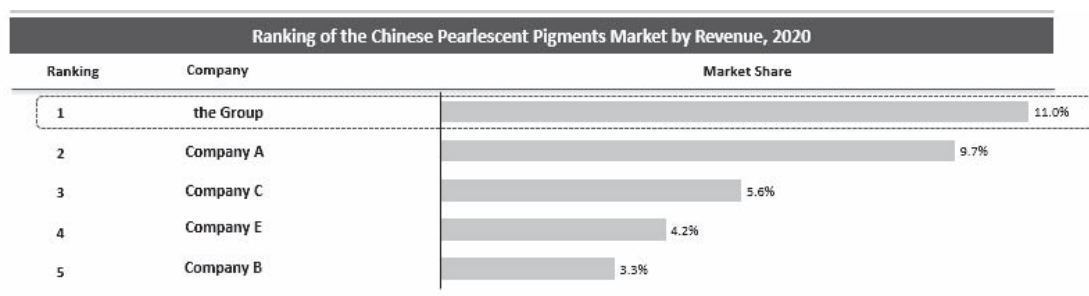
Note: The ranking is based on the sales value of synthetic mica based pearlescent pigments generated by the synthetic mica-based pearlescent pigments providers in 2020.

Source: Frost & Sullivan, Expert Interview, Financial statements of market players



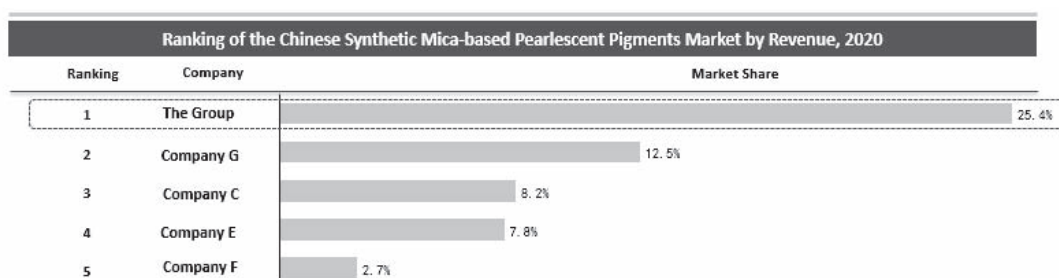
## INDUSTRY OVERVIEW

The global pearlescent pigments market is moderately fragmented with the total market size by revenue of synthetic mica-based pearlescent pigments reached RMB2,218.2 million in 2020. The aggregate market share of the top five players in global synthetic mica-based pearlescent pigments market in terms of revenue from synthetic mica-based pearlescent pigments was 28.1% in 2020. Among all the players, the Group ranked the first with the market share of 8.9%.



Source: Frost & Sullivan, Expert Interview, Financial statements of market players

In 2020, the market size of China's pearlescent pigments (based on the revenue of pearlescent materials) reached RMB 4,843.9 billion. In terms of amount, the total market share of the top five in China's pearlescent material market accounts for 33.8% of the total market size. Among all companies, the Group ranks the first with a market share of 11.0%.



Note: The ranking is based on the sales value of synthetic mica-based pearlescent pigments generated by the Chinese pearlescent pigments providers in China in 2020.

Source: Frost & Sullivan, Expert Interview, Financial statements of market players

Company A is a listed science and technology company engaging in various businesses, including healthcare, life science and performance materials, etc.

Company B is a listed chemical company engaging in various business, including chemicals, materials, industrial solutions, surface technologies, nutrition & care and agricultural solutions.

Company C is a listed pearlescent pigment provider specialising in providing pearlescent pigments.

Company D is a listed pearlescent pigment provider professionally engaging in provisions of synthetic mica-based pearlescent pigments, natural mica-based pearlescent pigments, glass-flake pearlescent pigments, etc.

Company E is a pearlescent pigment provider specialising in providing pearlescent pigments applicable in various areas, including automobile, printing inks, coatings, etc.

Company F is a listed pearlescent pigment provider professionally engaging in pearlescent pigments.

Company G is a pearlescent pigment provider specialising in pearlescent pigments, mica, metallic pigments, etc.

Company H is a pearlescent pigment provider that provides pearlescent pigments applicable in various areas, including cosmetics, coatings, printing inks, etc.

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In 2020, the market scale of China's synthetic mica base pearlescent materials (divided according to the revenue of synthetic mica base pearlescent materials) reached RMB 766.7 million. In terms of amount, the total market share of the top five synthetic mica base pearlescent materials in China accounted for 43.3% of the total market size. Among all companies, the Group ranks first with a market share of 25.4%.

### **Entry Barriers of Pearlescent Pigments Industry**

#### *Financial Capacity*

For newcomers in the pearlescent pigment market, an amount of financial capital is needed to invest in production bases, precise equipment, raw material importation, R&D personnel and product R&D, etc. In addition, a huge amount of early investment and cash flow would be needed to support the long periods of construction and R&D. Leading companies in the industry have accumulated expertise in R&D and extensive resources. When the product is rolled out to the market, brand development, marketing and storage could also financially challenge the pearlescent pigment producers. Therefore, having a sizable financial capacity forms an entry barrier to newcomers.

#### *Innovative Technology*

The pearlescent pigment industry is a technology-intensive industry. Newcomers can produce non-patented products but may not stand out from the intense homogeneous competition, while established players possess a range of patents for their new products. Different production technologies would be required to produce pearlescent pigments catering to different downstream sectors.

Synthetic mica technology is a key technology for producers to break in the high-end market, but only a few leading producers have this technology. Solid R&D capabilities determines the competitiveness of a pearlescent pigment producer in an increasingly demanding marketplace.

#### *Stable Client Network*

As an export-oriented industry, a stable client network connecting domestic and international clients would be key for pearlescent pigment producers. However, building stable relationship with international clients or distributors requires continuous investment and improvements in products and procedure. Certification of a new pigment supplier is long and stringent. For example, it takes 5 to 8 years to become an automotive pearlescent pigment supplier.

Brand is also an important factor clients consider when choosing suppliers, while brand establishment requires long-term technological support, robust product quality and services. Downstream clients also don't frequently change suppliers when a relationship is established due to the high cost of substituting a supplier.

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## INDUSTRY OVERVIEW

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### *Raw Materials*

Cheap and abundant access to raw materials has become a significant entry barrier since regulations tighten and downstream requirements rise. Natural micas are an important raw material for pearlescent pigments but there is a high dependence of Chinese producers on importation. Long-term relationship and economies of scale would give producers an essential edge in price negotiation with foreign mica suppliers.

Furthermore, while synthetic mica becomes an important raw material, the difficulty of developing synthetic micas technology poses another challenge for industry newcomers and existing small players. Therefore, industry newcomers may struggle to obtain low-cost and quality raw materials.

### **OVERVIEW OF THE GLOBAL MICA MARKET**

Mica products may be categorised into natural micas and synthetic micas. With characteristics such as insulation, high temperature resistance, and lustre, heat insulation, micas have wide industrial applications and are thus named as industrial flavour enhancer. Their end user industries include automobile, cosmetics, electricity, pyrometallurgy and home appliances. As the research capabilities of global mica industry improve, micas' downstream applications continually expand. It is an industry norm for manufacturers of synthetic mica-based pearlescent pigment products to source synthetic mica powder externally. As the production of synthetic mica powder may require relatively higher investments in the initial stage, and the technical entry barrier of synthetic mica powder is high, thus only manufacturers with outstanding financial and technical performance may produce synthetic mica powder themselves.

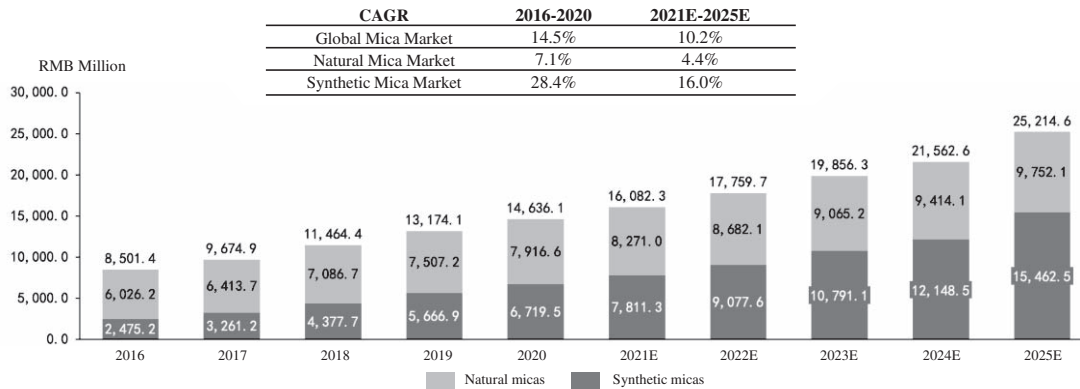
#### **Market size of the global mica market**

The global mica market has experienced a stable growth from 2016 to 2020, growing at a CAGR of 14.5% and reaching RMB 14.6 billion. Within the mica market, the demand for natural mica represented a market share of 54.1%, while synthetic mica represented a market share of 45.9%. Frost & Sullivan estimates that the global mica market will reach RMB25.2 billion in 2025 with a CAGR of 10.2%, among which synthetic mica market will grow to RMB15.5 billion and take up a market share of 61.3%. The bar chart below illustrates the development of the global mica market in terms of sales revenue by natural mica and synthetic mica for the period from 2016 to 2025 (estimated):

Compared to natural micas, synthetic mica-based pearlescent pigments make significant progress in glossiness, clarity and high temperature resistance. Besides, free of heavy metals in synthetic micas make it popular in cosmetics industry. The penetration of synthetic mica in global pearlescent pigment market is therefore expected to rise. The number of suppliers of synthetic mica powder in the global range in 2020 is around 150. Among these, the number of suppliers of synthetic mica powder who can produce themselves is around 50. Among these 50 synthetic mica powder suppliers, the number of suppliers who can produce synthetic mica powder especially for pearlescent pigments production is around 10.

## INDUSTRY OVERVIEW

**Global Mica Market by Segments (2016-2025E)**



Source: Frost & Sullivan, China Non-metallic Mineral Information Platform, U.S. Geological Survey, India Bureau of Mines, OECD, Expert Interview

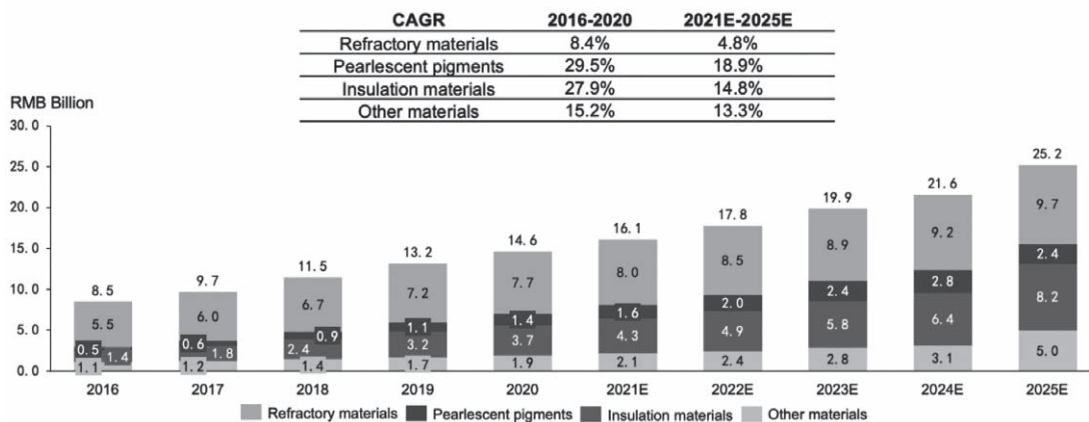
### Applications of mica products

Pearlescent pigments, refractory materials and insulation materials are the major downstream applications of mica products and are widely used in end user industries such as automobile, cosmetics, electricity, pyrometallurgy and home appliances. In 2020, pearlescent pigments mica market reached RMB1.4 billion, refractory materials mica market reached RMB7.7 billion, and insulation materials mica market reached RMB3.7 billion. Insulation materials are also applied in the area of advanced materials such as semiconductors.

As the R&D capabilities of synthetic mica industry improve, synthetic micas will enter into more downstream applications such as thermal insulation materials and experience growth in pearlescent pigments mica market. Compared to natural micas, synthetic mica-based pearlescent pigments make significant progress in glossiness, clarity and high temperature resistance.

The diagram below illustrates the development of the global mica market in terms of the end-market applications for the period from 2016 to 2025 (estimated):

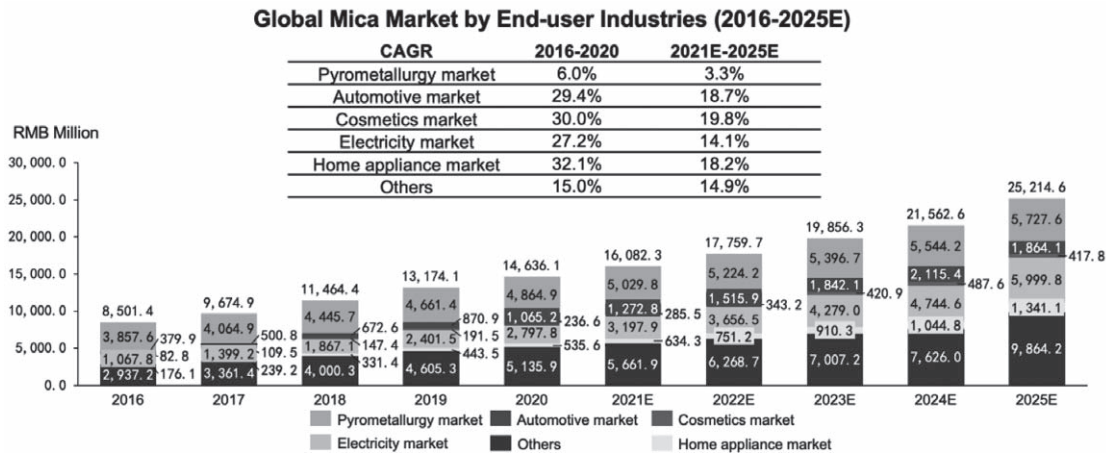
**Global Mica Market by Downstream Application (2016-2025E)**



Source: Frost & Sullivan, China Non-metallic Mineral Information Platform, U.S. Geological Survey, India Bureau of Mines, OECD, Expert Interview

## INDUSTRY OVERVIEW

The diagram below illustrates the development of the global mica market in terms of the end user industries for the period from 2016 to 2025 (estimated):

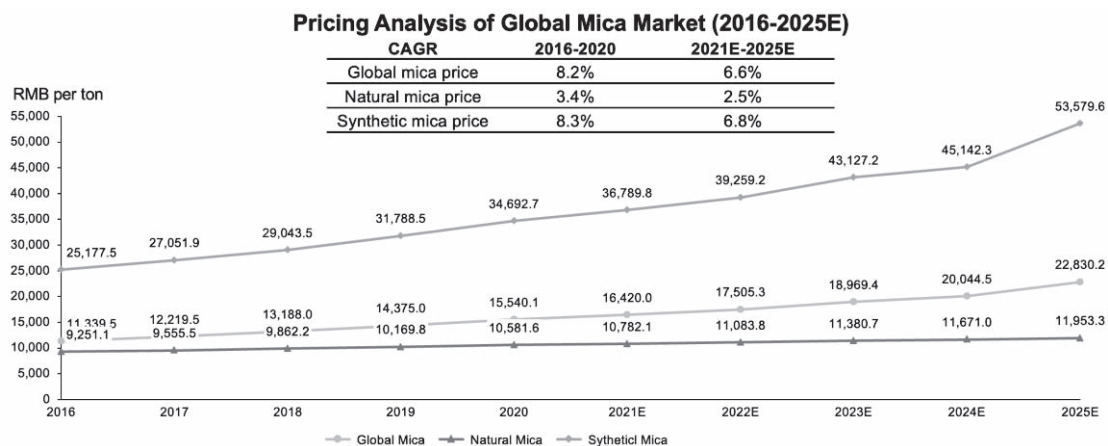


Source: Frost & Sullivan, Organisation Internationale des Constructeurs d'Automobiles, World Paint & Coatings Industry Association, Expert Interview

In 2020, the market size of pyrometallurgical mica products was RMB 4.9 billion, representing a market share of 33.2%. Because of superior insulation and high temperature resistance, mica products normally appear as insulation materials or refractory materials in pyrometallurgy market, wide applications and high industry linkage, serving an essential role in economic development and infrastructure upgrading, in the form of electrode bars in electrometallurgical furnaces or lead-out bushing. Pyrometallurgy industry is a globally important basic raw material industry with a variety of products.

### Average selling prices and average cost of mica products

During the period from 2016 to 2025 (estimated), Frost & Sullivan estimates that the average selling prices of mica products would continue to increase, and the diagram below illustrates the price movements of mica products during the period from 2016 to 2025 (estimated):



Source: Frost & Sullivan, China Non-metallic Mineral Information Platform, U.S. Geological Survey, India Bureau of Mines, OECD, Expert Interview

## INDUSTRY OVERVIEW

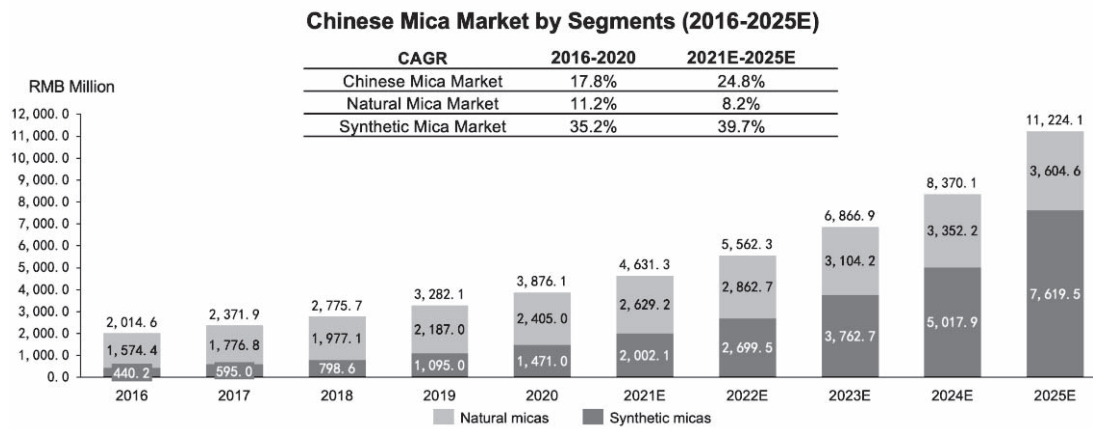
### OVERVIEW OF THE PRC MICA PRODUCT MARKET

#### Market size of the PRC mica product market

The PRC mica market may be divided into natural mica market and synthetic mica market. With improving research and development capability of synthetic mica technology and exhausting natural mica resources, synthetic mica products are replacing natural mica products.

The PRC mica market recently has experienced steady development. In 2020, the market grew to RMB3.9 billion with a CAGR of 17.8% from 2016 to 2020. Within the overall market, Chinese natural mica market reached RMB2.4 billion, a market share of 62.0%. Chinese synthetic mica market RMB1.5 billion, occupying a market share of 38.0%. With the future policy support such as the Catalogue for the Guidance of Industrial Structure Adjustment (《產業結構調整指導目錄(2019年本)》), Frost & Sullivan estimates that the PRC mica market will reach RMB11.2 billion in 2025 with a CAGR of 24.8% from 2021 to 2025, within which the synthetic mica market will reach RMB7.6 billion, occupying a market share of 67.9%.

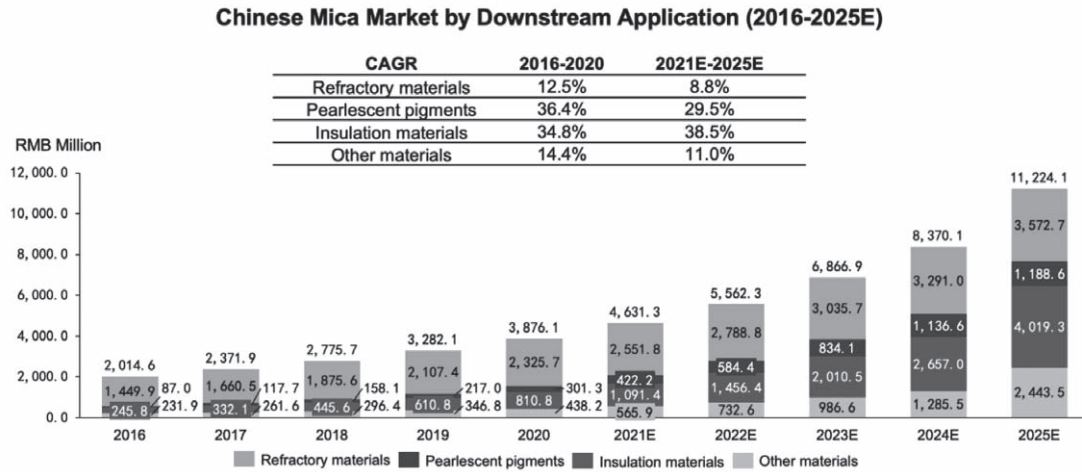
The diagram below illustrates that the percentage of natural mica and synthetic mica in terms of sales revenue generated in the PRC during the period from 2016 to 2025 (estimated):



Source: Frost & Sullivan, China Non-metallic Mineral Information Platform, Expert interview

## INDUSTRY OVERVIEW

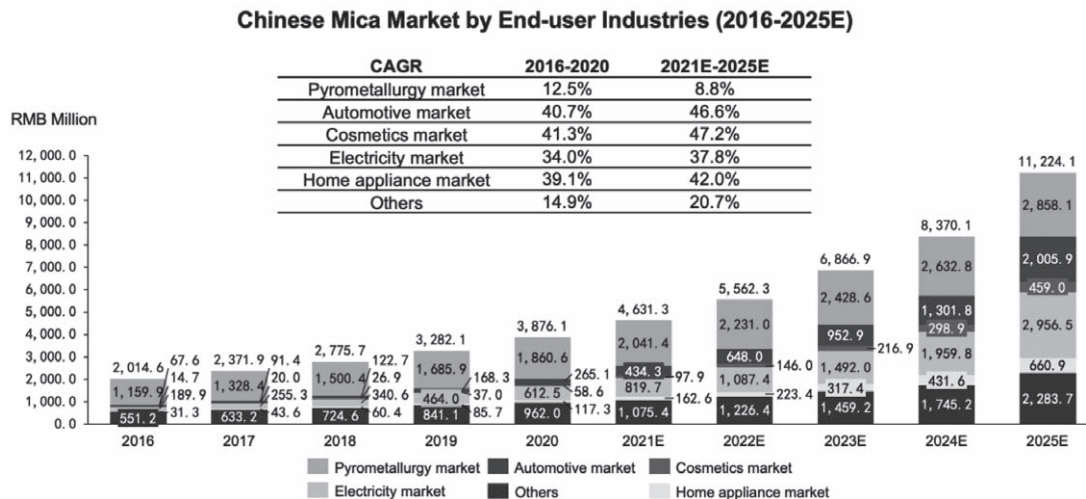
The diagram below illustrates the development of the PRC mica pigment market by downstream applications for the period from 2016 to 2025 (estimated):



Source: Frost & Sullivan, China Non-metallic Mineral Information Platform, Expert interview

In the PRC, the pearlescent pigments mica market grew at a CAGR of 36.4% from 2016 to 2020 and reached RMB301.3 million in 2020. Over the same period, the refractory materials mica market grew at a CAGR of 12.5% and reached RMB 2,325.7 million, the insulation materials mica market grew at a CAGR of 34.8% and reached RMB 810.8 million in 2020.

The diagram below illustrates the development of the PRC mica pigment market by end user industries for the period from 2016 to 2025 (estimated):



Source: Frost & Sullivan, China Non-metallic Mineral Information Platform, Expert interview

The PRC is one of the most important synthetic mica markets in the world. There is a trend of replacing natural micas with synthetic micas in end user industries, such as pyrometallurgy, automobile, cosmetics and electricity, as synthetic micas possess superior characteristics and continuously make breakthroughs in downstream applications.

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## INDUSTRY OVERVIEW

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### FUTURE DEVELOPMENT OF THE MICA MARKET

#### Opportunities

- **Expanding downstream sectors bring increasing demand for micas products:** Mica downstream sectors are sectors that use mica products as raw materials, including coatings, pigments, welding electrode, rubber, plastics and new building materials. The development of those downstream sectors will bring robust demand and immense market for micas, promoting mica producers to transform from planned production to sales-based production
- **Vertical integration from downstream sectors will improve industry efficiencies:** Due to factors such as environmental protection and mine exploitation costs in the PRC, most downstream firms choose to import micas. To implement import substitution and reinforce control on supply chain, some large downstream firms extend upstream which is helpful for integrating dispersed production capabilities in mica industry and creating an effective cluster of mica exploitation, production and downstream processing.
- **Key technological breakthroughs in mica lithium extraction bring new market opportunities:** lithium is important raw material of new energy batteries. The PRC's lithium storage ranks the 4th globally but 80% of usage relies on imports, because the recovery rate is low. But with recent breakthroughs, there can likely be a mica lithium industrial chain, reducing dependence on imports

### OUR COMPETITIVE ADVANTAGES

Having considered the competitive landscape of the pearlescent pigment and synthetic mica industries, our Directors consider that we have the following competitive advantages:

#### Strong research and development capability

Chesir Pearl has strong research and development capability, which has been the foundation for it to achieve rapid growth and become an industry leader. In the past few years, Chesir Pearl has overcome many industry bottlenecks with its strong research and development capability. Currently, the company has three synthetic mica patents of invention: a preparation method of conductive silk mica powder, wet synthesis of  $\text{KMg}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$  crystal powder, a 3D-effect magnetic pearlescent pigment and its preparation method, winning gold and silver awards of Guangxi Inventions Exhibition and Trade Fair.



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## INDUSTRY OVERVIEW

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### **Resistance against financial depression**

Considering the financial depression caused by the COVID-19 lockdown, many markets are suffering from business loss. However, the pearlescent pigment market is less sensitive to the economic downturn many for the two reasons. First, pearlescent pigments are widely applied to various industries such as cosmetic, automotive, coatings, etc., which may enable the pearlescent market to mitigate the risk in the economic downturn. Second, the demand for pearlescent pigments are rapidly growing driven by the resumption of work and production, considering its superiority in chemical stability, uniform dispersion in water and glycerine, and good lustre. As one of the largest pearlescent pigment producers in the PRC, Chesir Pearl has great resistance against financial depression and hence may witness a sustainable growth in the near future.

### **Superiority value chain**

Chesir has strong bargaining power in the value chain due to its advantage in the production of raw materials, such as synthetic mica. Due to the ease to find substitute suppliers, its upstream suppliers are likely to face stiff competition for its business, providing it with strong bargaining power against its upstream raw material suppliers.

Also, the use of technology enable Chesir Pearl to remain dominant in the value chain. For example, it invented self-developed synthetic mica production method, such as: a wet synthesis method for preparing  $\text{KMg}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$  crystal powder, a method for preparing conductive sericite powder. With these technologies, Chesir Pearl's pearlescent pigments are widely used in various downstream areas and have sustainable advantage in the value chain.


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## HISTORY, DEVELOPMENT AND REORGANISATION

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### OVERVIEW

We are the largest pearlescent pigment producer in the PRC market as measured by revenue in 2020 with a market share of 11.0%, according to the Frost & Sullivan Report. In the global market, we are the fourth largest pearlescent pigment producer as measured by revenue in 2020 with a market share of 3.0%. Our principle products include natural mica-based and synthetic mica-based pearlescent pigment products. Pearlescent pigment products are generally used as colourants in a wide range of industrial and non-industrial applications. The synthetic mica-based pearlescent pigment market is in a state of rapid development and accounted for 15.8% of the PRC pearlescent pigment market of RMB4,843.9 million in 2020. The market size of the global pearlescent pigment market reached RMB18.9 billion in 2020, in which the synthetic mica-based pearlescent pigment market accounted for a market share of 11.7%.

Our business principally focuses on the production and sales of a comprehensive portfolio of pearlescent pigment products for use in diverse applications and industries, including industrial coatings, plastics, textiles and leather, cosmetics and automotive coatings. We are a midstream producer in the value chain of pearlescent pigment industry. Our pearlescent pigment products can be broadly divided into (a) natural mica-based pearlescent pigment products; (b) synthetic mica-based pearlescent pigment products; (c) glass flake-based pearlescent pigment products; and (d) silicon oxide-based pearlescent pigment products, which are sold to customers in the PRC and more than 30 countries and territories in Asia (excluding the PRC), Europe, Africa and South America under our brand of “Chesir Pearl” . In addition, we also produce and sell synthetic mica powder of different granule sizes which can be used for the production of different grades of pearlescent pigment products (including those used in cosmetics, ceramics and automotive applications) and also as raw materials for the production of functional fillers, insulating materials, refractory materials and nickel-hydrogen batteries.

On 19 March 2015, trading of the shares of Chesir Pearl commenced on NEEQ. However, we believe a listing on an internationally recognised stock market is more advantageous to our future business development. On 23 September 2019, the listing and quotation for trading of the shares of Chesir Pearl on NEEQ was withdrawn upon the approvals of the shareholders of Chesir Pearl. In October 2019, we started exploring the possibility of restructuring of Chesir Pearl and listing of our Company on the Stock Exchange. As of the date of the NEEQ Listing Withdrawal, Chesir Pearl had 141 equity holders.

### LISTING ON NEEQ AND NEEQ LISTING WITHDRAWAL

On 19 March 2015, all issued shares of Chesir Pearl were listed and quoted for trading on NEEQ (stock code: 832080). On 23 September 2019, the NEEQ Listing Withdrawal was effective.

Chesir Pearl raised a total of RMB448.1 million by issuing new shares when its shares were listed and quoted for trading on NEEQ. The market capitalisation of Chesir Pearl at the time of the NEEQ Listing Withdrawal was RMB1.1 billion based on the closing price of each share of Chesir Pearl of RMB9.18 on NEEQ and 116,773,467 shares of Chesir Pearl in issue. See the paragraphs under “Fund raising activities of Chesir Pearl when its shares were listed and quoted for trading on NEEQ” below for further information on the fund raising activities of Chesir Pearl and the proposed and actual usages of the net proceeds raised.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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As trading on NEEQ is restricted to qualified investors using a market maker approach, the trading volume of the shares of Chesir Pearl then had remained low and our corporate profile had not been enhanced with the shares of Chesir Pearl quoted for trading on NEEQ. Against this background, in October 2019, following the NEEQ Listing Withdrawal, we started exploring the possibility of restructuring of Chesir Pearl and listing of our Company on the Stock Exchange, which would allow us to have direct access to the funds in the international capital markets and enhance our reputation to attract international investors as well as to recruit, motivate and retain management personnel.

The NEEQ Listing Withdrawal was approved by a majority of the then equity holders of Chesir Pearl at an extraordinary general meeting (the “**Chesir Pearl Extraordinary General Meeting**”) of Chesir Pearl held on 2 August 2019. As part of the arrangements for the NEEQ Listing Withdrawal, Chesir Pearl also announced that Hongzun Investment and Mr. SU had undertaken to purchase or would procure third-party investors to purchase such number of shares of Chesir Pearl at such prices from the then minority equity holders of Chesir Pearl, in order that those equity holders could realise their equity investments in Chesir Pearl after the NEEQ Listing Withdrawal without incurring any loss to their investment cost. Such undertakings had resulted in various transfers of the shares of Chesir Pearl which took place during the period after the NEEQ Listing Withdrawal to the date before the commencement of the Reorganisation. See the paragraphs under “Corporate history of our subsidiaries in the PRC — Chesir Pearl — Transfers of shares of Chesir Pearl following the NEEQ Listing Withdrawal” below for further information.

In May 2015, when the shares of Chesir Pearl were listed and quoted for trading on NEEQ, Chesir Pearl raised a total of RMB144.0 million by issuing 20,000,000 shares at a price of RMB7.2 per share. Chesir Pearl had used the proceeds from the new issue of shares prior to obtaining the letter of registration of new shares issued by NEEQ. Our Directors confirm that Chesir Pearl had utilised the proceeds in conformity with the proposed use of proceeds at the relevant time. As a result, NEEQ conducted a regulatory meeting (約見談話) with Chesir Pearl on 18 August 2015 and determined that Chesir Pearl had not used the proceeds from the new issue of shares in full compliance with the relevant regulatory guidelines. See the section headed “Business — Non-compliance matters” in this prospectus for further information. As advised by our PRC Legal Advisers, our Directors confirm that, save as disclosed in the section headed “Business — Non-compliance matters” in this prospectus, during the period in which the shares of Chesir Pearl were listed and quoted for trading on NEEQ, Chesir Pearl was in full compliance with all applicable PRC securities laws and regulations in the PRC in all material respects. None of Chesir Pearl or any director or supervisor of Chesir Pearl is subject to any disciplinary action imposed by the relevant regulators in the PRC (including CSRC and its despatched units).

Based on the independent due diligence performed by the Sole Sponsor, nothing has come to the attention of the Sole Sponsor that would entail the Sole Sponsor to disagree with the views of our Directors above.

### **Previous plan for A-share listing**

When the shares of Chesir Pearl were listed and quoted for trading on NEEQ, Chesir Pearl entered into a pre-listing tutoring engagement agreement with a sponsor in the PRC, which is an indirect holding company of the Sole Sponsor, that is registered with the CSRC in September 2019 for the purpose of exploring the possibility of changing the listing of the shares of Chesir Pearl to one

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## HISTORY, DEVELOPMENT AND REORGANISATION

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of the two recognised stock exchanges in the PRC. As part of the preparation works for such preliminary listing plan, Chesir Pearl filed a notice of pre-listing tutoring for A-share listing application with the local office of CSRC in Guangxi Zhuang Autonomous Region on 8 October 2019.

We have, however, subsequently considered that a listing on the Stock Exchange would be more favourable to our business development. We have then changed our plan and proceeded with the Reorganisation for the purpose of the Listing. On 16 October 2020, Chesir Pearl terminated the pre-listing tutoring engagement agreement with the sponsor in the PRC on 19 October 2020, Chesir Pearl filed a notice of cessation on the pre-listing tutoring with the local office of CSRC in Guangxi Zhuang Autonomous Region. No formal listing application has been submitted by Chesir Pearl to CSRC.

Our Directors confirm that there are no matters relating to the pre-listing tutoring of Chesir Pearl which would affect our Company's suitability for the Listing or otherwise require to be brought to the attention of the Stock Exchange and the investors of the Global Offering. Based on the independent due diligence performed by the Sole Sponsor, the Sole Sponsor is not aware of any matter relating to the Company's previous plan for A-share listing which would affect the Company's suitability for the Listing.

### BUSINESS DEVELOPMENT AND MILESTONES

#### Business development up to 2017

Chesir Pearl was established in March 2011 with the business development strategy to focus on "Four Pioneers" in terms of technology, operation scale, management and corporate culture, and the establishment of production facilities with initial designed annual production capacity of (a) 10,000 tonnes of pearlescent pigment products and (b) 5,000 tonnes of synthetic mica powder products. The following sets forth the key business development phases of Chesir Pearl:

- (1) *From March 2011 to December 2012, being the initial investment phase:* Chesir Pearl was established in the PRC with initial equity investment of RMB2.0 million by Hongzun Investment and Mr. ZHANG Chuanchang, an Independent Third Party. Such initial equity investment was used for preliminary preparation, such as obtaining the approvals for the construction of factory and ancillary buildings and related facilities comprising our Phase 1 Production Plant.
- (2) *From December 2012 to June 2014, being the construction phase:* Chesir Pearl completed the construction of the factory and ancillary buildings' production facilities, staff quarters and environmental protection facilities. The then designed annual production capacity was 4,200 tonnes of pearlescent pigment products as of June 2014.
- (3) *From June 2014 to June 2015, being the trial production phase:* Chesir Pearl commenced its trial production for the purpose of determining the parameters involved in the production process. Chesir Pearl also started various marketing and promotional activities of its products in different regions in the PRC. During the year ended 31 December 2015, Chesir Pearl recorded significant amounts of operating expenses and expenses which had been incurred on product research and development activities. The then production capacity increased to 5,800 tonnes of pearlescent pigment products as of 31 December 2015.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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- (4) *From July 2015 to December 2017, being the ramp up phase in sales and production:* Chesir Pearl continued to develop and promote its new products, improve and fine-tune its production facilities, increase its automation level, adjust its production line management systems and expand sales coverage to different PRC regions. The year of 2016 was the first year that Chesir Pearl started recording profit from its operation. The then production capacity was increased to 7,392 tonnes of pearlescent pigment products as of 31 December 2016 and further increased to 7,968 tonnes of pearlescent pigment products as of 31 December 2017.

See the section headed “Financial Information — Summary of Business Development of Chesir Pearl prior to the Track Record Period — Overall development” in this prospectus for further information.

### Business milestones

The table below sets forth our key business milestones:

<u>Month/Year</u>	<u>Business milestones</u>
January 2014	Shanghai Multicolour was established.
January 2014	Chesir Pearl received the award of “National AAA-level Credit Quality Enterprise” (國家AAA級信用質量企業).
June 2014	Our Phase 1 Production Plant commenced commercial production and sales of natural mica-based pearlescent pigment products.
August 2014	Chesir Pearl was converted from a limited liability company into a joint stock company with limited liability by shares.
October 2014	Chesir Pearl received the gold award and the silver award in the Guangxi Invention Creation Exhibition and Trade Fair Project (廣西發明創造成果展覽交易會項目).
December 2014	Liuzhou City Pearlescent Effect Material Engineering Technology Research Centre (柳州市珠光材料工程技術研究中心), being part of the business establishment of Chesir Pearl, was established.  Chesir Pearl produced 31 natural mica-based pearlescent pigment products.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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<u>Month/Year</u>	<u>Business milestones</u>
January 2015	<p>In anticipation of the growing demand for synthetic mica-based pearlescent pigment products in both the PRC and the international markets and to diversify the portfolio of pearlescent pigment products, Chesir Pearl commenced research and development on synthetic mica flakes and synthetic mica-based and glass flake-based pearlescent pigment products.</p> <p>Chesir Pearl received quality accreditation of GB/T 19001-2008/ISO 9001:2008 for our quality management system.</p>
March 2015	<p>Trading of shares of Chesir Pearl commenced on NEEQ (stock code: 832080).</p>
April 2015	<p>Chesir Pearl commenced commercial production of synthetic mica-based pearlescent pigment products and synthetic mica powder products.</p>
May 2015	<p>Chesir Pearl completed first issue of new shares following listing and quotation on NEEQ and raised RMB144.0 million from the investment public in the PRC.</p>
June 2015	<p>Chesir Pearl commenced sales of glass flake-based pearlescent pigment products.</p>
August 2015	<p>Chesir Pearl obtained the accreditation from the Enterprise Technology Centre (企業技術中心) in Guangxi Zhuang Autonomous Region.</p>
September 2015	<p>Chesir Pearl commenced sales of synthetic mica-based pearlescent pigment products.</p> <p>Chesir Pearl obtained quality certification for Environmental Management Systems (環境管理體系).</p>
December 2015	<p>The product portfolio of Chesir Pearl increased to 136 products comprising 99 natural mica-based pearlescent pigment products, 17 synthetic mica-based pearlescent pigment products and 20 glass flake-based pearlescent pigment products.</p>
August 2016	<p>Chesir Pearl was recognised as a “Guangxi Famous Branded Product” (廣西名牌產品).</p>
November 2016	<p>Chesir Pearl commenced research and development on the production of silicon oxide-based pearlescent pigment products in order to diversify our portfolio of pearlescent pigment products.</p>

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## HISTORY, DEVELOPMENT AND REORGANISATION

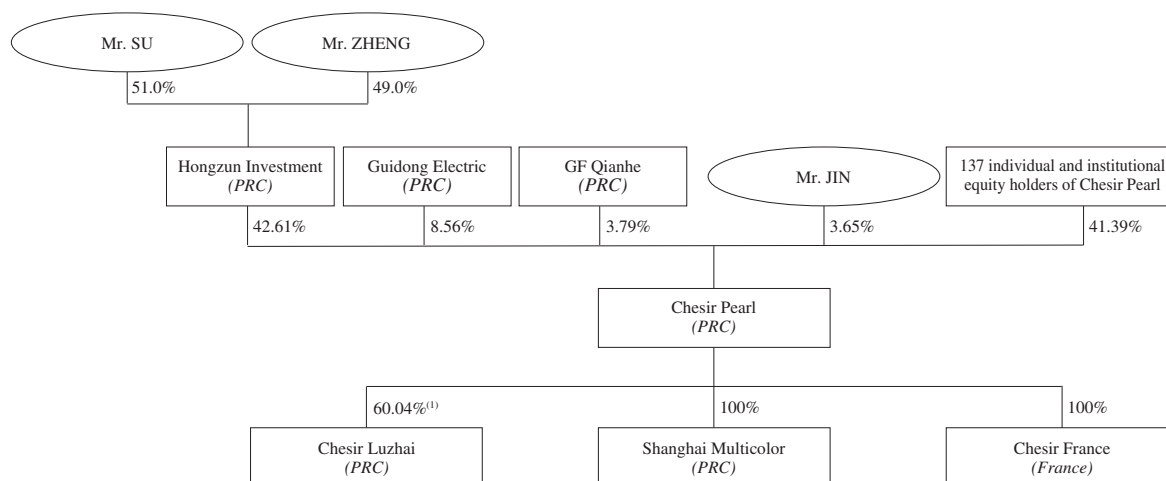
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<u>Month/Year</u>	<u>Business milestones</u>
December 2016	<p>Chesir France was established by Chesir Pearl.</p> <p>The product portfolio of Chesir Pearl increased to 204 products comprising 103 natural mica-based pearlescent pigment products, 78 synthetic mica-based pearlescent pigment products and 23 glass flake-based pearlescent pigment products.</p>
February 2017	<p>Chesir Pearl obtained the silver award for the Guangxi Invention Creation Exhibition and Trade Fair Project (廣西發明創造成果展覽交易會項目).</p>
May 2017	<p>Our synthetic mica powder products were certified according to the Japanese Standard of Quasi-drug Ingredients Standards.</p>
September 2017	<p>Chesir Pearl obtained IATF16949:2016 certification, the quality certification for Automotive Industry Quality Management Systems (汽車行業質量管理體系).</p> <p>Chesir Luzhai was established by Chesir Pearl.</p>
December 2017	<p>Chesir Pearl was accredited as a National Intellectual Property Superior Enterprises (國家知識產權優勢企業).</p>
July 2018	<p>Chesir Pearl was accredited as an Innovative Technology Exemplary Enterprise in Guangxi Zhuang Autonomous Region (廣西自治區技術創新示範企業).</p>
June 2019	<p>Chesir Pearl completed a follow-on share offering and raised RMB304.1 million from the investment public in the PRC.</p>
September 2019	<p>Chesir Pearl was recognised as a Top 100 Guangxi Non-Resident Manufacturing Enterprise for the year of 2019 (2019年廣西民營企業製造業100強).</p> <p>The NEEQ Listing Withdrawal was completed.</p>
December 2019	<p>Chesir Pearl commenced sales of silicon oxide-based pearlescent pigment products.</p>
November 2020	<p>Chesir Pearl renewed the accreditation of New High-Tech Enterprise (高新技術企業), which was first obtained in July 2014.</p>
November 2020	<p>We completed the Pre-IPO Investments by Guidong Electric, GX Land &amp; Sea and Mr. SU.</p>

## HISTORY, DEVELOPMENT AND REORGANISATION

### CORPORATE HISTORY OF OUR SUBSIDIARIES IN THE PRC

Chesir Pearl, Chesir Luzhai and Shanghai Multicolor are our principal subsidiaries. The diagram below illustrates our shareholding and corporate structure immediately after the NEEQ Listing Withdrawal, i.e. 23 September 2019:



*Note:*

(1) The remaining 39.96% equity interest in Chesir Luzhai is owned by Guangxi Industrial Investment.

### Chesir Pearl

#### *Changes in the equity holders and new equity investments from the date of establishment*

On 29 March 2011, Guangxi Pearl Pigment Co., Ltd. (广西珠光颜料有限公司) was established in the PRC as a company with limited liability and had an initial registered capital of RMB2.0 million, of which Hongzun Investment agreed to contribute RMB1.4 million and Mr. ZHANG Chuanchang, an Independent Third Party, agreed to contribute RMB0.6 million. Hongzun Investment and Mr. ZHANG Chuanchang had paid RMB280,000 and RMB120,000, respectively, at the time of establishment. On 17 May 2011, Guangxi Pearl Pigment Co., Ltd. (广西珠光颜料有限公司) changed its name to Guangxi Chesir Pearl Effect Material Co., Ltd. (广西七色珠光效应材料有限公司) (“**Chesir Pearl Effect**”).

The principal business activities of Chesir Pearl Effect included research and development, production, trading and sales of pearlescent pigment products, coatings, mica and related products, raw materials and semi-finished products.

Chesir Pearl Effect changed its name to Guangxi Chesir Pearl Material Co., Ltd. (广西七色珠光材料股份有限公司) on 28 August 2014. In contemplation of the listing and quotation for trading of its shares on NEEQ, at the extraordinary general meeting of Chesir Pearl Effect on 23 July 2014, the shareholders of Chesir Pearl Effect approved, among other matters, the conversion of Chesir Pearl into a joint stock company with limited liability. Upon completion of the conversion on 28 August 2014, the share capital of Chesir Pearl was RMB60.0 million divided into 60,000,000 shares of RMB1.00 each, of which Hongzun Investment, Mr. JIN, Mr. YANG Lunquan and Ms. XU Rong held



## HISTORY, DEVELOPMENT AND REORGANISATION

51,094,800 shares, 5,677,200 shares, 2,988,000 shares and 240,000 shares, representing 85.16%, 9.46%, 4.98% and 0.40% of the share capital of Chesir Pearl, respectively. Mr. YANG Lunquan is our deputy general engineer and Ms. XU Rong was one of the directors of Chesir Pearl during the period from August 2014 to December 2015.

Following the listing and quoted for trading of the shares of Chesir Pearl on NEEQ, Chesir Pearl completed a new issue of 20,000,000 shares to eight individual investors and four institutional investors at a price of RMB7.2 for each share. Such new share issue was approved at the extraordinary general meeting of Chesir Pearl held on 6 April 2015. The new share issue was completed in May 2015 and RMB144.0 million was raised in this share offering. Guidong Electric subscribed 10,000,000 shares, representing 12.03% of the then enlarged share capital of Chesir Pearl, in this offering and first became one of the equity holders of Chesir Pearl. Save for Guidong Electric and one institutional investor, which was an Independent Third Party and subscribed for 5,082,000 shares of Chesir Pearl, representing 6.12% of the then enlarged share capital of Chesir Pearl, none of the remaining 10 investors held more than five per cent. of the issued shares of Chesir Pearl.

After a series of share transfers and issues of new shares, Chesir Pearl had a registered capital of RMB83,100,000 on the date of commencement of the Track Record Period, i.e. 1 January 2018, and the then equity holders of Chesir Pearl were as follows:

Name of the equity holders of Chesir Pearl	Number of issued shares of Chesir Pearl held	Equity holding percentages (%)
Hongzun Investment . . . . .	49,757,800	59.88
Guidong Electric . . . . .	10,000,000	12.03
Mr. JIN . . . . .	4,677,200	5.63
China Merchants Securities Co., Ltd (招商证券股份有限公司) . . . . .	2,714,000	3.27
YANG Lunquan (杨伦全) . . . . .	2,354,000	2.83
WANG Huanbo (王焕波) . . . . .	1,570,000	1.89
CHEN Peiyong (陈培勇) . . . . .	1,506,000	1.81
HUANG Ying (黄莹) . . . . .	1,322,000	1.59
DENG Xiaohua (邓晓华) . . . . .	1,000,000	1.20
Qihong Huizhi NEEQ No.1 Fund (启泓汇智新三板一号基金) . . . . .	975,000	1.17
CMS Zhiyuan NEEQ No.2 Collective Asset Management Plan (招商智远新三板2号集合资产管理计划) . . . . .	886,000	1.07
XIA Rongfei (夏荣飞) . . . . .	720,000	0.87
CMS Zhiyuan NEEQ No. 3 Collective Asset Management Plan (招商智远新三板3号集合资产管理计划) . . . . .	650,000	0.78
ZHANG Xianchao (张仙超) . . . . .	549,000	0.66
QIN Jiying (覃纪英) . . . . .	544,000	0.65
Ping An Securities Co., Ltd. (平安证券股份有限公司) . . . . .	507,000	0.61
Western Securities Co., Ltd. (西部证券股份有限公司) . . . . .	481,000	0.58
ZHU Qingyu (朱庆玉) . . . . .	406,000	0.49
<b>Subtotal</b>	<u>80,619,000</u>	<u>97.01</u>

## HISTORY, DEVELOPMENT AND REORGANISATION

Name of the equity holders of Chesir Pearl	Number of issued shares of Chesir Pearl held	Equity holding percentages  (%)
Qihong Huizhi NEEQ No.5 Fund (启泓汇智新三板五号基金) . . . . .	385,000	0.46
CITIC Securities NEEQ Enhancement No.1 Collective Assets (中信证券新三板增强1号集合资产管理计划) . . . . .	330,000	0.40
Industrial Securities Co., Ltd. (兴业证券股份有限公司). . . . .	332,000	0.40
SUN Huaiqing (孙怀庆) . . . . .	240,000	0.29
Sealand Securities Co., Ltd. (国海证券股份有限公司). . . . .	187,000	0.23
BAO Lianping (包联平) . . . . .	129,000	0.16
FENG Dagong (冯大功) . . . . .	131,000	0.16
Caising Securities Co., Ltd. (财富证券股份有限责任公司) . . . . .	131,000	0.16
YANG Keji (杨克己) . . . . .	111,000	0.13
PAN Litan (潘里坦). . . . .	108,000	0.13
XU Rong (许榕). . . . .	88,000	0.11
25 individual and institutional equity holders of less than 0.1% each . . . . .	<u>309,000</u>	<u>0.36</u>
<b>Subtotal</b>	<u>2,481,000</u>	<u>2.99</u>
<b>Total</b>	<u>83,100,000</u>	<u>100.00</u>

*Note:*

Except for Hongzun Investment, Guidong Electric and Mr. JIN, all equity holders are Independent Third Parties. Mr. YANG Lunquan is currently an employee of our Group. See the section headed “Business — Intellectual Property” in this prospectus for further information. Ms. XU Rong was one of the directors of Chesir Pearl during the period from August 2014 to December 2015.

At the extraordinary general meeting of Chesir Pearl held on 16 February 2019, a new issue of 33,673,467 shares to 13 institutional investors at a price of RMB9.03 for each share was approved. The new share issue was completed in June 2019. None of these 13 institutional investors, who are Independent Third Parties, held more than five per cent. of the equity holding of the then enlarged share capital of Chesir Pearl. The table below sets forth the investors who have been issued 33,673,467 new shares of Chesir Pearl:

Name of investors of the shares of Chesir Pearl	Number of shares issued	Equity holding percentages  (%)	Consideration  (RMB)
Shangrong Baoying (Ningbo) Investment Center L.P. (尚融宝盈(宁波)投资中心(有限合伙)) . . . . .	4,986,000	4.27	45,023,580.00
Haifu Changjiang Growth Equity Investment(Hubei) L.P. (海富长江成长股权投资(湖北)合伙企业(有限合伙)) . . . . .	4,429,679	3.79	40,000,001.37
GF Qianhe . . . . .	4,429,679	3.79	40,000,001.37
Hangzhou Weixing Zhichen Equity Investment L.P. (杭州伟星智晨股权投资合伙企业(有限合伙)) . . . . .	3,322,260	2.85	30,000,007.80
Zhejiang Venture Investment Group Co., Ltd. (浙江省创业投资集团有限公司) . . . . .	3,320,000	2.84	29,979,600.00
Hangzhou Tongyuan Youke Venture Capital L.P. (杭州通元优科创业投资合伙企业(有限合伙)) . . . . .	<u>2,770,000</u>	<u>2.37</u>	<u>25,013,100.00</u>
<b>Subtotal</b>	<u>23,257,618</u>	<u>19.91</u>	<u>210,016,290.54</u>

## HISTORY, DEVELOPMENT AND REORGANISATION

Name of investors of the shares of Chesir Pearl	Number of shares issued	Equity holding percentages  (%)	Consideration  (RMB)
Tibet Golden Sunflower Capital Management L.P. (西藏金葵花资本管理合伙企业(有限合伙)) . . . . .	2,220,000	1.90	20,046,600.00
China-Belgium Direct Equity Investment Fund (中国-比利时直接股权投资基金)	2,214,840	1.90	20,000,005.20
Beijing Jiahua Huijin Investment Management Co., Ltd. — Ningbo Meishan Bonded Port Area Huazhen Equity Investment L.P. (北京嘉华汇金投资管理 有限公司 — 宁波梅山保税港区华臻股权投资合伙企业(有限合伙)) . . . . .	1,661,130	1.42	15,000,003.90
Beijing Longmahui Capital Investment Co., Ltd. — Ningbo Meishan Bonded Port Area Fengrong Investment Management L.P. (北京龙马汇资本投资有限 公司 — 宁波梅山保税港区丰融投资管理合伙企业(有限合伙)) . . . . .	1,654,029	1.42	14,935,881.87
Qingdao Jin Yi Qing Control Venture Investment Center L.P. (青岛清控金奕创业投资中心(有限合伙)) . . . . .	1,558,140	1.33	14,070,004.20
Shanghai Shangrong Juyuan Equity Investment Center L.P. (上海尚融聚源股权投资中心(有限合伙)) . . . . .	554,000	0.48	5,002,620.00
Beijing Longmahui Capital Investment Co., Ltd. — Ningbo Meishan Bonded Port Area Fengrong Investment Management L.P. — Ningbo Meishan Bonded Port Area Fenghui Investment Management L.P. (北京龙马汇资本投 资有限公司 — 宁波梅山保税港区丰汇投资管理合伙企业(有限合伙)) . . . . .	553,710	0.48	5,000,001.30
<b>Subtotal</b>	<u>10,415,849</u>	<u>8.93</u>	<u>94,055,116.47</u>
<b>Total</b>	<u>33,673,467</u>	<u>28.84</u>	<u>304,071,407.01</u>

At the Chesir Pearl Extraordinary General Meeting, the NEEQ Listing Withdrawal was approved by a majority of the then equity holders of Chesir Pearl.

See the paragraphs under “Fund raising activities of Chesir Pearl when its shares were listed and quoted for trading on NEEQ” below for further information on the fund raising activities of Chesir Pearl and the proposed and actual usages of the net proceeds raised.

## HISTORY, DEVELOPMENT AND REORGANISATION

After the above issue of new shares and immediately after the NEEQ Listing Withdrawal, Chesir Pearl had a registered capital of RMB116,773,467 and was held by the following 141 equity holders as of 23 September 2019:

Name of equity holders of Chesir Pearl	Number of issued shares of Chesir Pearl held	Equity holding percentages (%)
Hongzun Investment . . . . .	49,757,800	42.6105
Guidong Electric . . . . .	10,000,000	8.5636
Hangzhou Weixing Zhichen Equity Investment L.P. (杭州伟星智晨股权投资合伙企业(有限合伙))	5,622,260	4.8147
Shangrong Baoying (Ningbo) Investment Center L.P. (尚融宝盈(宁波)投资中心(有限合伙)) . . . . .	4,986,000	4.2698
Zhejiang Venture Investment Group Co., Ltd. (浙江省创业投资集团有限公司) . . . . .	4,760,000	4.0763
GF Qianhe . . . . .	4,429,679	3.7934
Haifu Changjiang Growth Equity Investment(Hubei) L.P. (海富长江成长股权投资(湖北)合伙企业(有限合伙)) . . . . .	4,429,679	3.7934
Mr. JIN . . . . .	4,265,200	3.6525
Hangzhou Tongyuan Youke Venture Capital L.P. (杭州通元优科创业投资合伙企业(有限合伙)) . . . . .	2,770,000	2.3721
ZHU Qingyu (朱庆玉) . . . . .	2,682,000	2.2968
Tibet Golden Sunflower Capital Management L.P. (西藏金葵花资本管理合伙企业(有限合伙)) . . . . .	2,220,000	1.9011
China-Belgium Direct Equity Investment Fund (中国-比利时直接股权投资基金) . . . . .	2,214,840	1.8967
HUANG Ying (黄莹) . . . . .	1,972,000	1.6887
Beijing Jiahua Huijin Investment Management Co., Ltd. — Ningbo Meishan Bonded Port Area Huazhen Equity Investment L.P. (北京嘉华汇金投资管理有限公司 — 宁波梅山保税港区华臻股权投资合伙企业(有限合伙)) . . . . .	1,661,130	1.4225
Beijing Longmahui Capital Investment Co., Ltd. — Ningbo Meishan Bonded Port Area Fengrong Investment Management L.P. (北京龙马汇资本投资有限公司 — 宁波梅山保税港区丰融投资管理合伙企业(有限合伙)) . . . . .	1,654,029	1.4164
Qingdao Jin Yi Qing Control Venture Investment Center L.P. (青岛清控金奕创业投资中心(有限合伙))	1,558,140	1.3343
CHEN Peiyong (陈培勇) . . . . .	1,421,000	1.2169
Three equity holders holding 0.5% - 0.99% of the shares of Chesir Pearl, which are Independent Third Parties . . . . .	2,258,000	1.9337
Five equity holders holding 0.3% - 0.49% of the shares of Chesir Pearl, which are Independent Third Parties . . . . .	2,701,710	2.3136
116 equity holders holding less than or equal to 0.29% of the shares of Chesir Pearl, which are Independent Third Parties . . . . .	5,410,000	4.6330
<b>Total</b>	<u>116,773,467</u>	<u>100.00</u>

*Note:*

Except for Hongzun Investment, Guidong Electric and Mr. JIN, all equity holders are Independent Third Parties.

### ***Transfers of shares of Chesir Pearl following the NEEQ Listing Withdrawal***

Because of the share purchase undertakings given by Hongzun Investment and Mr. SU, there were 69 completed transactions involving the transfer of an aggregate of 27,493,141 shares of Chesir Pearl to new purchasers or the then equity holders of Chesir Pearl following the NEEQ Listing Withdrawal. These share transfers did not involve any new issue of shares by Chesir Pearl, and Chesir Pearl did not receive any amount of consideration from these share transfers. The directors of Chesir Pearl confirm that the terms of these share transfers (including the selling prices and the number of shares of Chesir Pearl involved) were negotiated between the transferors and the transferees and that

## HISTORY, DEVELOPMENT AND REORGANISATION

Chesir Pearl only facilitated the transfers by updating the register of members of Chesir Pearl. The table below sets forth a list of transferors and transferees and amount of consideration involved in relation to the transfers of shares taking place after the NEEQ Listing Withdrawal and the commencement date of Reorganisation:

Transferors	Transferees <sup>(1)</sup>	Number of issued shares of Chesir Pearl transferred	Price per Share <sup>(2)</sup> (RMB)
Liuzhou Rongyi Investment Co., Ltd. (柳州容易投资有限公司) . . . . .	CHEN Cheng (陈诚)	35,000	Not applicable (for a total consideration of RMB1.0)
Shanghai Shangrong Juyuan Equity Investment Center L.P. (上海尚融聚源股权投资中心(有限合伙)) . . . . .	CHEN Lizhen (陈丽珍)	100,000	10.12
Shenzhen Qianhai Lihui Fund Management Co., Ltd. (深圳前海力汇基金管理有限公司) . . . . .	CHEN Yu (陈宇)	210,000	Not applicable (for a total consideration of RMB1.0)
YAO Xuemei (姚雪梅) . . . . .	DAI Rong (戴荣)	670,000	8.88
CAI Bin (蔡彬) . . . . .		51,000	9.03
WANG Chunming (王春明) . . . . .		15,000	9.03
CHEN Peiyong (陈培勇) . . . . .		631,871	9.03
DAI Lihua (代礼华) . . . . .		50,000	9.03
DENG Xiaohua (邓晓华) . . . . .		198,682	9.03
DU Hesong (杜鹤松) . . . . .		35,000	9.03
FAN Depeng (范德朋) . . . . .		1,000	9.03
GE Ma (葛侯) . . . . .		12,000	9.03
Guanya Investment Holdings Limited (冠亚投资控股有限公司) . . . . .		5,000	9.03
GUO Kaixi (郭锴曦) . . . . .		1,000	9.03
HONG Bin (洪斌) . . . . .		12,000	9.03
HONG Ying (洪颖) . . . . .		20,000	9.03
HUANG Baoying (黄宝映) . . . . .		2,000	9.03
HUANG Ying (黄莹) . . . . .		1,104,693	9.03
LIU Lei (刘磊) . . . . .		1,000	9.03
QI Chengen (漆承恩) . . . . .		11,000	9.03
QIN Jiying (覃纪英) . . . . .		10,000	9.03
Shanghai Shangrong Juyuan Equity Investment Center L.P. (上海尚融聚源股权投资中心(有限合伙)) . . . . .	Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) (福睿创投(厦门)新兴产业投资合伙企业(有限合伙))	103,000	10.2
Shanghai Yuyin (上海育因企业管理咨询有限公司) . . . . .		5,000	9.03
Shangrong Baoying (Ningbo) Investment Center L.P. (尚融宝盈(宁波)投资中心(有限合伙)) . . . . .		43,303	10.07
TANG Wenhua (唐文华) . . . . .		4,000	9.03
XU Hao (徐浩) . . . . .		10,000	9.03
YANG Keji (杨克己) . . . . .		111,000	9.03
YAO Minwei (姚敏伟) . . . . .		10,000	9.03
YU Qing (余庆) . . . . .		60,000	9.03
ZHANG Guohua (张国华) . . . . .		3,000	9.03
ZHANG Yuqing (张宇清) . . . . .		20,000	9.03
ZHAO Xin (赵鑫) . . . . .		3,000	9.03
ZHENG Kezhong (郑可忠) . . . . .		35,000	9.03
ZHU Pingdong (朱平东) . . . . .		96,000	9.03
ZHU Ting (朱婷) . . . . .		1,000	9.03
<b>Subtotal</b>		<b>3,680,549</b>	

## HISTORY, DEVELOPMENT AND REORGANISATION

Transferors	Transferees <sup>(1)</sup>	Number of issued shares of Chesir Pearl transferred	Price per Share <sup>(2)</sup> (RMB)
ZHU Xiuwei (朱秀伟) . . . . .	Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) (福睿创投(厦门)新兴产业投资合伙企业(有限合伙))	21,000	9.03
ZHU Yimin (朱益民). . . . .		82,000	9.03
Shangrong Baoying (Ningbo) Investment Center L.P. (尚融宝盈(宁波)投资中心(有限合伙))	HONG Jiangxin (洪江鑫)	2,000,000	10
DENG Xiaohua (邓晓华) . . . . .	HU Yongxiang (胡永祥)	3,200	9.03
Mr. JIN . . . . .	LI Aiming (李爱明)	800,000	9.8
CHEN Peiyong (陈培勇) . . . . .	LI Sun (李孙)	332,863	9.95
Hangzhou Tongyuan Youke Venture Capital L.P. (杭州通元优科创业投资合伙企业(有限合伙)) . . . . .		2,770,000	9.95
HUANG Ying (黄莹) . . . . .	LIANG Weisen (梁伟森)	135,637	10
GAO Yudan (高羽丹) . . . . .		37,000	9.17
Tianjin Yixinan Asset Management Co., Ltd.-Yixinan Asset Management Xinan Phase 6 (天津易鑫安资产管理有限公司-易鑫安资管鑫安6期) . . . . .		11,000	11
Mr. JIN . . . . .	LIU Jiaxin (刘佳鑫)	400,000	9.8
China-Belgium Direct Equity Investment Fund (中国-比利时直接股权投资基金) . . . . .	LIU Zhihe (刘志和)	1,107,420	10.37
GF Qianhe . . . . .	Liuzhou Dice Hongze Enterprise Management L.P. (柳州迪策鸿泽企业管理合伙企业(有限合伙))	3,000,000	10
HE Fumei (何甫梅). . . . .	LOU Junwei (楼军威)	10,000	Not applicable (for a total consideration of RMB1.0)
CHEN Peiyong (陈培勇) . . . . .	LUO Lingtao (骆凌涛)	456,266	9.03
Haifu Changjiang Growth Equity Investment(Hubei) L.P. (海富长江成长股权投资(湖北)合伙企业(有限合伙)) . . . . .		2,214,839	10.37
LUO Yizhong (骆义忠) . . . . .		218,000	10
Tibet Golden Sunflower Capital Management L.P. (西藏金葵花资本管理合伙企业(有限合伙)) . . . . .		2,220,000	10.08
Shanghai Junfu (上海君富投资管理有限公司) . . . . .	Mr. SU	20,000	9.03
LU Jianmin (陆建文). . . . .		11,000	9.03
<b>Subtotal</b>		<u>15,850,225</u>	

## HISTORY, DEVELOPMENT AND REORGANISATION

Transferors	Transferees <sup>(1)</sup>	Number of issued shares of Chesir Pearl transferred	Price per Share <sup>(2)</sup> (RMB)
Shangrong Baoying (Ningbo) Investment Center L.P. (尚融宝盈(宁波)投资中心(有限合伙)) . . . . .	Ningbo Jingzhu Investment L.P. (宁波京珠投资合伙企业(有限合伙)) . . . . .	2,656,000	9.97
Shangrong Baoying (Ningbo) Investment Center L.P. (尚融宝盈(宁波)投资中心(有限合伙)) . . . . .	OU Zhichuan (欧志川)	286,697	10.03
YU Lanzhi (余兰芝) . . . . .		316,000	Not applicable (for a total consideration of RMB1.0)
HUANG Ying (黄莹) . . . . .	SHEN Jinshui (沈锦水)	500,000	10
Shanghai Shangrong Juyuan Equity Investment Center L.P. (上海尚融聚源股权投资中心(有限合伙)) . . . . .	WEI Jia (韦佳)	351,000	9.97
LU Jianmin (陆建文) . . . . .	WEI Seguang (韦色广) <sup>(3)</sup>	5,000	9.03
WANG Chunming (王春明) . . . . .		19,000	9.03
HUANG Ying (黄莹) . . . . .	ZENG Jianwen (曾健文)	102,040	9.8
HUANG Ying (黄莹) . . . . .	ZHANG Wenhong (张文红)	129,630	10
Beijing Bangchen Culture Ltd (北京邦臣文化有限公司) . . . . .	ZHAO Guojie (赵国杰)	120,000	9.735
LEI Shuying (雷淑颖) . . . . .	ZHAO Yuting (赵玉亭)	150,000	Not applicable (for a total consideration of RMB1.0)
CHANG Shuanzhu (常栓柱) . . . . .		60,000	Not applicable (for a total consideration of RMB1.0)
SUN Hongzhi (孙宏志) . . . . .		585,000	Not applicable (for a total consideration of RMB1.0)
ZHU Qingyu (朱庆玉) . . . . .	Zhuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.) (珠海格金广发信德智能制造产业投资基金(有限合伙))	2,682,000	10
<b>Subtotal</b>		<u>7,962,367</u>	
<b>Total</b>		<u><u>27,493,141</u></u>	

*Notes:*

- (1) The above transferees (other than Mr. SU and WEI Seguang (韦色广)), who accepted the transfers of the shares of Chesir Pearl after the NEEQ Listing Withdrawal and have their shares of Chesir Pearl exchanged for our Shares pursuant to the Chesir Pearl Equity Transfer Agreement and the Cayman Share Swap, are deemed to be our Pre-IPO Investors for the purpose of the Listing. See the section headed “Pre-IPO Investments — Overview — Equity holders of Chesir Pearl deemed to be our Pre-IPO Investors” in this prospectus for further information.
- (2) The terms of these share transfers (including the selling prices and the number of shares of Chesir Pearl involved) were negotiated between the transferors and the transferees and that Chesir Pearl only facilitated the transfers by updating the register of members of Chesir Pearl.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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- (3) Mr. WEI Seguang (韦色广) has agreed not to transfer his equity holding in Chesir Pearl for Shares pursuant to Chesir Pearl Equity Transfer Agreement and the Cayman Island Share Swap and is not deemed to be one of our Pre-IPO investors.

Among the above transfers,

- (a) on 19 October 2019, Mr. JIN disposed of 1,200,000 shares in aggregate to two individuals, who are Independent Third Parties, for a total consideration of RMB11.8 million;
- (b) on 28 September 2020, GF Qianhe disposed of 3,000,000 shares to an institutional investor, which is an Independent Third Party, for a total consideration of RMB30.0 million;
- (c) on 23 October 2020, Mr. SU acquired 31,000 shares in aggregate from one individual and one institutional investor, who are Independent Third Parties, for a total consideration of RMB279,930; and
- (d) on 23 October 2020, Mr. HU Yongxiang acquired 3,200 shares from an individual, who is an Independent Third Party, for a total consideration of RMB28,896.

Except for Mr. SU and Mr. HU Yongxiang, who are our Directors, all transferees are Independent Third Parties. Our PRC Legal Advisers confirm that all transfers of shares of Chesir Pearl following the NEEQ Listing Withdrawal were legally completed in accordance with the applicable PRC laws and regulations.

### *Issuance of the 2019 Convertible Bonds*

On 31 May 2019, the Convertible Bonds Investment Agreement was entered into, pursuant to which the Bondholders agreed to subscribe for the 2019 Convertible Bonds at an aggregate principal amount of RMB72,240,000 at 8.0% interest rate per annum with maturity on or before 24 months from the date of loans advanced (around 31 May 2021) (the “**Maturity Date**”). The 2019 Convertible Bonds were issued on 31 May 2019 and the Bondholders fully settled the subscription money on 3 June 2019. The net proceeds from the 2019 Convertible Bonds were used for the construction of our Phase 2 Production Plant and as general operating capital, which had been fully utilised as of the Latest Practicable Date.

Pursuant to the Convertible Bonds Investment Agreement, the 2019 Convertible Bonds were convertible at any time during the period from 30 September 2019 and up to the Maturity Date by the Bondholders into the shares of Chesir Pearl of RMB1.00 each at the option of the Bondholders, at an initial conversion price of RMB9.03 per share (the “**Conversion Price**”) but not exceeding 8,000,000 shares of aggregate under certain circumstances. The Conversion Price was determined with reference to the then market capitalisation of Chesir Pearl when it was listed on the NEEQ.

### *Transfer and conversion of the 2019 Convertible Bonds*

On 16 October 2020, the Convertible Bonds Transfer Agreement was entered into pursuant to which the Bondholders transferred the 2019 Convertible Bonds in the principal amount of RMB72,240,000 to Guidong Electric for RMB73.6 million, pursuant to which Guidong Electric was



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## HISTORY, DEVELOPMENT AND REORGANISATION

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the sole holder of the 2019 Convertible Bonds. On 19 October 2020, Guidong Electric fully settled the amount of consideration and on the same date, Guidong Electric was registered as the sole holder of the 2019 Convertible Bonds.

On 19 October 2020, Chesir Pearl and Guidong Electric entered into the Convertible Bond Conversion Agreement for the purpose of converting the 2019 Convertible Bonds into 8,000,000 shares of Chesir Pearl at the conversion price of RMB9.03 each. These shares were issued to Guidong Electric on the same date.

As a result, Guidong Electric was the holder of 18,000,000 shares of Chesir Pearl, which have been converted into 18,000,000 Shares pursuant to the Guidong Share Swap. Out of these Shares, 8,000,000 Shares held by Guidong Electric are considered to be part of the Pre-IPO Investments. See the section headed “Pre-IPO Investments” in this prospectus for further information.

### *Equity investment by GX Land & Sea to Generous Fortune*

On 19 October 2020, the GX Pre-IPO Investment Agreement was entered into, pursuant to which GX Land & Sea has agreed to invest in Generous Fortune an aggregate of 12,787,724 shares for cash consideration of RMB125,319,695. On 30 October 2020, our Company transferred the existing 3,900,000 shares of Generous Fortune to GX Land & Sea in consideration of HK\$10. On 13 November 2020, Generous Fortune allotted and issued to GX Land & Sea 8,887,724 shares for a cash consideration of RMB125,319,695.

### *Additional equity investment by Mr. SU*

On 19 October 2020, Chesir Pearl and Mr. SU entered into the SU Capital Contribution Agreement, pursuant to which Mr. SU has agreed to subscribe for 12,000,000 shares of Chesir Pearl for cash consideration of RMB122,640,000. On 19 October 2020, Chesir Pearl allotted and issued to Mr. SU 12,000,000 shares and on 22 October 2020, Mr. SU fully settled the amount of consideration. These new 12,000,000 shares of Chesir Pearl, which have been converted into 12,000,000 Shares pursuant to the Cayman Share Swap and the transfer of 3,900,000 Shares from Continuous Profit to Ertian International, are considered to be part of the Pre-IPO Investments. See the section headed “Pre-IPO Investments” in this prospectus for further information.

### *Conversion of Chesir Pearl into a sino-foreign equity joint venture in the PRC*

Following the receipt of the amount of equity investment from GX Land & Sea pursuant to the GX Pre-IPO Investment Agreement, Generous Fortune uses the same amount to subscribe for 100,000 new shares of Global New Material (HK) which, in turn, uses the same amount to subscribe for 12,787,724 shares of Chesir Pearl. As such, Chesir Pearl has been changed as a sino-foreign equity joint venture established in the PRC on 2 November 2020. Chesir Pearl fully received RMB125,319,695 on 17 November 2020.

### **Chesir Luzhai**

On 20 September 2017, Chesir Luzhai was established by Chesir Pearl in the PRC as a company with limited liability and had an initial registered capital of RMB25.0 million. On 16 October 2017, Chesir Pearl transferred the ownership of three registered PRC invention patents, namely (a)

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## HISTORY, DEVELOPMENT AND REORGANISATION

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“Preparation method for wet synthesised  $\text{KMg}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$  crystal powder (一種濕法合成  $\text{KMg}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$  晶體粉的製備方法)”, (b) “Preparation method of electrically conductive sericite in powder (導電絹雲母粉的製備方法)”, and (c) “A method for film shaped powder material dispersion (一種片狀粉體材料的濕法分級方法)”, to Chesir Luzhai for the appraised value of RMB162.4 million. On 5 December 2017, the registered capital of Chesir Luzhai increased from RMB25.0 million to RMB63.0 million and contributed by Chesir Pearl by assigning tangible properties of RMB38.0 million and the capital reserve of Chesir Luzhai also increased to RMB162.4 million by assigning the intellectual property of the three patented technologies to Chesir Luizhai.

The principal business activities of Chesir Luzhai include research and development, production, trading and sales of mica, pearlescent pigment products and related products, raw materials and semi-finished products.

On 17 January 2018, Pursuant to the Luzhai Capital Contribution Agreement, Liuzhou Industrial Investment agreed to subscribe for the new capital in Chesir Luzhai by way of cash in the aggregate amount of RMB150.0 million. Liuzhou Industrial Investment is a State-owned investment management enterprise which is wholly-owned and managed by State-owned Assets Supervision and Administration Commission of Liuzhou City Municipal Government (柳州市人民政府国有资产监督管理委员会). Of the RMB150.0 million new funding contributed by Liuzhou Industrial Investment to Chesir Luzhai, RMB41.9 million was treated as paid-in capital and RMB108.1 million was treated as capital reserve. The subscription price was determined by the parties after arm’s length negotiations with reference to the existing registered capital of Chesir Luzhai and the amount of new capital to be contributed by Liuzhou Industrial Investment as a percentage of the net asset value of Chesir Luzhai. Subsequent to the increase in capital on 18 January 2018, the registered capital of Chesir Luzhai increased from RMB63.0 million to RMB104.9 million and Chesir Luzhai was owned as to 60.04% by Chesir Pearl and 39.96% by Liuzhou Industrial Investment.

On 13 September 2018, Chesir Luzhai, Liuzhou Industrial Investment and Guangxi Industrial Investment entered into the equity interest transfer agreement, pursuant to which Liuzhou Industrial Investment transferred its RMB150.0 million capital contribution in Chesir Luzhai to Guangxi Industrial Investment for nil consideration. Guangxi Industrial Investment is wholly-owned by the PRC Government. Such transfer was a result of the change of investment entity from Liuzhou Industrial Investment to Guangxi Industrial Investment as directed by the PRC Government. Subsequent to the transfer of equity interest, Chesir Luzhai was owned as to 60.04% by Chesir Pearl and 39.96% by Guangxi Industrial Investment.

On 18 September 2020, the Luzhai Supplemental Agreement was entered into, pursuant to which certain protective provisions for the benefit of Guangxi Industrial Investment in the Luzhai Capital Contribution Agreement have been removed as such provisions have never been applied or used by Guangxi Industrial Investment. Such provisions are related to (a) capital supervision and reduction of capital by Guangxi Industrial Investment and (b) profit and loss sharing. See the paragraphs under “B. Further information about the business of our Group — 3. Summary of capital investments in Chesir Luzhai” in Appendix V to this prospectus for the principal terms of the Luzhai Capital Contribution Agreement.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### **Shanghai Multicolour**

On 14 January 2014, Shanghai Multicolour was established in the PRC as a company with limited liability and had an initial registered capital of RMB10.0 million, all of which was contributed by Chesir Pearl. Since then, Shanghai Multicolour has been a wholly-owned subsidiary of Chesir Pearl.

The registered business scope of Shanghai Multicolour includes (a) sales of pigment products, coatings, non-metallic minerals and products, mica products, chemical raw materials and products; (b) import and export of goods and technologies; and (c) provision of warehousing services.

### **CORPORATE HISTORY OF OUR SUBSIDIARY IN FRANCE**

On 5 December 2016, Chesir Pearl acting as the sole shareholder established Chesir France in France with its entire share capital of Euro 50,000 divided into 500 shares of 100 Euro each allotted and issued to Chesir Pearl. The registered business scope of Chesir France is research and development, manufacturing, services and trade of pigments, pearlescent pigment products, paints, mica and related products. Chesir France has no business activity to date. Chesir France was established for the intended purpose of liaising with our customers in Europe and collecting marketing information and feedbacks from our customers. As of the date of this prospectus, we have yet to commence such business plan as our customers still prefer to work with us in the PRC direct for any technical support or after-sales service. We will continue to review on a regular basis the usefulness of maintaining Chesir France in light of our business plan and may apply for deregistration of Chesir France if it serves no practical purpose for our business development.

### **FUND RAISING ACTIVITIES OF CHESIR PEARL WHEN ITS SHARES WERE LISTED AND QUOTED FOR TRADING ON NEEQ**

During the period between March 2015 and September 2019, the issued shares of Chesir Pearl were listed and quoted for trading on NEEQ. The aggregate amount raised by Chesir Pearl during such period was RMB448.1 million. In May 2015, Chesir Pearl issued 20,000,000 new shares at the price of RMB7.2 per share and raised RMB144.0 million. In June 2019, Chesir Pearl issued 33,673,467 shares at the price of RMB9.03 per share and raised RMB304.1 million. As of the Latest Practicable Date, we have fully utilised the RMB144.0 million raised in July 2015 to enhance the production capacity of our Phase 1 Production Plant, renovate our research and development centre and as our general working capital and we have utilised RMB68.3 out of RMB304.1 million raised in June 2019.

The directors of Chesir Pearl confirm that the actual usage of the aggregate amount of net proceeds from the issue of new shares of RMB448.1 million were consistent with the prescribed usage set forth in the public documents issued by Chesir Pearl. The remaining balance of the unused net proceeds of RMB235.8 million will be used and applied by Chesir Pearl for the construction of our Phase 2 Production Plant including financing the construction costs and purchase cost of production machinery and equipment. See the section headed “Future Plans and Proposed Use of the Net Proceeds from the Global Offering — Construction of our Phase 2 Production Plant” in this prospectus for further information.

## HISTORY, DEVELOPMENT AND REORGANISATION

### REORGANISATION

#### Purpose of the Reorganisation

The purposes of the Reorganisation are to facilitate the transfer of the equity holding of the Consent Chesir Pearl Equity Holders of 113,119,528 shares of Chesir Pearl to Global New Material (HK) for our Shares and that Chesir Pearl will become a subsidiary of Global New Material (HK) in full compliance with the applicable laws and regulations in the PRC. Chesir Pearl had 141 equity holders immediately following the NEEQ Listing Withdrawal. Changes in the then equity holders and the number of issued shares of Chesir Pearl subsequent to the NEEQ Listing Withdrawal may be divided into two categories. First, various transfers of 27,493,141 shares of Chesir Pearl in aggregate to new investors or the then equity holders of Chesir Pearl who are deemed to be our Pre-IPO Investors (other than Mr. SU and WEI Seguang (韦色广)). Second, issues of new shares by Generous Fortune and Chesir Pearl as part of the Reorganisation, namely the Pre-IPO Investments made by GX Land & Sea and Mr. SU (through Ertian International and Seven Color Pearl Investment). See the section headed “Pre-IPO Investments” in this prospectus for further information.

#### Chesir Pearl

Subsequent to the share transfers following the NEEQ Listing Withdrawal and the Pre-IPO Investments made by Mr. SU, GX Land & Sea and Guidong Electric and prior to the commencement of the Reorganisation, Chesir Pearl had a registered capital of RMB149,561,191 held by 117 equity holders. The table below sets forth the shareholding of these equity holders:

Name of equity holders of Chesir Pearl	Number of issued shares of Chesir Pearl held	Equity holding percentages (%)
Hongzun Investment . . . . .	49,757,800	33.2692
Guidong Electric . . . . .	18,000,000	12.0352
Global New Material (HK) . . . . .	12,787,724	8.5502
Mr. SU . . . . .	12,031,000	8.0442
Hangzhou Weixing Zhichen Equity Investment L.P. (杭州伟星智晨股权投资合伙企业(有限合伙)) . . . . .	5,622,260	3.7592
LUO Lingtao (骆凌涛) . . . . .	5,109,105	3.4161
Zhejiang Venture Investment Group Co., Ltd. (浙江省创业投资集团有限公司) . . . . .	4,760,000	3.1826
LI Sun (李孙) . . . . .	3,102,863	2.0746
Mr. JIN . . . . .	3,065,200	2.0495
Liuzhou Dice Hongze Enterprise Management L.P. (柳州迪策鸿泽企业管理合伙企业(有限合伙)) . . . . .	3,000,000	2.0059
Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) (福睿创信(厦门)新兴产业投资合伙企业(有限合伙)) . . . . .	2,768,549	1.8511
Zhuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.) (珠海格金广发信德智能制造产业投资基金(有限合伙)) . . . . .	2,682,000	1.7932
Ningbo Jingzhu Investment L.P. (宁波京珠投资合伙企业(有限合伙)) . . . . .	2,656,000	1.7759
<b>Subtotal</b>	<u>125,342,501</u>	<u>83.8069</u>

## HISTORY, DEVELOPMENT AND REORGANISATION

Name of equity holders of Chesir Pearl	Number of issued shares of Chesir Pearl held	Equity holding percentages  (%)
Two equity holders holding 1.33%-1.49% of the shares of Chesir Pearl, which are		
Independent Third Parties . . . . .	4,214,840	2.8181
Beijing Jiahua Huijin Investment Management Co., Ltd. — Ningbo Meishan Bonded Port Area Huazhen Equity Investment L.P. (北京嘉华汇金投资管理有限公司 — 宁波梅山保税港区华臻股权投资合伙企业(有限合伙)) . . . . .	1,661,130	1.1107
Beijing Longmahui Capital Investment Co., Ltd. — Ningbo Meishan Bonded Port Area Fengrong Investment Management L.P. (北京龙马汇资本投资有限公司 — 宁波梅山保税港区丰融投资管理合伙企业(有限合伙)) . . . . .	1,654,029	1.1059
Qingdao Jin Yi Qing Control Venture Investment Center L.P. (青岛清控金奕创业投资中心(有限合伙)) . . . . .	1,558,140	1.0418
GF Qianhe . . . . .	1,429,679	0.9559
LIU Zhihe (刘志和) . . . . .	1,107,420	0.7404
Five equity holders holding 0.40% - 0.75% of the shares of Chesir Pearl, which are		
Independent Third Parties . . . . .	4,106,235	2.7455
DAI Rong (戴荣) . . . . .	670,000	0.4480
Beijing Longmahui Capital Investment Co., Ltd.—Ningbo Meishan Bonded Port Area Fenghui Investment Management L.P. (北京龙马汇资本投资有限公司 — 宁波梅山保税港区丰汇投资管理合伙企业(有限合伙)) . . . . .	553,710	0.3702
ZHANG Xianchao (张仙超) . . . . .	549,000	0.3671
89 equity holders holding less than 0.39% of the shares of Chesir Pearl, which are		
Independent Third Parties . . . . .	6,714,507	4.4895
<b>Subtotal</b>	<u>24,218,690</u>	<u>16.1931</u>
<b>Total</b>	<u>149,561,191</u>	<u>100.0000</u>

*Note:*

Except for Hongzun Investment, Guidong Electric and Mr. SU, Mr. JIN and Mr. HU Yongxiang (who are our Directors), all equity holders are Independent Third Parties.

### *Consolidation of individual equity holdings into five limited partnerships established in the PRC*

An aggregate of 81 individual equity holders of Chesir Pearl have decided to consolidate their equity holdings in Chesir Pearl under five limited partnerships established in the PRC in preparation for the Listing. Liuzhou Qise LP, Liuzhou Colorful LP and Liuzhou Lanrun LP have been established for the purpose of consolidation of equity holdings of the minority equity holders of Chesir Pearl into three shareholding platforms for ease of administration. All of the these equity holders (other than Mr. SU and Mr. JIN) are passive investors and they do not have any control over Chesir Pearl and the three limited partnerships established in the PRC.

#### Liuzhou Qise LP

On 9 November 2020, 20 individual equity holders of Chesir Pearl, including Mr. SU and Mr. JIN, entered into a share transfer agreement with Liuzhou Qise LP, pursuant to which Liuzhou Qise LP acquired 4,551,200 shares from these 20 individual equity holders of Chesir Pearl. The general

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## HISTORY, DEVELOPMENT AND REORGANISATION

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partner of Liuzhou Qise LP is Mr. SU who owns 10,000 shares. Mr. JIN owns 1,565,200 shares and 18 individual equity holders of Chesir Pearl, who are Independent Third Parties, own 2,976,000 shares of Chesir Pearl.

### Liuzhou Colorful LP

On 9 November 2020, 20 individual equity holders of Chesir Pearl, including Mr. SU and Mr. JIN, entered into a share transfer agreement with Liuzhou Colorful LP, pursuant to which Liuzhou Colorful LP acquired 4,498,158 shares from these 20 individual equity holders of Chesir Pearl. The general partner of Liuzhou Colorful LP is Mr. SU who owns 10,000 shares. Mr. JIN owns 1,500,000 shares and 18 individual equity holders of Chesir Pearl, who are Independent Third Parties, own 2,988,158 shares of Chesir Pearl.

### Liuzhou Lianrun LP

On 9 November 2020, 25 individual equity holders of Chesir Pearl, including Mr. SU, entered into a share transfer agreement with Liuzhou Lianrun LP, pursuant to which Liuzhou Lianrun LP acquired 228,000 shares from these 25 individual equity holders of Chesir Pearl. The general partner of Liuzhou Lianrun LP is Mr. SU who owns 11,000 shares. The 24 individual equity holders of Chesir Pearl, who are Independent Third Parties, own 217,000 shares of Chesir Pearl.

### Liuzhou Banyan Business Management L.P. (柳州榕树企业管理合伙企业(有限合伙))

On 9 November 2020, 13 individual equity holders of Chesir Pearl, including Mr. HU Yongxiang, entered into a share transfer agreement with Liuzhou Banyan Business Management L.P. (柳州榕树企业管理合伙企业(有限合伙)), pursuant to which Liuzhou Banyan Business Management L.P. (柳州榕树企业管理合伙企业(有限合伙)) acquired 3,214,200 shares from these 13 individual equity holders of Chesir Pearl. The general partner of Liuzhou Banyan Business Management L.P. (柳州榕树企业管理合伙企业(有限合伙)) is Mr. HU Yongxiang who owns 3,200 shares. The 12 individual equity holders of Chesir Pearl, who are Independent Third Parties, own 3,211,000 shares of Chesir Pearl.

### Liuzhou Chuanfu Business Management Partnership L.P. (柳州川富企业管理合伙企业(有限合伙))

On 9 November 2020, six individual equity holders of Chesir Pearl entered into a share transfer agreement with Liuzhou Chuanfu Business Management Partnership L.P. (柳州川富企业管理合伙企业(有限合伙)), pursuant to which Liuzhou Chuanfu Business Management Partnership L.P. (柳州川富企业管理合伙企业(有限合伙)) acquired 1,415,964 shares from these six individual equity holders of Chesir Pearl. The general partner of Liuzhou Chuanfu Business Management Partnership L.P. (柳州川富企业管理合伙企业(有限合伙)) is OU Zhichuan (欧志川), an Independent Third Party, who owns 602,697 shares. The five individual equity holders of Chesir Pearl, who are Independent Third Parties, own 813,267 shares of Chesir Pearl.

## HISTORY, DEVELOPMENT AND REORGANISATION

Following completion of the above transfers, Chesir Pearl was held by the following equity holders as of 9 November 2020:

Name of equity holders of Chesir Pearl	Number of issued shares of Chesir Pearl	Equity holding percentage (%)
Hongzun Investment	49,757,800	33.27
Guidong Electric	18,000,000	12.04
Global New Material (HK)	12,787,724	8.55
Mr. SU	12,000,000	8.02
Liuzhou Qise LP <sup>(1)</sup>	4,551,200	3.04
Liuzhou Colorful LP <sup>(2)</sup>	4,498,158	3.01
Liuzhou Banyan Business Management L.P. (柳州榕树企业管理合伙企业(有限合伙)) <sup>(3)</sup>	3,214,200	2.15
GF Qianhe	1,429,679	0.96
Liuzhou Chuanfu Business Management Partnership L.P. (柳州川富企业管理合伙企业(有限合伙)) <sup>(4)</sup>	1,415,964	0.95
Liuzhou Lianrun LP <sup>(5)</sup>	228,000	0.15
Hangzhou Weixing Zhichen Equity Investment L.P. (杭州伟星智晨股权投资合伙企业(有限合伙))	5,622,260	3.76
LUO Lingtao (骆凌涛)	5,109,105	3.42
Zhejiang Venture Investment Group Co., Ltd. (浙江省创业投资集团有限公司)	4,760,000	3.18
LI Sun (李孙)	3,102,863	2.07
Liuzhou Dice Hongze Enterprise Management L.P. (柳州迪策鸿泽企业管理合伙企业(有限合伙))	3,000,000	2.01
Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) (福睿创信(厦门)新兴产业投资合伙企业(有限合伙))	2,768,549	1.85
Zhuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.) (珠海格金广发信德智能制造产业投资基金(有限合伙))	2,682,000	1.79
Ningbo Jingzhu Investment L.P. (宁波京珠投资合伙企业(有限合伙))	2,656,000	1.78
Beijing Longmahui Capital Investment Co., Ltd. — Ningbo Meishan Bonded Port Area Fengrong Investment Management L.P. (北京龙马汇资本投资有限公司—宁波梅山保税港 区丰融投资管理合伙企业(有限合伙))	1,654,029	1.11
Beijing Jiahua Huijin Investment Management Co., Ltd. — Ningbo Meishan Bonded Port Area Huazhen Equity Investment L.P. (北京嘉华汇金投资管理有限公司—宁波梅山保税 港区华臻股权投资合伙企业(有限合伙))	1,661,130	1.11
Qingdao Jin Yi Qing Control Venture Investment Center L.P. (青岛清控金奕创业投资中心(有限合伙))	1,558,140	1.04
LIU Zhihe (刘志和)	1,107,420	0.74
DAI Rong (戴荣)	670,000	0.45
Beijing Longmahui Capital Investment Co., Ltd. — Ningbo Meishan Bonded Port Area Fenghui Investment Management L.P. (北京龙马汇资本投资有限公司—宁波梅山保税港 区丰汇投资管理合伙企业(有限合伙))	553,710	0.37
ZHANG Xianchao (张仙超)	549,000	0.37
Remaining 17 equity holders to remain as equity holders of Chesir Pearl <sup>(6)</sup>	4,224,260	2.81
<b>Total</b>	<b>149,561,191</b>	<b>100.00</b>

*Notes:*

(1) The general partner is Mr. SU who owns 10,000 shares. Mr. JIN owns 1,565,200 shares and the original 18 equity holders of Chesir Pearl, who are Independent Third Parties, own 2,976,000 shares.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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- (2) The general partner is Mr. SU who owns 10,000 shares. Mr. JIN owns 1,500,000 shares and the original 18 individual equity holders of Chesir Pearl, who are Independent Third Parties, own 2,988,158 shares.
- (3) The general partner is Mr. HU Yongxiang, our non-executive Director, who owns 3,200 shares. The original 12 individual equity holders of Chesir Pearl, who are Independent Third Parties, own 3,211,000 shares.
- (4) The general partner is OU Zhichuan (欧志川), an Independent Third Party who owns 602,697 shares. The original five individual equity holders of Chesir Pearl, who are Independent Third Parties, own 813,267 shares.
- (5) The general partner is Mr. SU who owns 11,000 shares. The original 24 individual equity holders of Chesir Pearl, who are Independent Third Parties, own 217,000 shares.
- (6) See the paragraphs under “17 equity holders of Chesir Pearl will not become our Shareholders” below for further information.

### *17 equity holders of Chesir Pearl will not become our Shareholders*

As of the Latest Practicable Date, 17 equity holders holding 4,224,260 shares of Chesir Pearl, representing 2.81% of the issued shares of Chesir Pearl, have decided not to transfer their equity interest in Chesir Pearl to Global New Material (HK) pursuant to the Reorganisation. The directors of Chesir Pearl have taken all necessary steps to liaise with them as required by the applicable PRC laws and regulations, but are not able to contact 10 individual equity holders and one institutional equity holder of Chesir Pearl, holding an aggregate of 44,000 shares of Chesir Pearl, representing 0.03% of the issued shares of Chesir Pearl. Such steps include reaching out to these 10 individual equity holders and one institutional equity holder by way of telephone and text messages to their contact information known to the directors of Chesir Pearl and publishing regulatory announcements on newspapers in the PRC on 16 November 2020, as advised by the PRC Legal Advisers. Therefore, our Directors consider these 10 individual equity holders and one institutional equity holder are not Consent Chesir Pearl Equity Holders. We have received written confirmations from one individual equity holder and five institutional equity holders of Chesir Pearl, which hold in aggregate 4,180,260 shares of Chesir Pearl, that they have agreed not to surrender their equity holding in Chesir Pearl for the Shares pursuant to Cayman Share Swap.

The shares of Chesir Pearl held by these minority equity holders of Chesir Pearl are ranking *pari passu* with the shares of Chesir Pearl held by Global New Material (HK). Our PRC Legal Advisers confirm that these minority equity holders have no special rights or statutory protection under the articles of association of Chesir Pearl and the applicable PRC laws and regulations. See the section headed “Applicable Laws and Regulations — Regulation relating to company establishment and foreign investment — Regulations on protection of domestic shareholders’ rights” in this prospectus for further information.

### **Global New Material (HK)**

On 30 December 2019, Global New Material (HK) was incorporated in Hong Kong with 10,000 shares of HK\$1.0 each allotted and issued as fully paid to Generous Fortune on the same day. On 30 October 2020, Generous Fortune, as the sole shareholder of Global New Material (HK), approved the subdivision of every share of Global New Material (HK) of HK\$1.00 each into 10 shares of HK\$0.10 each and as a result, the number of issued shares has been increased to 100,000 shares which were then held by Generous Fortune.



## HISTORY, DEVELOPMENT AND REORGANISATION

On 18 November 2020, Global New Material (HK) entered into the Chesir Pearl Equity Transfer Agreement for the acquisition of 113,119,528 shares of Chesir Pearl from the Consent Chesir Pearl Equity Holders in consideration of 113,119,528 shares to be allotted and issued by Generous Fortune at the direction of Global New Material (HK). Following completion of this acquisition, Global New Material (HK) holds 113,119,528 shares of Chesir Pearl, representing 75.63% of the equity interest in Chesir Pearl.

### Generous Fortune

On 15 June 2018, Generous Fortune was incorporated in the BVI with limited liability with 50,000 shares of US\$1.0 each allotted and issued as fully paid to our Company on 5 July 2018. Pursuant to the written resolutions approved by the sole shareholder of Generous Fortune, i.e. our Company, on 30 October 2020, (a) the number of authorised shares of Generous Fortune has been increased to 80,000,000,000 shares of a par value of HK\$0.1 each; (b) the number of authorised shares of Generous Fortune has been diminished by the cancellation of all unissued shares of par value of US\$1.0 each; and (c) the number of issued shares of Generous Fortune has been increased to 3,900,000 shares of par value of HK\$0.1 each allotted and issued to our Company in consideration for the repurchase by Generous Fortune for cancellation from our Company the 50,000 shares of par value of US\$1.0 each of Generous Fortune.

On 18 November 2020, at the direction of Global New Material (HK), Generous Fortune allotted and issued 113,119,528 shares to the Consent Chesir Pearl Equity Holders or their nominees pursuant to the Chesir Pearl Equity Transfer Agreement. The total number of these shares mirrors the previous equity holding of the Consent Chesir Pearl Equity Holders.

The table below sets forth the details of the share transfers under the Chesir Pearl Equity Transfer Agreement:

Name of the Consent Chesir Pearl Equity Holders	Number of shares of Chesir Pearl transferred to Global New Material (HK) by the Consent Chesir Pearl Equity Holders	Number of shares of Generous Fortune allotted and issued to the Consent Chesir Pearl Equity Holders (or their nominees)	Name of allottees for the shares of Generous Fortune to be allotted and issued as directed by the Consent Chesir Pearl Equity Holders (or their nominees)
Hongzun Investment . . . . .	49,757,800	49,757,800	Hongzun International
Mr. SU . . . . .	12,000,000	7,493,138	Ertian International
Liuzhou Qise LP . . . . .	4,551,200	4,506,862	Seven Color Pearl Investment
Liuzhou Colorful LP . . . . .	4,498,158	4,551,200	Liuzhou Qise LP
Liuzhou Banyan Business Management L.P. (柳州榕树企业管理合伙企业(有限合伙)) . . . . .	3,214,200	4,498,158	Liuzhou Colorful LP
Liuzhou Chuanfu Business Management Partnership L.P. (柳州川富企业管理合伙企业(有限合伙)) . . . . .	1,415,964	3,214,200	China Banyan Capital INT Holdings Ltd <sup>(1)</sup>
	1,415,964	1,415,964	CHUANFU INT CAPITAL GROUP LTD
<b>Subtotal</b>	<u>75,437,322</u>	<u>75,437,322</u>	

## HISTORY, DEVELOPMENT AND REORGANISATION

Name of the Consent Chesir Pearl Equity Holders	Number of shares of Chesir Pearl transferred to Global New Material (HK) by the Consent Chesir Pearl Equity Holders	Number of shares of Generous Fortune allotted and issued to the Consent Chesir Pearl Equity Holders (or their nominees)	Name of allottees for the shares of Generous Fortune to be allotted and issued as directed by the Consent Chesir Pearl Equity Holders (or their nominees)
Liuzhou Lianrun LP . . . . .	228,000	228,000	Liuzhou Lianrun LP
Hangzhou Weixing Zhichen Equity Investment L.P. (杭州伟星智晟股权投资合伙企业(有限合伙)) . . . . .	5,622,260	5,622,260	WEIXINGZHICHICHEN INTERNATIONAL INVESTMENT LTD
LUO Lingtao (骆凌涛) . . . . .	5,109,105	5,109,105	LINGTAO Capital INT Group Limited
Zhejiang Venture Investment Group Co., Ltd. (浙江省创业投资集团有限公司) . . . . .	4,760,000	4,760,000	Zhejiang Venture Capital Group Co., Ltd
LI Sun (李孙) . . . . .	3,102,863	3,102,863	Xuanhai Capital INT Group Limited
Liuzhou Dice Hongze Enterprise Management L.P. (柳州迪策鸿泽企业管理合伙企业(有限合伙)) . . . . .	3,000,000	3,000,000	Dice Hongze Ltd
Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) (福睿创信(厦门)新兴产业投资合伙企业(有限合伙)) . . . . .	2,768,549	2,768,549	Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) (福睿创信(厦门)新兴产业投资合伙企业(有限合伙))
Zhuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.) (珠海格金广发信德智能制造产业投资基金(有限合伙)) . . . . .	2,682,000	2,682,000	Zhuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.)
Ningbo Jingzhu Investment L.P. (宁波京珠投资合伙企业(有限合伙)) . . . . .	2,656,000	2,656,000	Capital Pearls International Investment Ltd
Beijing Longmahui Capital Investment Co., Ltd. — Ningbo Meishan Bonded Port Area Fengrong Investment Management L.P. (北京龙马汇资本投资有限公司 — 宁波梅山保税港区丰融投资管理合伙企业(有限合伙)) . . . . .	1,654,029	1,654,029	Ronghui Longma Capital Ltd
Beijing Jiahua Huijin Investment Management Co., Ltd. — Ningbo Meishan Bonded Port Area Huazhen Equity Investment L.P. (北京嘉华汇金投资管理有限公司 — 宁波梅山保税港区华臻股权投资合伙企业(有限合伙)) . . . . .	1,661,130	1,661,130	China Huazhen Equity Investment Co., Ltd.
Qingdao Jin Yi Qing Control Venture Investment Center L.P. (青岛清控金奕创业投资中心(有限合伙)) . . . . .	1,558,140	1,558,140	JINYI Technology & Innovation Investment Management Co., Ltd.
LIU Zhihe (刘志和) . . . . .	1,107,420	1,107,420	LIU Zhihe
DAI Rong (戴荣) . . . . .	670,000	670,000	Dena Well Investment Limited
Beijing Longmahui Capital Investment Co., Ltd. — Ningbo Meishan Bonded Port Area Fenghui Investment Management L.P. (北京龙马汇资本投资有限公司 — 宁波梅山保税港区丰汇投资管理合伙企业(有限合伙)) . . . . .	553,710	553,710	Ronghui Longma Capital Ltd
ZHANG Xianchao (张仙超) . . . . .	549,000	549,000	GUOLING CAPITAL MANAGEMENT LTD
<b>Subtotal</b>	<b>37,682,206</b>	<b>37,682,206</b>	
<b>Total</b>	<b>113,119,528</b>	<b>113,119,528</b>	

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## HISTORY, DEVELOPMENT AND REORGANISATION

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*Note:*

- (1) China Banyan Capital INT Holdings Ltd is a company incorporated under the laws of the BVI with limited liability on 5 November 2020. Mr. HU Yongxiang, our non-executive Director, is the sole director of China Banyan Capital INT Holdings Ltd who holds 50 shares. The original 12 individual equity holders of Chesir Pearl, who are Independent Third Parties, hold 49,950 shares.

### **Our Company**

On 8 June 2018, our Company was incorporated in the Cayman Islands with an authorised share capital of US\$50,000.00 divided into 50,000 shares of a par value of US\$1.0 each. On the same date, one ordinary Share of US\$1.0 of was issued to the initial subscriber at par. The one share was transferred to Continuous Profit on the same date for nominal consideration. On the same date, our Company issued and allotted 49,999 shares to Continuous Profit as fully-paid at par value. Pursuant to the written resolutions approved by Continuous Profit, on 30 October 2020, (a) the authorised share capital of our Company was increased to HK\$8,000,000,000 by the creation of 80,000,000,000 Shares; (b) the authorised share capital of our Company has been diminished by the cancellation of all unissued shares of par value of US\$1.0 each; and (c) the issued share capital has been increased to 3,900,000 Shares allotted and issued to Continuous Profit in consideration for the repurchase by our Company for cancellation from Continuous Profit the 50,000 shares of par value of US\$1.0 each of our Company.

On 18 November 2020, our Company allotted and issued 122,007,252 new Shares pursuant to the Cayman Share Swap and as a result, the Consent Chesir Pearl Equity Holders have become our Shareholders. On 18 November 2020, Continuous Profit transferred 3,900,000 Shares to Ertian International for the consideration of HK\$10.0. On 18 November 2020, Guidong Electric has been allotted and issued 18,000,000 new Shares and GF Qianhe has been allotted and issued 1,429,679 new Shares. The number of Shares held by each of the Shareholders following completion of the Reorganisation (but before completion of the Global Offering and the Capitalisation Issue) mirrors the previous equity holding of the Consent Chesir Pearl Equity Holders (other than the 8,000,000 shares of Chesir Pearl issued to it pursuant to the exercise of the 2019 Convertible Bonds, see the section headed “Pre-IPO Investments” for further information), and GF Qianhe. The equity interest held by Guidong Electric and GF Qianhe in Chesir Pearl of 18,000,000 shares and 1,429,679 shares, respectively, has been converted into Shares pursuant to the Guidong Share Swap and GF Share Swap on 18 November 2020.

### ***Implementation of the Cayman Share Swap***

On 18 November 2020, pursuant to the Cayman Share Swap, our Company has allotted and issued 122,007,252 new Shares pursuant to the Cayman Share Swap and as a result, the Consent Chesir Pearl Equity Holders have become our Shareholders.

## HISTORY, DEVELOPMENT AND REORGANISATION

The table below sets forth a list of our Shareholders following completion of the Cayman Share Swap:

Name of the shareholders of Generous Fortune	Number of shares of Generous Fortune transferred to our Company	Number of Shares allotted and issued/ transferred to our Shareholders
Hongzun International . . . . .	49,757,800	49,757,800
GX Land & Sea . . . . .	12,787,724	12,787,724
Ertian International . . . . .	7,493,138	3,593,138
Seven Color Pearl Investment . . . . .	4,506,862	4,506,862
Liuzhou Qise LP . . . . .	4,551,200	4,551,200
Liuzhou Colorful LP . . . . .	4,498,158	4,498,158
China Banyan Capital INT Holdings Ltd. . . . .	3,214,200	3,214,200
CHUANFU INT CAPITAL GROUP LTD. . . . .	1,415,964	1,415,964
Liuzhou Lianrun LP . . . . .	228,000	228,000
WEIXINGZHICHEN INTERNATIONAL INVESTMENT LTD . . . . .	5,622,260	5,622,260
LINGTAO Capital INT Group Limited (凌涛资本国际集团有限公司). . . . .	5,109,105	5,109,105
Zhejiang Venture Capital Group Co., Ltd. . . . .	4,760,000	4,760,000
Xuanhai Capital INT Group Limited . . . . .	3,102,863	3,102,863
Dice Hongze Ltd (迪策鸿泽有限公司) . . . . .	3,000,000	3,000,000
Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) (福睿创信(厦门)新兴产业投资合伙企业(有限合伙)) . . . . .	2,768,549	2,768,549
Zhuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.) . . . . .	2,682,000	2,682,000
Capital Pearls International Investment Ltd . . . . .	2,656,000	2,656,000
Ronghui Longma Capital Ltd . . . . .	2,207,739	2,207,739
China Huazhen Equity Investment Co., Ltd. . . . .	1,661,130	1,661,130
JINYI Technology & Innovation Investment Management Co., Ltd. . . . .	1,558,140	1,558,140
LIU Zhihe . . . . .	1,107,420	1,107,420
Dena Well Investment Limited. . . . .	670,000	670,000
GUOLING CAPITAL MANAGEMENT LTD . . . . .	549,000	549,000
<b>Total</b>	<b>125,907,252</b>	<b>122,007,252</b>

On 18 November 2020, Continuous Profit transferred 3,900,000 Shares to Ertian International for nominal consideration of HK\$10.0. The number of our Shares of issue following completion of the Cayman Share Swap was 125,907,252 Shares.

### *Implementation of the Guidong Share Swap and the GF Share Swap*

On 18 November 2020, pursuant to the Guidong Share Swap, Guidong Electric has been allotted and issued 18,000,000 new Shares for its equity holding in 18,000,000 shares of Chesir Pearl. On 18 November 2020, pursuant to the GF Share Swap, GF Qianhe has been allotted and issued 1,429,679 new Shares for its equity holding in 1,429,679 shares of Chesir Pearl.

## HISTORY, DEVELOPMENT AND REORGANISATION

### SHAREHOLDERS AS OF THE LATEST PRACTICABLE DATE

The number of our Shares of issue following completion of the Cayman Share Swap, the Guidong Share Swap and the GF Share Swap was 145,336,931 Shares. The table below sets forth a list of our Shareholders following completion of the Reorganisation but before completion of the Global Offering and the Capitalisation Issue:

Name of our Shareholders	Number of our Shares of issue before completion of the Global Offering and the Capitalisation Issue	Shareholding percentages  (%)
Hongzun International . . . . .	49,757,800	34.24
Guidong Electric . . . . .	18,000,000	12.39
GX Land & Sea . . . . .	12,787,724	8.80
Ertian International . . . . .	7,493,138	5.16
Seven Color Pearl Investment . . . . .	4,506,862	3.10
Liuzhou Qise LP . . . . .	4,551,200	3.13
Liuzhou Colorful LP . . . . .	4,498,158	3.09
China Banyan Capital INT Holdings Ltd. . . . .	3,214,200	2.21
CHUANFU INT CAPITAL GROUP LTD (川富国际资本集团有限公司) . . . . .	1,415,964	0.97
Liuzhou Lianrun LP . . . . .	228,000	0.16
WEIXINGZHICHEN INTERNATIONAL INVESTMENT LTD . . . . .	5,622,260	3.87
LINGTAO Capital INT Group Limited . . . . .	5,109,105	3.52
Zhejiang Venture Capital Group Co., Ltd. . . . .	4,760,000	3.28
Xuanhai Capital INT Group Limited . . . . .	3,102,863	2.13
Dice Hongze Ltd . . . . .	3,000,000	2.06
Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) (福睿创信(厦门)新兴产业投资合伙企业(有限合伙)) . . . . .	2,768,549	1.90
Zuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.) . . . . .	2,682,000	1.85
Capital Pearls International Investment Ltd . . . . .	2,656,000	1.83
Ronghui Longma Capital Ltd . . . . .	2,207,739	1.52
China Huazhen Equity Investment Co., Ltd. (中风投华臻股权投资有限公司) . . . . .	1,661,130	1.14
JINYI Technology & Innovation Investment Management Co., Ltd. . . . .	1,558,140	1.07
GF Qianhe . . . . .	1,429,679	0.98
LIU Zhihe . . . . .	1,107,420	0.76
Dena Well Investment Limited. . . . .	670,000	0.46
GUOLING CAPITAL MANAGEMENT LTD (国瓴资本管理有限公司) . . . . .	549,000	0.38
<b>Total</b>	<b>145,336,931</b>	<b>100.0</b>

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### **Transfer of equity interest in Chesir Pearl held by our Company to Global New Material (HK)**

On 28 November 2020, our Company transferred 19,429,679 shares of Chesir Pearl (previously acquired from Guidong Electric and GF Qianhe) to Global New Material (HK) for the allotment and issue of 100,000 new shares of Global New Material (HK) to Generous Fortune as directed by our Company.

### **Full compliance with the applicable PRC laws and regulations**

Our PRC Legal Advisers are of the view that all necessary approvals in relation to the steps of the Reorganisation in the PRC as described above have been obtained and the procedures involved have been carried out in accordance with the PRC laws and regulations.

### **SAFE and Foreign Exchange Registrations**

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents 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 “**Circular 37**”), promulgated by SAFE and which became effective on 4 July 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests to an overseas special purpose vehicle (the “**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to Circular 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Measures for the Administration of Overseas Investment (《境外投資管理辦法》) which was promulgated by the MOFCOM on 6 September 2014 and became effective on 6 October 2014, the Administrative Measures for Overseas Investment by Enterprises (《企業境外投資管理辦法》) which was promulgated by the National Development and Reform Commission on 26 December 2017, and became effective on 1 March 2018, the Circular of SAFE on Further Simplifying and Improving the Direct Investment — related Foreign Exchange Administration Policies (《關於進一步簡化和改進直接投資外匯管理政策的通知》, the “**Circular 13**”) and other rules (collectively, “**ODI Rules**”), a domestic institution is required to undergo relevant procedures for offshore investment prior to its overseas direct investment and obtain relevant record-filing, approval, certificate or permit. This registration is currently reviewed and handled by qualified banks. SAFE and its branches shall oversee the foreign exchange registration issues through the qualified banks.

As confirmed by our PRC Legal Advisers, all PRC ultimate individual shareholders of our Company, who are PRC residents, have completed the foreign exchange registrations pursuant to Circular 37 and Circular 13 in relation to their offshore investments as PRC residents. The onshore corporate Shareholders have completed the registration/record-filing with in accordance with the ODI Rules in relation to their outbound direct investments as domestic institutions.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### M&A Rules

On 8 August 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, SAIC, CSRC and SAFE, jointly issued the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》, the “**M&A Rules**”), which became effective on 8 September 2006, and was amended on 22 June 2009. Pursuant to the M&A Rules, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise through an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise (the “**Regulated Activities**”). According to Article 11 of the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from MOFCOM is required.

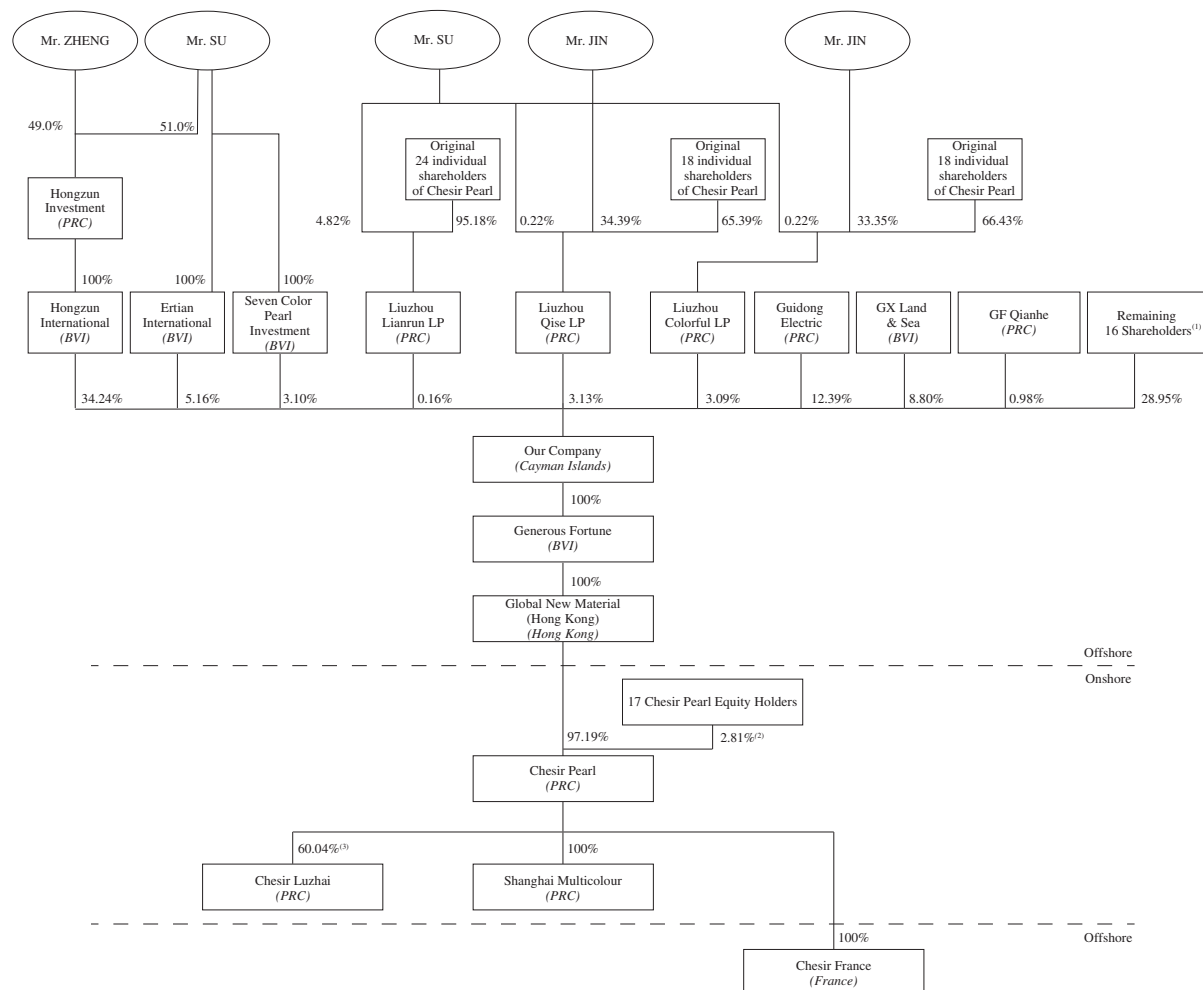
According to the Measures for Foreign Investment Information Reporting (《外商投資信息報告辦法》), foreign investors carry out direct or indirect investment activities in PRC, foreign investors and foreign investment enterprises shall submit investment information to the competent commerce departments of the PRC Government. As confirmed by our PRC Legal Advisers, Chesir Pearl (as a foreign investment enterprise) has completed the submission.

Given that (a) Chesir Pearl has become a sino-foreign equity joint venture instead of a domestic enterprise before the Reorganisation and (b) no Regulated Activities were involved in the Reorganisation under the M&A Rules, as advised by our PRC Legal Advisers, the Reorganisation are not subject to the M&A Rules.

# HISTORY, DEVELOPMENT AND REORGANISATION

## GLOBAL OFFERING AND CAPITALISATION ISSUE

The diagram below illustrates the shareholding and corporate structure of our Group following completion of the Reorganisation but before completion of the Global Offering and the Capitalisation Issue:



### Notes:

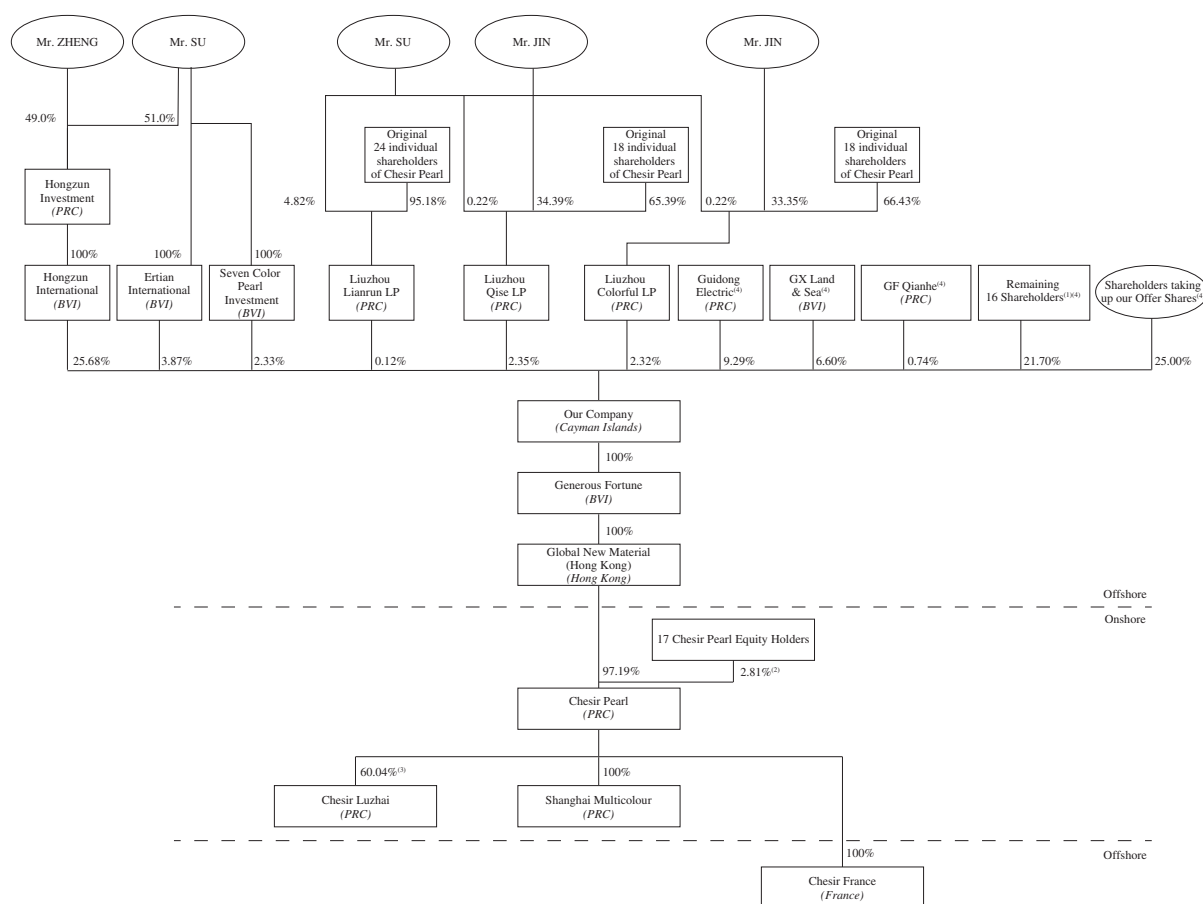
- (1) A list of the remaining 16 Shareholders and their respective number of Shares held is set forth in the paragraphs under “Shareholders as of the Latest Practicable Date” in this section.
- (2) The remaining 17 equity holders of Chesir Pearl hold 4,224,260 shares of Chesir Pearl.
- (3) The remaining 39.96% equity interest in Chesir Luzhai is held by Guangxi Industrial Investment.



## HISTORY, DEVELOPMENT AND REORGANISATION

Conditional on the share premium account of our Company being credited as a result of the Global Offering, the Capitalisation Shares will be allotted and issued to our Shareholders whose names appeared on our register of members at the close of business on 2 June 2021 on a pro rata basis, each credited as fully paid. The Capitalisation Shares to be allotted and issued shall rank pari passu in all respects with the 145,336,931 Shares of issue as of the date of this prospectus.

The diagram below illustrates the shareholding and corporate structure of our Group following completion of the Reorganisation and immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme):

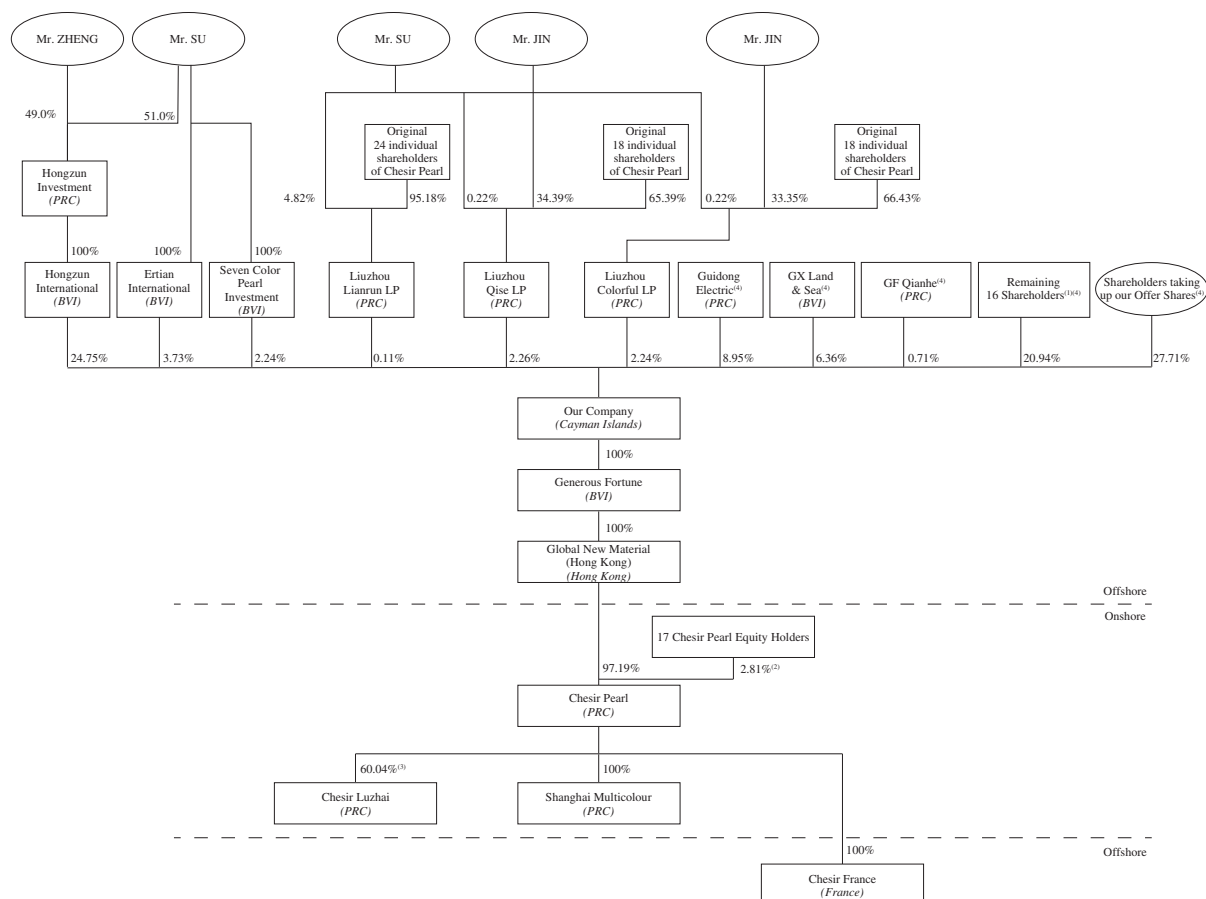


### Notes:

- (1) A list of the remaining 16 Shareholders and their respective number of Shares held is set forth in the paragraphs under “Shareholders as of the Latest Practicable Date” in this section.
- (2) The remaining 17 equity holders of Chesir Pearl hold 4,224,260 shares of Chesir Pearl.
- (3) The remaining 39.96% equity interest in Chesir Luzhai is held by Guangxi Industrial Investment.
- (4) For the purpose of Rule 8.08(1) of the Listing Rules, Guidong Electric, GX Land & Sea, GF Qianhe and the remaining 16 Shareholders, together with the Shareholders taking up our Offer Shares, are public investors.

## HISTORY, DEVELOPMENT AND REORGANISATION

The diagram below illustrates the shareholding and corporate structure of our Group following completion of the Reorganisation and immediately upon completion of the Global Offering and the Capitalisation Issue on the basis that the Over-allotment Option is exercised in full (without taking into consideration any Shares which may be issued upon the exercise of any option that may be granted under the Post-IPO Share Option Scheme):



### Notes:

- (1) A list of the remaining 16 Shareholders and their respective number of Shares held is set forth in the paragraphs under “Shareholders as of the Latest Practicable Date” in this section.
- (2) The remaining 17 equity holders of Chesir Pearl hold 4,224,260 shares of Chesir Pearl.
- (3) The remaining 39.96% equity interest in Chesir Luzhai is held by Guangxi Industrial Investment.
- (4) For the purpose of Rule 8.08(1) of the Listing Rules, Guidong Electric, GX Land & Sea, GF Qianhe and the remaining 16 Shareholders, together with the Shareholders taking up our Offer Shares, are public investors.

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## HISTORY, DEVELOPMENT AND REORGANISATION

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### NON-DISPOSAL UNDERTAKINGS BY OUR SHAREHOLDERS

Each of our Controlling Shareholders has, jointly and severally, undertaken to each of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) that none of them would dispose of their Shares held as of the Listing Date during the First Six-Month Period and the Second Six-Month Period. See the section headed “Underwriting — Underwriting arrangements and expenses — Undertakings given to the Hong Kong Underwriters — by our Controlling Shareholders” in this prospectus for further information. Similar non-disposal undertakings have also been provided to the Stock Exchange. See the section headed “Underwriting — Underwriting arrangements and expenses — Undertakings given to the Stock Exchange pursuant to the Listing Rules — By our Controlling Shareholders” in this prospectus for further information.

Pursuant to the GX Pre-IPO Investment Agreement and the GX Lock-up Deed, GX Land & Sea has undertaken by way of deed not to transfer, dispose of, nor enter into any agreement to transfer, dispose of or otherwise create any options, rights, interests or encumbrances in respect of the Shares held by it upon the Listing during the First Six-Month Period. See the section headed “Pre-IPO Investments — Principal terms of the Pre-IPO Investments made by Guidong Electric, GX Land & Sea and Mr. SU (through Ertian International and Seven Color Pearl Investment)” in this prospectus for further information.

Pursuant to the Guidong Lock-Up Deed, Guidong Electric has undertaken by way of deed not to transfer, dispose of, nor enter into any agreement to transfer, dispose of or otherwise create any options, rights, interests or encumbrances in respect of the Shares held by it upon the Listing during the First Six-Month Period. See the section headed “Pre-IPO Investments — Principal terms of the Pre-IPO Investments made by Guidong Electric, GX Land & Sea and Mr. SU (through Ertian International and Seven Color Pearl Investment)” in this prospectus for further information.

Pursuant to the Other Shareholders Lock-Up Deeds, each of (1) China Banyan Capital INT Holdings Ltd, (2) CHUANFU INT CAPITAL GROUP LTD (川富国际资本集团有限公司), (3) WEIXINGZHICHEN INTERNATIONAL INVESTMENT LTD, (4) LINGTAO Capital INT Group Limited (凌涛资本国际集团有限公司), (5) Zhejiang Venture Capital Group Co., Ltd, (6) Xuanhai Capital INT Group Limited, (7) Dice Hongze Ltd (迪策鸿泽有限公司), (8) Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) (福睿创信(厦门)新兴产业投资合伙企业(有限合伙)), (9) Zhuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.) (珠海格金广发信德智能制造产业投资基金(有限合伙)), (10) Capital Pearls International Investment Ltd, (11) Ronghui Longma Capital Ltd, (12) China Huazhen Equity Investment Co., Ltd. (中风投华臻股权投资有限公司), (13) JINYI Technology & Innovation Investment Management Co., Ltd., (14) GF Qianhe Investment Co., Ltd. (广发乾和投资有限公司), (15) LIU Zhihe (刘志和), (16) Dena Well Investment Limited and (17) GUOLING CAPITAL MANAGEMENT LTD (国瓴资本管理有限公司) has undertaken by way of deed not to transfer, dispose of, nor enter into any agreement to transfer, dispose of or otherwise create any options, rights, interests or encumbrances in respect of the Shares held by it upon the Listing during the First Six-Month Period.

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## PRE-IPO INVESTMENTS

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### OVERVIEW

For the purpose of the Listing and as part of the Reorganisation, we have received equity investments from three Pre-IPO Investors, namely GX Land & Sea, Guidong Electric and Mr. SU (through Ertian International and Seven Color Pearl Investment). Mr. SU and Guidong Electric are existing equity holders of Chesir Pearl, and they have made additional equity investments to Chesir Pearl by way of subscription for new shares of Chesir Pearl and exercise of the conversion right attached with the 2019 Convertible Bonds, respectively. GX Land & Sea is a new investor with its equity investment made through Generous Fortune for the purpose of facilitating the conversion of Chesir Pearl into a sino-foreign equity joint venture for the purpose of the Listing. Their equity investments constitute our pre-IPO investments as defined in the Guidance Letters HKEx-GL29-12 (updated in March 2017), HKEx-GL-43-12 (updated in July 2013 and March 2017) and HKEx-GL44-12 (updated in March 2017) issued by the Stock Exchange. The following sets forth the background information on the Pre-IPO Investors.

#### **GX Land & Sea**

On 19 October 2020, the GX Pre-IPO Investment Agreement was entered into, pursuant to which GX Land & Sea has agreed to invest in Generous Fortune by way of subscription for 12,787,724 shares for cash consideration of RMB125,319,695. The amount of investment is based on RMB9.8 for each share of Chesir Pearl. This subscription price is higher than the conversion price of the 2019 Convertible Bonds of RMB9.03 for each share of Chesir Pearl, but lower than the subscription price for the additional equity investment made by Mr. SU (through Ertian International and Seven Color Pearl Investment) of RMB10.22 for each share of Chesir Pearl. A summary of the terms of the GX Pre-IPO Investment Agreement is set forth in the paragraphs under “Principal terms of the Pre-IPO Investments made by Guidong Electric, GX Land & Sea and Mr. SU (through Ertian International and Seven Color Pearl Investment)” below. The 12,787,724 shares of Generous Fortune held by GX Land & Sea have been transferred to our Company for 12,787,724 Shares pursuant to the Cayman Share Swap. Following completion of the Global Offering and the Capitalisation Issue and without taking into consideration any Share that may be issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme, GX Land & Sea is interested in 76,726,344 Shares, representing 6.60% of our Shares in issue.

#### **Guidong Electric**

Guidong Electric was one of the equity holders of Chesir Pearl. On 16 October 2020, Guidong Electric entered into the Convertible Bonds Transfer Agreement, pursuant to which Guidong Electric had become the sole holder of the 2019 Convertible Bonds on 19 October 2020. On 19 October 2020, Chesir Pearl and Guidong Electric entered into the Convertible Bond Conversion Agreement for the purpose of converting the 2019 Convertible Bonds into 8,000,000 shares of Chesir Pearl. These shares were issued to Guidong Electric on the same date. These shares, together with the then 10,000,000 shares of Chesir Pearl held by Guidong Electric, have been transferred to our Company for 18,000,000 Shares pursuant to the Guidong Share Swap. Following completion of the Global Offering and the Capitalisation Issue and without taking into consideration any Share that may be issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme, Guidong Electric is interested in an aggregate of 108,000,000 Shares, representing 9.29% of our Shares in issue.

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## PRE-IPO INVESTMENTS

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### Mr. SU

Mr. SU is an executive Director and one of our Controlling Shareholders. See the section headed “Directors, Senior Management and Employees” in this prospectus for further information on Mr. SU. For the purpose of providing additional funding to Chesir Pearl and as agreed in the GX Pre-IPO Investment Agreement, the SU Capital Contribution Agreement was entered into on 19 October 2020, pursuant to which Mr. SU subscribed for 12,000,000 shares of Chesir Pearl for cash consideration of RMB122,640,000, representing RMB10.22 for each share of Chesir Pearl. On 19 October 2020, Chesir Pearl allotted and issued to Mr. SU 12,000,000 shares and on 22 October 2020, Mr. SU fully settled the amount of consideration.

Pursuant to Chesir Pearl Equity Transfer Agreement, Ertian International and Seven Color Pearl Investment have been allotted and issued 7,493,138 shares and 4,506,862 shares of Generous Fortune, respectively, at the direction of Mr. SU. On 18 November 2020, Continuous Profit transferred 3,900,000 Shares to Ertian International for the consideration of the sum of HK\$10 as part of the Reorganisation. On 18 November 2020, pursuant to the Cayman Share Swap, our Company has allotted and issued 3,593,138 Shares to Ertian International and 4,506,862 Shares to Seven Color Pearl Investment. As a result, each of Ertian International and Seven Color Pearl Investment holds 7,493,138 Shares and 4,506,862 Shares, and in aggregate 12,000,000 Shares, prior to completion of the Global Offering and the Capitalisation Issue. Both Ertian International and Seven Color Pearl Investment are wholly-owned by Mr. SU.

Following completion of the Global Offering and the Capitalisation Issue and without taking into consideration any Share that may be issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme, Ertian International is interested in 44,958,828 Shares, representing 3.87% of our Shares in issue and Seven Color Pearl Investment is interested in 27,041,172 Shares, representing 2.33% of our Shares in issue.

### Equity holders of Chesir Pearl deemed to be our Pre-IPO Investors

Because of the share purchase undertakings given by Hongzun Investment and Mr. SU at the time of the NEEQ Listing Withdrawal, there were 69 completed transactions involving the transfer of an aggregate 27,493,141 shares of Chesir Pearl to new purchasers or the then equity holders of Chesir Pearl following the NEEQ Listing Withdrawal. See the section headed “History, Development and Reorganisation — Corporate history of our subsidiaries in the PRC — Chesir Pearl — Transfers of shares of Chesir Pearl following the NEEQ Listing Withdrawal” in this prospectus for a complete list of these transactions and the names of the transferees in these transactions. These transferees (other than Mr. SU and WEI Seguang (韦色广)), who have exchanged their shares of Chesir Pearl into the shares of Generous Fortune pursuant to the Chesir Pearl Equity Transfer Agreement and ultimately our Shares by way of the Cayman Share Swap, have become part of the Consent Chesir Pearl Equity Holders and ultimately, our Shareholders through the Reorganisation. See the section “History,

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## PRE-IPO INVESTMENTS

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Development and Reorganisation — Reorganisation” in this prospectus for further information. These transferees (other than Mr. SU and WEI Seguang (韦色广)) are deemed to be our Pre-IPO Investors as they acquire the issued share of Chesir Pearl in contemplation of the Listing. The directors of Chesir Pearl confirm the following:

- (a) the terms of these share transfers (including the selling prices and the number of shares of Chesir Pearl involved) were negotiated between the transferors and the transferees and that Chesir Pearl only facilitated the transfers by updating the register of members of Chesir Pearl;
- (b) the subject matter of the transfers was the shares of Chesir Pearl which were ranking pari passu with all other shares of Chesir Pearl with no special rights attached therewith;
- (c) no special treatment had been given by Chesir Pearl to the transferors and/or the transferees in relation to the share transfer transactions;
- (d) no consideration was received by Chesir Pearl or any of its subsidiaries from the share transfer transactions;
- (e) except Mr. SU, Mr. JIN and Mr. HU Yongxiang, all transferors and transferees involved are Independent Third Parties; and
- (f) each of the share transfer transactions has been duly completed on a day which is more than 28 clear days before the date of the first submission of the application for the Listing.

### PRINCIPAL TERMS OF THE PRE-IPO INVESTMENTS MADE BY GUIDONG ELECTRIC, GX LAND & SEA AND MR. SU (THROUGH ERTIAN INTERNATIONAL AND SEVEN COLOR PEARL INVESTMENT)

The table below summarises the principal terms of the Pre-IPO Investments:

	<u>Guidong Electric</u>	<u>GX Land &amp; Sea</u>	<u>Mr. SU</u>
Date . . . . .	19 October 2020 (being the date Convertible Bonds Conversion Agreement)	19 October 2020 (being the date of the GX Pre-IPO Investment Agreement)	19 October 2020 (being the date of the SU Capital Contribution Agreement)
Number of shares of Chesir Pearl converted or subscribed . . . . .	8,000,000	12,787,724	12,000,000
Number of Shares held in relation to the Pre-IPO Investments upon completion of the Global Offering and the Capitalisation Issue . . .	48,000,000	76,726,344	44,958,828 (by Ertian International) 27,041,172 (by Seven Color Pearl Investment)

## PRE-IPO INVESTMENTS

	<u>Guidong Electric</u>	<u>GX Land &amp; Sea</u>	<u>Mr. SU</u>
Completion date of the share allotment . . . . .	18 November 2020	18 November 2020	18 November 2020
Investment amount . . . . .	RMB72,240,000	RMB125,319,695	RMB122,640,000
Basis of determining the investment amount . . . . .	RMB9.03 for each share of Chesir Pearl, which was determined with reference to the market capitalisation of Chesir Pearl at the relevant time of the Convertible Bonds were issued.	RMB9.80 for each share of Chesir Pearl, which was determined after arm's length negotiations between Chesir Pearl and GX Land & Sea taking into consideration the exercise price of the 2019 Convertible Bonds.	RMB10.22 for each share of Chesir Pearl, which was determined after arm's length negotiations between Chesir Pearl, GX Land & Sea and Mr. SU taking into consideration the investment cost for each share of Chesir Pearl paid by GX Land & Sea under the GX Pre-IPO Investment Agreement.
Implied valuation in Chesir Pearl . . . . .	RMB1,350.5 million	RMB1,465.7 million	RMB1,528.5 million
Settlement date of the investment amount . . . . .	19 October 2020	17 November 2020	22 October 2020
Investment cost per Share .	RMB1.51	RMB1.63	RMB1.70
Discount to the mid-point of the indicative range of the Offer Price (on the basis that there is no Downward Offer Price Adjustment) . . . . .	46.3%	50.0%	52.2%
Use of the net proceeds from the Pre-IPO Investments . . . . .	The original amount of the net proceeds from the 2019 Convertible Bonds was RMB72,240,000 which was used for the construction of the Phase 2 Production Plant and as general operating capital, which had been fully utilised as of the Latest Practicable Date.	The amount of investment has been provided to Generous Fortune which has been injected into Global New Material (HK) for subscribing 12,787,724 new shares of Chesir Pearl as part of the Reorganisation. The amount is to be used as our general working capital.	The amount of investment has provided additional funding to be used as our general working capital.
Interest rate . . . . .	8% per annum (which was applicable only to the 2019 Convertible Bonds), and an aggregate of RMB8.0 million has been paid by Chesir Pearl to the Bondholders	Not applicable	Not applicable
Maturity date . . . . .	30 May 2021	Not applicable	Not applicable

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## PRE-IPO INVESTMENTS

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	<u>Guidong Electric</u>	<u>GX Land &amp; Sea</u>	<u>Mr. SU</u>
Lock-up undertaking . . . . .	Pursuant to the Guidong Lock-Up Deed, Guidong Electric has undertaken by way of deed not to transfer, dispose of, nor enter into any agreement to transfer, dispose of or otherwise create any options, rights, interests or encumbrances in respect of the Shares held by it upon the Listing during the First Six-Month Period.	Pursuant to the GX Pre-IPO Investment Agreement and the GX Lock-up Deed, GX Land & Sea has undertaken by way of deed not to transfer, dispose of, nor enter into any agreement to transfer, dispose of or otherwise create any options, rights, interests or encumbrances in respect of the Shares held by it upon the Listing during the First Six-Month Period.	Mr. SU is one of our Controlling Shareholders. See the sections headed “Controlling Shareholders and Substantial Shareholders” and “Underwriting” in this prospectus for the lock-up arrangement during the First Six-Month Period and the Second Six-Month Period.
Strategic benefits the Pre-IPO Investors will bring to us . . . . .	Guidong Electric is one of the largest shareholders of Chesir Pearl and has become our Shareholder following completion of the Reorganisation. The transfer and conversion of the 2019 Convertible Bonds by Guidong Electric will assist us in reducing our on-going interest payment for the 2019 Convertible Bonds.	Provide funding to facilitate the conversion of Chesir Pearl into a sino-foreign equity joint venture for the purpose of the Listing. GX Land & Sea is also an established investment fund which will assist us in implementing various corporate governance measures following completion of its investment.	Provide additional funding to Chesir Pearl for implementation of its expansion plans.
Special rights . . . . .	The Shares rank pari passu with other Shares in issue or to be issued by our Company. No special rights have been granted to Guidong Electric.	The Shares rank pari passu with other Shares in issue or to be issued by our Company. Certain special rights have been granted to GX Land & Sea, which will be terminated upon the Listing. See the paragraphs under “Additional terms of the GX Pre-IPO Investment Agreement” below for the special rights granted to GX Land & Sea.	The Shares rank pari passu with other Shares in issue or to be issued by our Company. No special rights have been granted to Mr. SU (including Ertian International and Seven Color Pearl Investment).
Public float . . . . .	Shares held by each of Guidong Electric and GX Land & Sea will constitute part of the public float for the purpose of Rule 8.08 of the Listing Rules.		



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## PRE-IPO INVESTMENTS

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### ADDITIONAL TERMS OF THE GX PRE-IPO INVESTMENT AGREEMENT

#### Representations and warranties

The following sets forth the representations and warranties given by Chesir Pearl for the benefit of GX Land & Sea under the GX Pre-IPO Investment Agreement

- (a) Chesir Pearl is a legally established and validly existing legal entity which has the corporate power to enter into the GX Pre-IPO Investment Agreement and perform the obligations under the GX Pre-IPO Investment Agreement;
- (b) Chesir Pearl has the full right, power and authority to enter into the GX Pre-IPO Investment Agreement and to perform the obligations thereunder;
- (c) The performance of the obligations under the GX Pre-IPO Investment Agreement by Chesir Pearl have not violated relevant laws, regulations and its constitutional documents or breached any agreements entered into by Chesir Pearl with other third parties;
- (d) There are no lawsuits or administrative, arbitration or other proceedings or contingent liabilities pending or threatened against or relating to Chesir Pearl that could hinder the Listing; and
- (e) Chesir Pearl will strictly implement the Reorganisation as agreed with GX Land & Sea.

#### Special rights granted to GX Land & Sea under the GX Pre-IPO Investment Agreement shall be automatically terminated upon the Listing

GX Land & Sea has been granted by Chesir Pearl under the GX Pre-IPO Investment Agreement the following special rights:

- (a) the information right to require Chesir Pearl to provide (i) the annual audited accounts under the applicable accounting standards in the PRC within 120 days from the relevant year end, (ii) the monthly management accounts under the applicable accounting standards in the PRC within 30 days from the relevant month end and (iii) the annual budget not less than 30 days before the date of commencement of the relevant financial year. Such information right will be terminated upon the Listing.
- (b) the right to appoint a non-executive Director and such non-executive Director appointed shall resign from our Board on the earlier of the date on which (i) the equity investment made by GX Land & Sea is required to be purchased by Mr. SU and (ii) the results of the hearing of the Listing application by the Listing Committee. Hence, such right of appointment of Director will be terminated upon the Listing.
- (c) the right to request Mr. SU to purchase all of the Shares held by it (the “**Repurchase Right**”) in the event that:
  - (i) our Company cannot be listed on the Stock Exchange on or before 31 December 2021;

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## PRE-IPO INVESTMENTS

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- (ii) Mr. SU or Chesir Pearl has informed GX Land & Sea that the preparation for the Listing would be suspended on or before 31 December 2021 or the application for the Listing has been rejected by the Listing Committee;
- (iii) Chesir Pearl is in corporate dissolution proceedings or applying for liquidation under the applicable PRC laws and regulations;
- (iv) Chesir Pearl is required to cease or suspend its business operations by the relevant government authorities in the PRC;
- (v) Chesir Pearl has breached any the representations and warranties in the GX Pre-IPO Investment Agreement; and
- (vi) the Reorganisation cannot be completed.

The purchase price under the Repurchase Right has been agreed as the amount of investment plus 8.0 per cent. and the cash dividends that may be entitled by GX Land & Sea. If this purchase price is less than the net asset value of our Company, the purchase price shall be adjusted upward. The amount of net asset value is based on the latest audited financial statements of our Company. Any overdue amount under the GX Pre-IPO Investment Agreement will be subject to a daily interest rate of 0.05% from the expiry date of the first six-month period immediately after the triggering event of share purchase.

In compliance with Guidance Letter HKEX-GL43-12 issued by the Stock Exchange, all special rights granted to GX Land & Sea will be automatically terminated upon the Listing.

As of the Latest Practicable Date, GX Land & Sea had not exercised the Repurchase Right.

### **Consistent with the Guidance Letter HKEX-GL43-12**

Our Directors have considered the Guidance Letter HKEX-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017 and confirm that the Repurchase Right could only be exercisable when there is no Listing or at the time when our Company is unable to comply with the listing requirements on the Stock Exchange given that Chesir Pearl is the principal operating entity of our Group. The Reorganisation has also been completed since November 2020 and it would not entitle GX Land & Sea to exercise the Repurchase Right because of non-completion. All special rights including the Repurchase Right granted to GX Land & Sea will also be terminated upon the Listing. Our Directors are therefore of the view that the Repurchase Right and the other special rights granted to GX Land & Sea are not inconsistent with paragraph 3.6(c) of the Guidance Letter HKEX-GL43-12 issued by the Stock Exchange in October 2012 and as updated in July 2013 and March 2017.

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## PRE-IPO INVESTMENTS

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### BACKGROUND INFORMATION OF GX LAND & SEA, GUIDONG ELECTRIC AND MR. SU

#### GX Land & Sea

GX Land & Sea is an investment holding company incorporated in the BVI with limited liability on 20 March 2020 and is wholly-owned by Guangxi Land & Sea Connectivity Fund (Limited Partnership) (“**Guangxi Land & Sea**”). Pursuant to the terms of the GX Pre-IPO Investment Agreement, GX Land & Sea has the right to designate, and has designated, a non-executive director and an alternate director to such non-executive director (the “**GX Directors**”) to our board of directors in October 2020. Such right will cease upon the Listing and the GX Directors have resigned in May 2021 pursuant to the terms of the GX Pre-IPO Investment Agreement.

Guangxi Land & Sea is a limited partnership established in the PRC on 26 November 2018. Guangxi Land & Sea is an investment and venture capital fund for the primary purpose of making investment in the PRC and Southeast Asian countries with current portfolio size of more than RMB2.0 billion, the general partner of which is Guangxi Luhai Xintongdao Equity Investment Management Center (Limited Partnership) (广西陆海新通道股权投资管理中心(有限合伙)). Our Group became acquainted with Guangxi Land & Sea in January 2019, through introduction by The People’s Government of Guangxi Zhuang Autonomous Region. Having considered the market trend and business opportunities in the pearlescent pigment industry, our business performance, products portfolio, management, market position and prospects, Guangxi Land & Sea decided to invest in our Group through GX Land & Sea pursuant to the GX Pre-IPO Investment Agreement. GX Land & Sea’s investment has allowed us to increase our general working capital. To the best of the knowledge, information and belief of our Directors and after making reasonable enquiries, the ultimate beneficial owner of Guangxi Land & Sea is the PRC Government and GX Land & Sea is the foreign investment holding vehicle of Guangxi Land & Sea which has no business activity to date.

#### Guidong Electric

Guidong Electric is a company established under the laws of the PRC on 4 December 1998 with limited liability by shares. The shares of Guidong Electric have been listed on the Shanghai Stock Exchange since 28 February 2001 (stock code: 600310). As of the Latest Practicable Date, Guidong Electric had a market capitalisation of RMB4.4 billion. To the best of our Directors’ knowledge, information and belief having made all reasonable enquiries, the major shareholder of Guidong Electric is Guangxi ZR Development Group Co., Ltd. (广西正润发展集团有限公司, “**Guangxi ZR**”) which held 39.96% shareholding in Guidong Electric. Guangxi ZR is owned by Guangxi Investment Group Co., Ltd. (广西投资集团有限公司) as to 85.0% which is wholly-owned by the PRC Government.

The headquarters of Guidong Electric are located in Hezhou City, Guangxi Zhuang Autonomous Region of the PRC and is principally engaged in power generation, power supply, power investment and development, transportation construction and infrastructure development. The chairman of the board of directors of Guidong Electric is Mr. QIN, who is also an executive Director.

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## PRE-IPO INVESTMENTS

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### Mr. SU

Mr. SU is one of our executive Directors and Controlling Shareholders. See the section headed “Directors, Senior Management and Employees” in this prospectus for further information of Mr. SU. Ertian International and Seven Color Pearl Investment are investment holding companies wholly-owned by Mr. Su and they are carrying on no business activities.

Save as disclosed above, to the best of our Directors’ knowledge, information and belief having made all reasonable enquiries, none of the Pre-IPO Investors have any past or present relationship or any agreements, arrangements or understanding with our Company, our subsidiaries, other Shareholders, Directors or senior management and any of their respective close associates and was an Independent Third Party as of the Latest Practicable Date.

### CONFIRMATION FROM THE SOLE SPONSOR

Since the investment amount by each of the Pre-IPO Investors was fully settled on a date which is more than 28 clear days before the date of submission of the initial Listing application, the Sole Sponsor is of the view that such investments are made in compliance with the Guidance Letters HKEx-GL29-12 (updated in March 2017), HKEx-GL43-12 (updated in July 2013 and March 2017) and HKEx-GL44-12 (updated in March 2017) of the Stock Exchange.


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### OVERVIEW

We are the largest pearlescent pigment producer in the PRC market as measured by revenue in 2020 with a market share of 11.0%, according to the Frost & Sullivan Report. In the global market, we are the fourth largest pearlescent pigment producer as measured by revenue in 2020 with a market share of 3.0%. Our Directors therefore believe that we are a leading pearlescent pigment producer based in the PRC. Our principle products include natural mica-based and synthetic mica-based pearlescent pigment products. Pearlescent pigment products are generally used as colourants in a wide range of industrial and non-industrial applications. The synthetic mica-based pearlescent pigment market is in a state of rapid development and accounted for 15.8% of the PRC pearlescent pigment market of RMB4,843.9 million in 2020. The market size of the global pearlescent pigment market reached RMB18.9 billion in 2020, in which the synthetic mica-based pearlescent pigment market accounted for a market share of 11.7%.

Our business principally focuses on the production and sales of a comprehensive portfolio of pearlescent pigment products for use in diverse applications and industries, including industrial coatings, plastics, textiles and leather, cosmetics and automotive coatings. We are a midstream producer in the value chain of pearlescent pigment industry. Our pearlescent pigment products can be broadly divided into (a) natural mica-based pearlescent pigment products; (b) synthetic mica-based pearlescent pigment products; (c) glass flake-based pearlescent pigment products; and (d) silicon oxide-based pearlescent pigment products, which are sold to customers in the PRC and more than 30 countries and territories in Asia (excluding the PRC), Europe, Africa and South America under our brand of “Chesir Pearl” . In addition, we also produce and sell synthetic mica powder of different granule sizes which can be used for the production of different grades of pearlescent pigment products (including those used in cosmetics, ceramics and automotive applications) and also as raw materials for the production of functional fillers, insulating materials, refractory materials and nickel-hydrogen batteries.

Our pearlescent pigment products primarily use natural mica, synthetic mica, glass flakes and silica as substrates, which are coated with a single or multiple layers of metal oxides. As of the Latest Practicable Date, our pearlescent pigment products comprised a comprehensive portfolio of various applications, colours, texture and glossiness, which include 476 natural mica-based pearlescent pigment products, 266 synthetic mica-based pearlescent pigment products, 30 glass flake-based pearlescent pigment products and five silicon oxide-based pearlescent pigment products. Our synthetic mica powder products are of different granule sizes.

Our production plant is located in Liuzhou City, Guangxi Zhuang Autonomous Region, the PRC with a total site area of 99,688.2 sq.m. and an aggregate gross floor area of 56,445.6 sq.m., which is strategically located and accessible to different provinces in the PRC through the national highway networks. Since our establishment, we have continued to expand the production capacity of our Phase 1 Production Plant. Our designed annual production capacity of pearlescent pigment products increased from 10,464 tonnes for the year ended 31 December 2018 to 12,978 tonnes for the year ended 31 December 2019 and further increased to 13,740 tonnes for the year ended 31 December 2020. The utilisation rate of our production facilities for pearlescent pigment products improved from

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84.2% for the year ended 31 December 2018 to 87.4% for the year ended 31 December 2019. Our utilisation rate had reached 98.3% for the year ended 31 December 2020. We believe that our scale of production has enabled us to achieve economies of scale through increasing our production efficiency and lowering our cost of production while ensuring a stable product quality.

We have strong research and development capability. Our research and development efforts focus on the development of new products and new applications, improving our production and processing technology, enhancing our efficiency and upgrading our production plant and machinery. Our research and development efforts are well recognised and we have received a number of awards and recognitions. We obtained the accreditation of “National Intellectual Property Advantage Enterprise” (國家知識產權優勢企業) in 2017 and “Innovative Technology Exemplary Enterprise” (技術創新示範企業) in Guangxi Zhuang Autonomous Region in 2018. One of our registered patents was awarded with gold award in 2014 and three registered patents were awarded with silver award in 2014, 2017 and 2018 in “Guangxi Innovation Creation Exhibition and Trade Fair Participating Project” (廣西發明創造成果展覽交易會項目). These recognitions have proven our research and development capability.

We also have collaborations with universities and institutions in the PRC on various research projects, which include our cooperation with (a) Guangxi Academy of Sciences (廣西科學院) to establish the National Enterprise Research and Development Technology Center (國家企業研發技術中心) for research and development on industrial applications of pearlescent pigment products and synthetic mica and (b) Hubei University of Technology (湖北工業大學) to establish the “Chesir Pearlescent New Material Research and Development Center” (七色珠光新材料研發中心) for research and development of new pearlescent pigment products, new applications of pearlescent pigment products, as well as improvement and development of new production technology and upgrading our production plant and machinery. We had registered 26 patents and had submitted 14 patent applications in the PRC as of the Latest Practicable Date. As of the Latest Practicable Date, Chesir Pearl has undertaken eight scientific research projects on national level, provincial and ministerial level in the PRC. See the paragraphs under “Research and development” below for further information.

As a result of our devoted efforts and commitments, we have achieved significant revenue growth during the Track Record Period. Our revenue increased significantly by 38.5% from RMB318.2 million in 2018 to RMB440.6 million in 2019. Our revenue further increased by 29.2% to RMB569.1 million during the year ended 31 December 2020.

According to the Frost & Sullivan Report, the market size of the global pearlescent pigment market is expected to reach RMB44.6 billion by 2025 at a CAGR of 23.9% from 2021 to 2025, among which synthetic mica-based pearlescent pigment is expected to account for a market share of 23.6%. The PRC pearlescent pigment market is also in a state of rapid development and is expected to reach RMB14.2 billion by 2025 at a CAGR of 30.8% from 2021 to 2025, among which synthetic mica-based pearlescent pigment products market is expected to reach RMB4.6 billion, accounting for a market share of 32.6%.

We plan to use a significant portion of the net proceeds from the Global Offering to partially finance the construction of our Phase 2 Production Plant for the production of pearlescent pigment products, in particular, high-end pearlescent pigment products with a designed annual production

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capacity of 30,000 tonnes, and our Luzhai Synthetic Mica Plant for the production of synthetic mica powder with a designed annual production capacity of 30,000 tonnes. See the section headed “Future Plans and Proposed Use of the Net Proceeds from the Global Offering” in this prospectus for further information.

We believe we are well positioned to continue to solidify and expand our market share in the pearlescent pigment and synthetic mica industries and take advantage of the rapidly growing demand for high-end pearlescent pigment products and synthetic mica products in both the PRC and international markets.

### OUR STRENGTHS

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

#### **We are one of the largest pearlescent pigment producers in the PRC.**

We are the largest pearlescent pigment producer in the PRC market as measured by revenue in 2020 with a market share of 11.0%, according to the Frost & Sullivan Report. In the global market, we are the fourth largest pearlescent pigment producer as measured by revenue in 2020 with a market share of 3.0%. Our principle products include natural mica-based and synthetic mica-based pearlescent pigment products. Pearlescent pigment products are generally used as colourants in a wide range of industrial and non-industrial applications. The synthetic mica-based pearlescent pigment market is in a state of rapid development and accounted for a significant proportion of the pearlescent pigment market, which represented 15.8% of the PRC pearlescent pigment market of RMB4,843.9 million in 2020.

During the Track Record Period, we sold our products in the PRC and to more than 30 countries and territories in Asia (excluding the PRC), Europe, Africa and South America. We produce and sell a comprehensive portfolio of pearlescent pigment products covering diverse applications and industries, including automotive coatings, cosmetics, industrial coatings, plastics, printing, textile and leather and ceramics. As of the Latest Practicable Date, our pearlescent pigment products comprised a comprehensive portfolio of different applications, colours, texture and glossiness, which include 476 natural mica-based pearlescent pigment products, 266 synthetic mica-based pearlescent pigment products, 30 glass flake-based pearlescent pigment products and five silicon oxide-based pearlescent pigment products. We also produce and sell synthetic mica powder products of different granule sizes, which can be used for the production of different grades of pearlescent pigment products (including those used in cosmetics, ceramics and automotive applications) and also as raw materials for the production of functional fillers, insulating materials, refractory materials and nickel-hydrogen batteries.

We have been persistent in our innovation and research efforts in the development of new products and new applications through continuous improvements in our production and processing technology as well as our production plant and machinery, which have laid the foundation and led to our rapid growth. During the Track Record Period, we have continued to expand the production capacity of our Phase 1 Production Plant. Our designed annual production capacity of pearlescent pigment products increased from 10,464 tonnes for the year ended 31 December 2018 to 12,978 tonnes

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for the year ended 31 December 2019 and further increased to 13,740 tonnes for the year ended 31 December 2020. Our designed annual production capacity for synthetic mica powder had remained stable during the two years ended 31 December 2019 at 4,752 tonnes and increased to 9,504 tonnes for the year ended 31 December 2020. We believe that our scale of production has enabled us to achieve economies of scale through increasing our production efficiency and lowering our cost of production while ensuring a stable product quality.

As a new type of functional material, the market growth of pearlescent pigment product is primarily driven by the gradual replacement of and as an alternative to traditional organic pigment and metallic pigment, as well as the expansion of the use of pearlescent pigment product to other innovative downstream applications. Pearlescent pigment product has remarkable chemical and optical properties, such as temperature resistance, weather resistance, lightfastness, water resistance and colour fastness. There has been wider acceptance of the use of pearlescent pigment by customers generally in different industries.

We believe we are well positioned to continue to solidify our market position and expand our market share in the pearlescent pigment industry taking advantage of the rapid increase in demand for pearlescent pigment products in both the PRC and the international markets.

According to the Frost & Sullivan Report, the market size of the global pearlescent pigment market is expected to reach RMB44.6 billion by 2025 at a CAGR of 23.9% from 2021 to 2025, among which synthetic mica-based pearlescent pigment is expected to account for a market share of 23.6%. The PRC pearlescent pigment market is also in a state of rapid development and is expected to reach RMB14.2 billion by 2025 at a CAGR of 30.8% from 2021 to 2025, among which synthetic mica-based pearlescent pigment products market is expected to reach RMB4.6 billion, accounting for a market share of 32.6%. The PRC Government also has support for the development of the pearlescent pigment market. Pursuant to the Notice of Increasing Tax Rebate for Specified Products 《關於提高部分產品出口退稅率的公告》 issued by the State Taxation Administration in March 2020, pigments and pigment-based products are listed as export products that enjoy tax rebates at the latest rate of 13.0%. According to the Catalogue for Guiding Industrial Restructuring (Version 2019) 《產業結構調整指導目錄(2019年本)》 issued by the NDRC in November 2019, manufacturing of organic pigments products that have high lightfastness, high weather resistance and high performance is included as one of the encouraged industries and enjoys policy support.

**Our proprietary production technologies and well-designed production plant and machinery are key to ensuring our product quality.**

Our proprietary production technologies and the use of well-designed production plant and machinery in our production processes are key to ensuring our product quality and improving our production efficiency. We focus on refining and improving our production processes, developing corresponding machinery and continue to improve the automation level of our production process.

For the production of synthetic mica powder, our adoption of the technology of fully-sealed and insulated negative pressure melting technology (合成雲母全密封負壓熔制技術) ensures energy saving and prevents exhaust gas volatilised by the crystals from emitting and being treated internally for environmental protection. We use internal thermal resistance method (內熱電阻法) in the



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production of synthetic mica, pursuant to which the furnace for the melting process is built with special insulation materials with intelligent automation control, which has improved the output level, minimised impurities created, enhanced energy saving and reduced pollution made to the environment.

Through the use of the technology of synthetic mica high-pressure pulping, mica powder grinding and classification technology (合成雲母高壓制漿、雲母粉研磨分級技術), we have refined the technology of high-pressure hydraulic pulping and centrifugal classification technology in the production of synthetic mica, which has significantly improved the whiteness and diameter-to-thickness ratio of synthetic mica and has also enhanced our output level and production efficiency. Our self-developed intelligent automation control system for the melting and crystallisation processes in the production of synthetic mica (合成雲母熔制結晶智慧控制系統) allows us to have precise control of the crystallisation process ensuring complete crystallisation with thorough removal of impurities.

With the development of a new milling equipment and advancement of the mica grinding technology (雲母輾磨技術), we can have accurate and precise control of the particle size and diameter of mica powder and reduce the coarse particles, ensuring a smooth surface and good diameter-to-thickness ratio of mica powder. The improved mica grinding technology and equipment has significantly improved our production efficiency.

Through the use of our patented wet classification and wet synthesis technology and our automatically controlled centrifugal classification method, we have optimised our production process and reduced the time required for the classification and sedimentation processes in the production and processing of mica powder and the mica powder generated has uniform particle size and low coarse particles.

For the production of pearlescent pigment products, we have implemented intelligent automation in the wet chemical hydrolysis coating process, from the feeding of mica slurry to the control of various parameter conditions during the entire hydrolysis coating process, which stabilises the product quality and minimises any colour difference.

We expect there would be a growing demand for high-end and high-performance pearlescent pigment products of different grades (including those used in cosmetics, ceramics and automotive applications). According to the Frost & Sullivan Report, the market size of the global automotive pearlescent pigment market is expected to reach RMB4.5 billion by 2025 at a CAGR of 47.1% from 2021 to 2025 while the global cosmetics pearlescent pigment market is expected to reach RMB8.7 billion by 2025 at a CAGR of 32.8% from 2021 to 2025. In the PRC, the market size of the automotive pearlescent pigment market is expected to reach RMB1.7 billion by 2025 at a CAGR of 52.4% from 2021 to 2025 while the cosmetics pearlescent pigment market is expected to reach RMB2.3 billion by 2025 at a CAGR of 34.0% from 2021 to 2025.

Our synthetic mica powder products are certified as having free fluorine level of less than 10ppm pursuant to the Japanese Standard of Quasi-Drug Ingredients Standards and are safe for use in cosmetics. Our cosmetic-grade pearlescent pigment products can be used in the production of high-end cosmetics. Our automotive pearlescent pigment products have passed the IATF 16949:2016

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certification, which is the general standard of the international automotive industry. Our automotive pearlescent pigment products can withstand harsh environmental conditions and UV exposure and have the characteristics of weather resistance, light stability, chemical inertness, thermal stability, with high colour fidelity, colour durability, colour constancy and lasting brilliance.

We have implemented a comprehensive quality control system throughout our entire production process. Chesir Pearl has been accredited with ISO 9001:2015 Quality Management System certification, which involves annual reviews of our production process and the implementation of quality management systems. Chesir Pearl has also been accredited with GB/T 45001-2020/ISO 45001:2018 occupational health and safety management system and ISO14001 environmental management system. Chesir Pearl has also obtained the REACH certification for products sold to the EU in compliance with the REACH standards for chemicals entering the EU and KKDIK Pre-registration Certification for products sold to Turkey.

### **We have strong research and development capability.**

We have strong research and development capability. Our research and development efforts focus on the development of new products and new applications, improving our production and processing technology, enhancing our production efficiency and upgrading our production plant and machinery.

During the Track Record Period, our research and development expenditures amounted to RMB10.7 million, RMB23.2 million and RMB29.3 million, respectively. These amounts were charged to our consolidated statements of profit or loss as part of our administrative and other operating expenses. Our research and development expenditures accounted for 3.4%, 5.3% and 5.1% of our total revenue for the Track Record Period, respectively. Our research and development expenditures mainly include the cost of raw materials, staff costs and utilities. We currently expect that we will maintain our research and development expenditures at around five per cent. of our revenue in each year following the Listing.

As of 31 December 2020, we had 40 research and development team members in our research and development centre and had 28 technicians overseeing production activities at our Phase 1 Production Plant. Among our 40 research and development team members, more than 20 of them are holders of bachelor's degrees or above, including five master's degree holders, four doctor's degree holders and three professors. Our research and development efforts are currently led by Professor FU (付建生教授), our chief engineer and a pioneer in pearlescent pigment industry in the PRC, Mr. LIN Zhengjiao (林正交先生), our research and development director, and Mr. FENG Zhongqi (冯中起先生), our deputy chief engineer. All of them have extensive experience in the pearlescent pigment and synthetic mica industries.

We also have collaborations with universities and institutions in the PRC on various research projects. For example, we cooperated with (a) Guangxi Academy of Sciences (广西科学院) to establish the National Enterprise Research and Development Technology Center (国家企业研发技术中心) for research on the industrial applications of pearlescent pigment products and synthetic mica and (b) Hubei University of Technology (湖北工业大学) to establish the "Chesir Pearlescent New Material Research and Development Center" (七色珠光新材料研发中心) for research and development of new

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products and new applications, improvement and development of new production technology and upgrading our production plant and machinery. We have also entered into various cooperations with Guangxi University (广西大学) and Guangxi University of Science and Technology (广西科技大学). See the paragraphs under “Research and development” below for further information.

As of the Latest Practicable Date, Chesir Pearl has undertaken eight scientific research projects on national level, provincial and ministerial level in the PRC, such as “Implementation Plan of Synthetic Mica” (合成雲母實施方案) and “Research and Development and Industrialisation of Key Technology of Weather-resistance Pearlescent Pigment Materials of Automobile on Provincial Level” (省級汽車專用耐候級高品質珠光顏料關鍵技術研發及產業化). We manage to achieve successful development of new products, commercialisation and mass production of new products as a result of our research and development efforts from our research and development projects. See the paragraphs under “Research and development” below for further information. We had registered 26 patents and had submitted 14 patent applications in the PRC as of the Latest Practicable Date. Our patented production technology includes inventions in relation to colours, textures, heat resistances and electrical conductivity of pearlescent pigment products. See the paragraphs under “B. Further information about the business of our Group — 2. Intellectual property” in Appendix V to this prospectus for further information.

Our research and development efforts are well recognised and we have received a number of awards and recognitions. We obtained the accreditation of “National Intellectual Property Advantage Enterprise” (國家知識產權優勢企業) in 2017 and “Innovative Technology Exemplary Enterprise” (技術創新示範企業) in Guangxi Zhuang Autonomous Region in 2018. One of our registered patents was awarded with gold award in 2014 and three registered patents were awarded with silver award in 2014, 2017 and 2018 in “Guangxi Innovation Creation Exhibition and Trade Fair Participation Project” (廣西發明創造成果展覽交易會項目). See the paragraphs under “Awards and recognitions” below for further information.

With our recognised product research and development, our production scale, production know-how, experience and expertise in the pearlescent pigment and synthetic mica industries, we believe we will be able to further strengthen our position in the pearlescent pigment and synthetic mica markets.

### **We have a strong marketing team.**

We believe that the extensive coverage of our sales network in the PRC enables us to reach out to a broader customer base, thereby establishing our market presence and brand awareness in the PRC. We have established a strong sales channel across different provinces and cities in the PRC through the trading company customers.

For our sales in the PRC, we have a total of 51 sales personnel with designated teams responsible for three specified geographical regions in which our customers are located. We have established sales offices in Chengdu in Sichuan Province, Hangzhou in Zhejiang Province, Zhengzhou in Henan Province, Wuhan in Hubei Province, Guangzhou and Dongguan in Guangdong Province and Shanghai. In order to strengthen our relationship with the trading company customers, we have our dedicated

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sales and marketing team who pay visits to the trading company customers on a regular basis for feedback on our products, assist with the provision of after-sales services, promote our products and provide trainings on product technical specifications and downstream applications. A majority of our sales personnel have over five years of experience in the sales of pearlescent pigment products.

During the Track Record Period, a significant proportion of our pearlescent pigment products were sold to trading company customers. During the Track Record Period, revenue generated from our sales to trading company customers amounted to RMB257.6 million, RMB346.6 million and RMB463.5 million, respectively, accounting for 80.9%, 78.7% and 81.4% of our total revenue. During the Track Record Period, our products were sold to 212, 213 and 235 trading company customers.

During the Track Record Period, our products are sold to customers in more than 30 countries and territories in Asia (excluding China), Europe, Africa and South America. As of the Latest Practicable Date, we had a team of 11 sales personnel dedicated to managing our sales to customers in international markets.

### **We have an experienced management team.**

Our executive Directors and senior management team have extensive experience in the pearlescent pigment industry. Mr. SU has about ten years of experience in the pearlescent pigment industry. In addition, most of our senior management have more than ten years of experience in the management or operations of pearlescent pigment and synthetic mica products manufacturing. We believe that our Directors and senior management's industry vision, dedication and management experience have helped facilitate the development of our business. In addition to formulating our business plans and strategies, they focus on the consistent delivery of high-quality products and continuous technological innovations. They have also fostered a corporate culture that keeps our staff motivated and attracts high-calibre staff to our Group, which we believe is instrumental to our continued success. See the section headed "Directors, Senior Management and Employees" in this prospectus for further information.

### **OUR STRATEGIES**

We intend to continue to increase our market share in the pearlescent pigment and synthetic mica industries. To achieve our goals, we plan to pursue the following strategies:

#### **Expand our production capacity for the production of pearlescent pigment products.**

According to the Frost & Sullivan Report, the market size of the PRC pearlescent pigment market is expected to grow at a CAGR of 30.8% from RMB5.7 billion in 2021 to RMB14.2 billion in 2025 while the market size of the global pearlescent pigment product market is expected to grow at a CAGR of 23.9% from RMB22.8 billion in 2021 to RMB44.6 billion in 2025. There has been rapid growth in the demand for pearlescent pigment products on account of the expansion of downstream applications and wide acceptance of pearlescent pigment products for its new aesthetic and visual effect, remarkable chemical properties such as temperature resistance, weather resistance, lightfastness, colour fastness and water resistance.

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We plan to construct our Phase 2 Production Plant for the production of pearlescent pigment products with an estimated designed annual production capacity of 30,000 tonnes and Luzhai Synthetic Mica Plant for the production of synthetic mica flakes with an estimated designed annual production capacity of 30,000 tonnes.

### *Phase 2 Production Plant*

We plan to allocate 55.6% of the net proceeds from the Global Offering to partially finance the construction of our Phase 2 Production Plant for the production of pearlescent pigment products, in particular, high-end and high-performance pearlescent pigment products with a designed annual production capacity of 30,000 tonnes. The estimated investment amount for our Phase 2 Production Plant is RMB1,337.9 million. As of the Latest Practicable Date, we have used RMB304.6 million. Other than the amount of RMB493.7 million to be allocated out of the net proceeds from the Global Offering for the purpose, it is our plan that the remaining balance of RMB539.6 million will be funded by our internal and/or external financial resources. See the section headed “Future Plans and Proposed Use of the Net Proceeds from the Global Offering” in this prospectus for further information. Our Phase 2 Production Plant will be an industrial complex with a total gross floor area of 145,180.3 sq.m. and will have the following facilities:

- (a) four factory buildings with an aggregate designed annual production capacity of 30,000 tonnes of pearlescent pigment products, in particular, high-end pearlescent pigment products;
- (b) supply of electricity facilities;
- (c) ancillary facilities and warehouses;
- (d) staff quarters;
- (e) administrative buildings; and
- (f) sewage treatment facilities.



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We expect to invest RMB770.7 million, RMB137.1 million, RMB326.3 million and RMB103.8 million during the respective stages of the development of our Phase 2 Production Plant. Based on the planned investment in building, property, plant and equipment, we expect that the depreciation expense would increase by RMB9.1 million, RMB38.5 million, RMB52.6 million, RMB66.3 million and RMB70.2 million for each of the five years ending 31 December 2025. Our Directors expect that the implementation of our expansion plans and the construction of our Phase 2 Production Plant may lead to an increase in depreciation expense in the future and our financial performance and operating results could be affected as a result. See the section headed “Risk Factors — Risks relating to our business — Our plan to construct our Phase 2 Production Plant and our Luzhai Synthetic Mica Plant will increase our depreciation expense and could adversely affect our operating results and financial position” in this prospectus for further information.

As of the Latest Practicable Date, we have completed technical design and initial construction works including underground foundation work, fences, roadworks, construction of temporary facilities and procurement of steel structures for the factory. We have obtained the construction works planning permit and the construction works commencement permit and the requisite permits, and approvals in respect of environmental impact assessment before commencing such initial construction and we target to complete the first phase of construction with a designed annual production capacity of 6,000 tonnes in the fourth quarter of 2021. Our Directors believe that the construction of our Phase 2 Production Plant could increase our production capacity of pearlescent pigment products with economies of scale.

### *Luzhai Synthetic Mica Plant*

We plan to allocate 34.1% of the net proceeds from the Global Offering to partially finance the construction of our Luzhai Synthetic Mica Plant with a designed annual production capacity of 30,000 tonnes of synthetic mica flakes. The estimated investment amount for our Luzhai Synthetic Mica Plant is RMB471.1 million. As of the Latest Practicable Date, we have used RMB29.4 million. Other than the amount of RMB302.2 million to be allocated out of the net proceeds from the Global Offering for the purpose, it is our plan that the remaining balance of RMB139.5 million will be funded by our internal and/or external financial resources. See the section headed “Future Plans and Proposed Use of the Net Proceeds from the Global Offering” in this prospectus for further information.

Our Luzhai Synthetic Mica Plant will be an industrial complex with a total site area of 42,467.2 sq.m., which will include the following facilities:

- (a) three factory buildings with an aggregate designed annual production capacity of 30,000 tonnes of synthetic mica flakes;
- (b) supply of electricity facilities;
- (c) ancillary facilities and warehouses;
- (d) staff quarters;
- (e) administrative buildings; and
- (f) sewage treatment facilities.

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We have acquired a parcel of land situated on the southeastern side of National Highway G322 and the southwestern side of Mountain Guniang Luzhai County, Liuzhou City, Guangxi Zhuang Autonomous Region, the PRC with a site area of 42,467.20 sq.m.. The cost of acquiring the land parcel amounted to RMB10.4 million and is part of the total investment amount of RMB471.1 million. As of the Latest Practicable Date, including the cost of acquiring the land parcel of RMB10.4 million, we had incurred RMB29.4 million for the construction of our Luzhai Synthetic Mica Plant. The expected timetable in relation to the construction of our Luzhai Synthetic Mica Plant is as follows:

	2019				2020				2021				2022				2023				2024				2025	
	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2		
<b>Implementation</b>																										
Stage 1 with designed annual production capacity of 6,000 tonnes																										
- Feasibility study																										
- Initial construction works																										
- Preliminary design																										
- Technical and construction design <sup>(1)</sup>																										
- Civil construction																										
- Equipment installation																										
- Training and trial production <sup>(2)</sup>																										
- Capacity ramp up																										
Stage 2 with designed annual production capacity of 14,000 tonnes																										
- Equipment installation																										
- Training and trial production <sup>(2)</sup>																										
- Capacity ramp up																										
Stage 3 with designed annual production capacity of 24,000 tonnes																										
- Equipment installation																										
- Training and trial production <sup>(2)</sup>																										
- Capacity ramp up																										
Stage 4 with designed annual production capacity of 30,000 tonnes																										
- Equipment installation																										
- Training and trial production <sup>(2)</sup>																										
- Capacity ramp up																										
Completion																										

*Note:*

- (1) The relevant construction approvals and permits for commencement of the construction will be applied and obtained before commencing the construction of our Luzhai Synthetic Mica Plant. As advised by our PRC Legal Advisers, there is no legal impediment to obtain such construction approvals and permits.
- (2) It is expected that production labour will be recruited and trained for our Luzhai Synthetic Mica Plant during the respective stages.



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We expect to invest RMB325.2 million, RMB47.4 million, RMB61.1 million and RMB37.4 million during the respective stages of the development of our Luzhai Synthetic Mica Plant. Based on the planned investment in building, property, plant and equipment, we expect that the depreciation expense would increase by RMB11.4 million, RMB17.6 million, RMB21.8 million and RMB24.7 million for each of the four years ending 31 December 2025. Our Directors expect that the implementation of our expansion plans and the construction of our Luzhai Synthetic Mica Plant may lead to an increase in depreciation expense in the future and our financial performance and operating results could be affected as a result. See the section headed “Risk Factors — Risks relating to our business — Our plan to construct our Phase 2 Production Plant and our Luzhai Synthetic Mica Plant will increase our depreciation expense and could adversely affect our operating results and financial position” in this prospectus for further information.

As of the Latest Practicable Date, we have commenced initial preparation works including project approval, and land levelling. We target to complete the first stage of construction with a designed annual production capacity of 6,000 tonnes in the second quarter of 2022. Our Directors believe that the construction of our Luzhai Synthetic Mica Plant could increase our production capacity of synthetic mica powder with economies of scale because of the increased scale of operation.

Our expansion plans and the planned increase in production capacity have been formulated after taking into consideration our close to full capacity operation, the demand for our products, our strategies to enhance our marketing activities to enhance our brand recognition, our research and development efforts to continue with the development of new products and new applications and the implementation of favourable global and PRC regulations. We believe that the following factors would substantiate that there will be sufficient market demand for the increase in our production capacity through the construction of our Phase 2 Production Plant and Luzhai Synthetic Mica Plant:

*(a) We have been operating close to full capacity*

The utilisation rate of the production facilities for the production of pearlescent pigment products has reached 98.3% for the year ended 31 December 2020, at which our Directors believe to be the maximum levels that justify the implementation of our expansion plan and give rise to the need for the construction of our Phase 2 Production Plant to satisfy the increase in demand for our pearlescent pigment products.

Synthetic mica powder produced by our Group during the Track Record Period were primarily used by our Group for the production of synthetic mica-based pearlescent pigment products. During the Track Record Period, our Group used 1,074 tonnes, 2,478 tonnes and 4,033 tonnes of synthetic mica powder for our own production purpose, respectively, representing 68.7%, 67.8% and 95.4% of the total actual production volume of the synthetic mica powder produced by our Group during the same years. Such percentage increased to 95.4% for the year ended 31 December 2020 primarily due to the increase in demand for synthetic mica-based pearlescent pigment products (as a result of which we increased the self-use percentage for production purpose) and the low level of inventories brought forward from the previous year.

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To maintain the quality of our synthetic mica-based pearlescent pigment products, we have not procured any raw material of synthetic mica powder from other third party suppliers during the Track Record Period. All synthetic mica powder used as raw material for our production of synthetic mica-based pearlescent pigment products are produced by us. The production of synthetic mica powder primarily consists of three key stages, namely (a) mixing of raw materials, (b) production of synthetic mica flakes and (c) processing of synthetic mica flakes into synthetic mica powder for production purpose. The mixture of raw materials, which include silica, fused magnesia, potassium fluorosilicate, alumina and potassium carbonate, will be melted to form synthetic mica flakes, which will then undergo further processing procedures of grinding, milling, separation and dehydration to form synthetic mica powder for the production of synthetic mica-based pearlescent pigment products. Synthetic mica flakes is a semi-finished product which is instrumental to the output of the synthetic mica powder. As such, our production capacity of synthetic mica-based pearlescent pigment products and synthetic mica powder are therefore limited by our production capacity of synthetic mica flakes. See the paragraphs under “Production process — Production process of synthetic mica powder” below for further information of the key stages of the production process of synthetic mica powder. As a result, the bottleneck of our production of synthetic mica-based pearlescent pigment products and synthetic mica powder lies in our production capacity of synthetic mica flakes. As the utilisation rate of our production facilities for the production of synthetic mica flakes was 94.2% during the year ended 31 December 2020, which has been close to full capacity, our Directors believe that there is a pressing need for the construction of our Luzhai Synthetic Mica Plant in order to enhance our production capacity of synthetic mica flakes to satisfy the increase in demand for our synthetic mica-based pearlescent pigment products.

Based on the expected dates of commencement of the commercial production of the Luzhai Synthetic Mica Plant from the third quarter of 2022 and that the demand for the synthetic mica-based pearlescent pigment products will continue to increase as set forth in the section headed “Industry Overview” in this prospectus, and taking into consideration (a) the expected production volume of the synthetic mica-based pearlescent pigment products of our Group and (b) the expected levels of internal consumption of the synthetic mica powder (which is produced from the synthetic mica flakes) for our production purpose up to the end of 2025, our Directors expect that the overall annual utilisation rates for the production facilities for the production of synthetic mica flakes upon commencement of commercial production of our Luzhai Synthetic Mica Plant would be in the range between 55.8% and 67.2%. Such percentage is expected to increase over the four-year period with the increase in demand for synthetic mica-based pearlescent pigment products and the corresponding increase in production volume of synthetic-mica based pearlescent pigment products. See the paragraphs under “Our strategies — Expand our production capacity for the production of pearlescent pigment products — Luzhai Synthetic Mica Plant” above for further information. The above estimation of the annual utilisation rates is based on the information currently available to our Directors and is for illustrative purpose only.

We believe the increased production capacity would enhance our competitiveness and increase our market share in both the PRC and the international pearlescent pigment markets.

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*(b) Customers' demand for our products*

Based on our historical results of operations, our total number of customers increased from 294 for the year ended 31 December 2018 to 367 for the year ended 31 December 2020. Furthermore, our year-to-year revenue growth during the Track Record Period was 38.5% and 29.2%. Sales volume of our pearlescent pigment products has also recorded significant growth during the Track Record Period, amounting to 31.3% and 27.7% of year-to-year growth during the Track Record Period. During the Track Record Period, sales to our five largest customers accounted for 20.2%, 17.8% and 16.8% of our total revenue, respectively, and sales to our largest customer, accounted for 5.0%, 4.2% and 3.6% of our total revenue, respectively. With the increasing market demand for pearlescent pigment products according to Frost & Sullivan and our continuous efforts in sales and marketing, we believe that the demand of our products will continue to increase along with the growth of the pearlescent pigment market in both the PRC and the global markets.

We have maintained a strong and stable relationship with our existing customers. During the Track Record Period, 92.8%, 95.2% and 92.5% of our revenue was contributed by recurring customers, respectively, that have previously purchased pearlescent pigment products and/or synthetic mica powder from us. Our Directors believe that this demonstrates the loyalty of our customers and reflects customers' confidence in our products because of our brand reputation, production capacity, diversified product series, product quality and product performance. As of the Latest Practicable Date, our Group has maintained business relationship ranging from five to seven years with our five largest customers during the Track Record Period. In light of our stable business relationship with our major customers, our Directors believe that our major customers will continue to place orders with us.

Moreover, as of the Latest Practicable Date, we have entered into annual sales framework agreements with 26 trading company customers (among which 22 are recurring Authorised Resellers and four are our existing trading company customers), with an aggregate minimum purchase amounts of not less than RMB407.5 million. During the three months ended 31 March 2021, sales revenue generated from these Authorised Resellers amounted to RMB76.0 million. Taking into consideration our confirmed sales orders and the expected delivery date (the day on which we would be able to recognise our revenue), we expect that the amount of revenue that may be generated from these Authorised Resellers would be not less than RMB107.3 million for the four months ended 30 April 2021, representing 26.3% of the aggregate minimum purchase amount stated in the relevant sales framework agreements.

During the Track Record Period, certain of the Authorised Resellers were not able to meet the minimum purchase amounts stipulated in the annual sales framework agreements. We will continue to monitor the actual monthly sales amounts to these Authorised Resellers and will work with them on promoting our pearlescent pigment products should there be any significant shortfall from the targeted sales level. During the Track Record Period, the Authorised Resellers could achieve 91.1%, 93.3% and 106.5% of the aggregate of the minimum purchase amounts, respectively. In light of the increasing market demand for our products as disclosed in the paragraphs under "Our strategies — Expand our production capacity for the production of pearlescent pigment products" above, our Directors are not aware of any major factor or issue which could lead us to cast any doubt on the Authorised Resellers achieving the minimum purchase amounts of RMB407.5 million for the year ending 31 December 2021.

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Our Directors further believe that there would be an increasing demand for synthetic mica-based pearlescent pigment products for various industrial and non-industrial applications, as evidenced by the increase in the market share of the synthetic mica-based pearlescent products in the global pearlescent pigment market from 5.3% in 2016 to 11.7% in 2020. According to the Frost & Sullivan Report, such percentage would continue to increase to 23.6% in 2025.

*(c) Our business strategy to enhance our brand recognition in our target markets*

We believe that our business strategy to enhance our brand recognition in our target markets would support our business growth and development, which would necessitate the need for the increase in our production capacity. We intend to allocate RMB28.3 million of the net proceeds from the Global Offering for sales and marketing activities and building of sales network to enhance our brand recognition in the PRC and overseas. We plan to (a) enhance our brand image through advertisements and promotional activities on printed and online media, (b) organise technology training seminars and technology forums and (c) participate in exhibitions and industry events in the PRC and abroad to raise brand awareness among our potential customers. During the Track Record Period, we sold a majority of our pearlescent pigment products and synthetic mica powder to customers in the PRC. Our revenue derived from sales to overseas customers amounted to RMB25.0 million, RMB30.2 million and RMB29.9 million, representing 7.9%, 6.8% and 5.3% of our total revenue, respectively, during the Track Record Period.

*(d) Our business strategy to continue our research and development efforts in developing new products and new applications*

We believe our business strategy to continue our research and development efforts can enhance our sales to our existing customers and attract new customers, prompting for the need to increase our production capacity. A portion of our net proceeds will be used to increase our research and development expenditures. We intend to continue our research and development effort in developing new products and new applications, researching on the use of new substrates, improving our processing and production technology and improving and developing new plant and machinery to enhance our production efficiency to cater to the industry trend and changing needs and requirements of customers. As of the Latest Practicable Date, our product portfolio comprised 777 products. During the Track Record Period, we had new product offerings of 15, 56 and 42, respectively.

One of our strategic goal is to strengthen our market position in the pearlescent pigment market both in the PRC and the global markets. According to the Frost & Sullivan Report, the market size of the PRC pearlescent pigment market reached RMB14.2 billion in 2025 while the market size of the global pearlescent pigment market reached RMB44.6 billion in 2025. According to the same report, the market size of the PRC synthetic mica-based pearlescent pigment market reached RMB4.6 billion in 2025 while the market size of the global synthetic mica-based pearlescent pigment market reached RMB10.5 billion in 2025. Our Directors believe that if we are to maintain our market position in the pearlescent pigment market and synthetic mica-based pearlescent pigment market, we have to ensure that our production capacity would increase at a level commensurate with the growth rate of the market size of the pearlescent pigment market and synthetic mica-based pearlescent pigment market in the future. We believe that the continuous growth of market demand has provided us the drive to expand our production capacity to satisfy the increasing demand for our products.

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In addition, as part of our business strategies, we intend to use RMB14.8 million of the net proceeds from the Global Offering for research and development in cosmetic-grade and weather resistant pearlescent pigment products and pearlescent pigment products with special functions, our Directors believe that we will be able to build up a comprehensive portfolio of high-end pearlescent pigment products to cope with the demand for high-end and high performance pearlescent pigment products, in particular cosmetic-grade and automotive pearlescent pigment products. With our continued efforts in product research and development, we believe we will be able to enhance sales to our existing customers and sales to new customers.

We commenced research and development of cosmetic-grade pearlescent pigment products and synthetic mica powder in 2018 and introduced our first cosmetic-grade pearlescent pigment product in 2019. As of 31 December 2020, we offered 43 cosmetic-grade pearlescent pigment products to the market. Our cosmetic-grade pearlescent pigment products comprise primarily synthetic mica-based pearlescent pigment product, which are free of heavy metal contents with remarkable properties of high colour saturation, colour richness and comfortable to be used on the skin with UV protection due to their fine particles. Our Directors believe that our cosmetic-grade pearlescent pigment products provide a good alternative to natural mica-based pearlescent pigment products. Our Phase 2 Production Plant will have production lines for cosmetic-grade pearlescent pigment products to cope with the increase in demand for cosmetic-grade pearlescent pigment products.

We also intend to capture the growing demand for automotive pearlescent pigment products. We commenced research and development of automotive pearlescent pigment products in 2015 and introduced our first automotive pearlescent pigment product in 2018. As of 31 December 2020, we offered 11 automotive pearlescent pigment products to the market. Our automotive pearlescent pigment products have passed the IATF 16949:2016 certification, which is the general standard of the international automotive industry. Our automotive pearlescent pigment products can withstand harsh environmental conditions and UV exposure and have the characteristics of weather resistance, light stability, chemical inertness, thermal stability, high colour fidelity, colour durability, colour constancy and lasting brilliance. In addition, our automotive pearlescent pigment products are generally priced more competitive than the imported products. Liuzhou City is the only PRC city in which four leading automobile brands in the PRC have established production facilities. With the promotion and support by the local government, our Directors expect that the government support would bolster the use of pearlescent pigment products for automotive applications.

*(e) There have been favourable policies issued in the PRC and globally to support the development of pearlescent pigment products and synthetic mica industries, which have also expanded the applications of pearlescent pigment products.*

The PRC Government has strong support for the development of the pearlescent pigment market. According to the Catalogue for Guiding Industrial Restructuring (Version 2019)《產業結構調整指導目錄(2019年本)》issued by the NDRC in November 2019, the manufacturing of pearlescent pigment is included as one of the encouraged industries and enjoys policy support. According to the “Classification of Strategic Emerging Industries (2018)” (National Bureau of Statistics Order No. 23) (《戰略性新興產業分類(2018)》(國家統計局令第23號)), the manufacturing of mica-based pearlescent pigment products and mica products are included as one of the strategic emerging industries under the PRC Strategic Emerging Industry Classification (2018).

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Although we have not yet produced pearlescent pigment products for use in pharmaceutical and food applications currently, it is expected that new regulations passed in the U.S., and Canada will further expand the applications of pearlescent pigment products to the pharmaceutical, food and other industries and promote the industry growth of the pearlescent pigment market.

The Revisions of Code of Federal Regulations (21CFR73.350) issued by the United States (Food and Drug Administration) in April 2019 has allowed for the use of pearlescent pigment products prepared by titanium oxides and micas in sweet wine, liqueur, malt beverages, wine coolers, cocktail and nonalcoholic cocktail mixers, with maximum proportion of weight being 0.1%. In Canada, Regulations Amending the Food and Drug Regulations (SOR/2018-248) issued by Health Canada in November 2018, has permitted the use of mica coated with titanium dioxide and/or iron oxide as colouring agents in drugs that are in solid or liquid dosage forms for oral administration and for drugs that are for external use.

We believe the above factors would substantiate that there will be sufficient market demand for the increase in our production capacity through the construction of our Phase 2 Production Plant and Luzhai Synthetic Mica Plant. We believe that the proposed expansion plan would enable us to capture the expected growth in the pearlescent pigment and synthetic mica-based pearlescent pigment markets in the future.

The Phase 2 Production Plant and the Luzhai Synthetic Mica Plant would commence commercial production on a stage-by-stage basis during the period from the fourth quarter of 2021 to the second quarter of 2025.

The table below illustrates the planned increase in the annual production capacity of our Phase 2 Production Plant up to the first quarter of 2025:

	<u>Fourth quarter of 2021</u>	<u>First quarter of 2023</u>	<u>First quarter of 2024</u>	<u>First quarter of 2025</u>
Aggregate production capacity. . . . .	6,000 tonnes	14,000 tonnes	24,000 tonnes	30,000 tonnes

The table below illustrates the planned increase in the annual production capacity of our Luzhai Synthetic Mica Plant up to the second quarter of 2025:

	<u>Second quarter of 2022</u>	<u>Second quarter of 2023</u>	<u>Second quarter of 2024</u>	<u>Second quarter of 2025</u>
Aggregate production capacity. . . . .	6,000 tonnes	14,000 tonnes	24,000 tonnes	30,000 tonnes

Our production capacity of pearlescent pigment products and synthetic mica powder would increase on a gradual basis after the Listing with the support from the corresponding increases in our marketing efforts and the customer base as well as the increasing applications of our pearlescent pigment products.

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We may face a number of risks and challenges in the implementation of our expansion plans, including technical difficulties, resource constraints, or capital investment or funding constraints. See the section headed “Risk Factors — Risks relating to our business — The construction of our Phase 2 Production Plant and our Luzhai Synthetic Mica Plant might not be completed as planned, may exceed our original budget and might not achieve the intended economic results or commercial viability.” in this prospectus. We also expect an increase in depreciation charges in relation to the installation of new machinery and equipment.

### **Further strengthen our research and development capability.**

We will continue our research and development effort in developing new products and new applications, researching on the use of new substrates, improving our processing and production technology and improving and developing new plant and machinery to enhance our production efficiency to cater to the industry trend and changing needs and requirements of customers. A portion of our net proceeds will be used to increase our research and development expenditures. See the section headed “Future Plans and Proposed Use of the Net Proceeds of the Global Offering” in this prospectus for further information.

Our research and development efforts on new product and new applications of our products will focus on various areas, including enhancing our research efforts on automotive and cosmetic-grade and weather resistant pearlescent pigment products to further improve our product structure for our high-end pearlescent products, developing more diversified pearlescent pigment products using synthetic mica as the substrate, diversifying applications for our pearlescent pigment products and developing customised pearlescent pigment products for the special needs of the industries and our customers. With the increasing downstream demand for product customisation, we intend to develop customised pearlescent pigment products catering to the specific needs and requirements of the downstream applications, in particular high-end applications. We will communicate with our customers before production and provide customised products pursuant to the various requirements of our customers, including specific colour effect, texture and colour spectrum which can help our customers to enhance their product features. Through tailoring our products to meet the specific needs of our customers, we can offer our customers flexibility to decide on the features that make their product unique.

Our research and development team will also enhance research and development on our existing substrates for pearlescent pigment products, including synthetic mica, glass flakes, and the use of alternative substrates such as alumina flakes, graphene and other new substrates, and develop more diversified pearlescent pigment products for different downstream applications.

We will continue to invest in new technology and new plant and machinery to further improve and optimise our production process in order to enhance our production efficiency and reduce our production cost. We will improve the facilities of our laboratory and research and development centre, including the construction of a research centre on synthetic mica, a laboratory for new products and new applications, a laboratory for product application and innovation and the addition of a testing laboratory for heavy metals, microbiological testing room and equipment, ICP-MS heavy metal analyser, X-ray powder diffractometer (X射線粉末衍射儀), X-ray photoelectron spectrometer (X射線光電子能譜儀) and other research facilities for the use of new substrates. We intend to undertake further research for the development of a new generation of intelligent production and

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processing plant and technology for pearlescent pigment products. We will improve our production facilities for synthetic mica with continuous and automatic temperature control in the melting and crystallisation process. We will undertake further research to improve our processing technology by developing mica grinders that can reduce the amount of wastage. We will also develop the use of new centrifugal classification machinery that can have better control of the particle size of mica. Research will be conducted to further improve the processing technology for the hydrolysis coating process of our pearlescent pigment products, introduce automatic feeding and control of various processing parameters, to minimise the colour difference of pearlescent pigment products and improve the glossy finish and hiding power of pearlescent pigment products. We will also further improve the washing process in the pearlescent pigment production process by introducing equipment with fast-switching lines, which can reduce the use of water and is environmentally-friendly.

### **Enhance our market position through promoting our brand awareness.**


As of the Latest Practicable Date, our sales and marketing team consisted of 51 sales personnel with designated groups responsible for the sales to different regions in the PRC and the international markets. Our sales and marketing team maintains regular contacts with our existing customers and is also responsible for liaising with prospective customers through various marketing and promotional activities, including trade shows, exhibitions, industry forums, trainings on new technology and new applications. We plan to devote more resources towards our marketing and advertising initiatives and intend to advertise more on industry journals, newspapers, internet, printed media and outdoor billboards and through product display and promotional video to further enhance our brand recognition in our target markets. We also plan to participate in more technology training seminars, technology forums, domestic and overseas exhibitions to promote our brand.

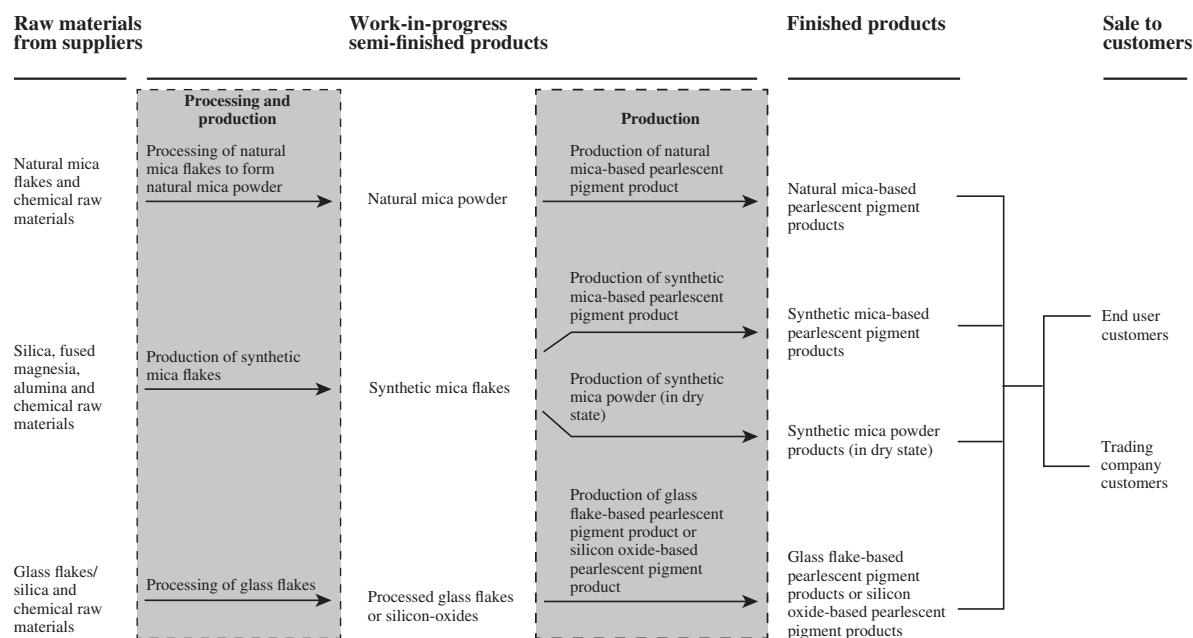
### **OUR BUSINESS MODEL**

Our pearlescent pigment products primarily use natural mica, synthetic mica, glass flakes and silica as substrates, which are coated with a single or multiple layers of metal oxides. Our pearlescent pigment products broadly include (a) natural mica-based pearlescent pigment products; (b) synthetic mica-based pearlescent pigment products; (c) glass flake-based pearlescent pigment products; and (d) silicon oxide-based pearlescent pigment products.



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Our pearlescent pigment products are sold to trading company customers and end user customers for different industrial applications. We also produce synthetic mica powder of different granule sizes for sales to our customers. Our products are sold in the PRC and international markets under our own brand of “Chesir Pearl” . The diagram below illustrates our business model:



See the paragraphs under “Production process” below for further information.

### OUR PRODUCTS

Our products can be broadly divided into (a) natural mica-based pearlescent pigment products; (b) synthetic mica-based pearlescent pigment products; (c) glass flake-based pearlescent pigment products; and (d) silicon oxide-based pearlescent pigment products. Our pearlescent pigment products are used as colourant in diverse applications and industries, including industrial coatings, plastics, textiles and leather, cosmetics and automotive coatings. We also produce synthetic mica powder of different granule sizes. Our synthetic mica powder is used by us for the production of synthetic mica-based pearlescent pigment products. Our synthetic mica powder can also be used as raw materials for the production of functional fillers, insulating materials, refractory materials and nickel-hydrogen batteries.

Pearlescent pigment is produced by coating of the substrate with a layer or multiple layers of metal oxides with high refractive index, and is used to simulate the inherent lustre, brilliance and gleam of natural pearls. Owing to the layered structure, light is reflected at different levels in the pearlescent pigment, causing reflected lights to interfere with each other, leading to amplification and cancellation, which creates the pearlescent effect in the form of unique lustre and gleam. Through the use of different substrates and adjustment to the thickness of the coatings in the production of pearlescent pigment, there can be variation in the refractive indices and optical path leading to different light reflection and formation of a variety of colours and colour effects. Pearlescent pigment products cover diverse colour spectrum and offer distinctive lustre properties and colour intensity.

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Pearlescent pigments products have remarkable chemical properties such as temperature resistance, lightfastness, water resistance and colour fastness. Pearlescent pigment products of different colours and particle sizes have different lustre, enabling a spatially and optically variable effect. Pearlescent pigments products have been widely accepted by the market because of the new sense of aesthetic and visual effects.

We set forth below pictures of certain of our major pearlescent pigment products:



**Silver-white series of our natural mica-based pearlescent pigment products**



**Crystal gold series of our synthetic mica-based pearlescent pigment products**



**Rainbow series of our natural mica-based pearlescent pigment products**



**China red series of our synthetic mica-based pearlescent pigment products**



**Diamond series of our glass flake-based pearlescent pigment products**



**Blurred starry sky series of our silicon oxide-based pearlescent pigment products**

### **Industrial applications of our pearlescent pigment products**

#### ***Industrial coatings***

Pearlescent pigment possesses physical stability and can be used with coatings of various forms including solvent-based, water-based and pigment powder. Pearlescent pigment can withstand high temperature and has high resistance to acid and alkali. These properties make pearlescent pigment suitable for use in industrial coatings.

#### ***Plastics***

Pearlescent pigment is used in plastics industry for its weather resistance, light and thermal stability as well as the stability against chemical and mechanical impact. Pearlescent pigment can give metallic and pearl lustre to plastics products and provide an even finish minimising cracks and pores on the plastics surface.

#### ***Textiles and leather***

Pearlescent pigment has the characteristics of wear resistance, thermal resistance, good air and water permeability and corrosion resistance to organic solvents, and has been increasingly used in surface colouring and surface processing for the manufacturing of leather goods and is widely used in leather, textiles and upholstery applications.

#### ***Cosmetics***

Pearlescent pigment has high colour saturation level and provide a wide array of colour, sparkle, shimmer and glitter effects to cosmetics.

#### ***Ceramics***

Pearlescent pigment can withstand high temperature and can be used in various kinds of ceramic applications, including in-glaze, on-glaze, single-firing and third-firing.

#### ***Automotive coatings***

Pearlescent pigment is widely used in automotive coatings due to its physical attributes of anti-corrosion, colour strength, durability, good coverage, chemical inertness, weather resistance, light and thermal stability, as well as the ability to withstand harsh environmental conditions and UV exposure. The glossiness and the gleam properties of the pearlescent pigment also provide premium lustre finishes to automobiles and are extensively used in the manufacturing of cars.

### **Natural mica-based pearlescent pigment products**

Natural mica-based pearlescent pigment products are produced by natural mica coated with a single or multiple layers of metal oxides. Titanium dioxide coated mica-based pearlescent pigment and iron/ferric oxide coated mica-based pearlescent pigment are the major products of our natural

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mica-based pearlescent pigment products. Natural mica-based pearlescent pigment products have the characteristics of pearl lustre, non-conductive, non-magnetic, chemical stability to light, heat, acid and alkali. Only very limited high quality natural mica with low heavy metal contents can be used for cosmetic-grade applications.

The table below sets forth the product series (comprising different colours, texture and glossiness) and the number of natural mica-based pearlescent pigment products offered by us:

Product series of our natural mica-based pearlescent pigment products	Major applications						Number of products offered as of the Latest Practicable Date
	Industrial coatings	Plastics	Textiles and leather	Cosmetics	Ceramics	Automotive coatings	
Golden series (金色系列) . . . . .	✓	✓	✓		✓		89
Rainbow series (虹彩系列) . . . . .	✓	✓	✓		✓		57
Colouring series (著色系列) . . . . .	✓	✓	✓		✓		26
Special products for powder coating (粉末塗料專用) . . . . .	✓						22
Morning light series (晨曦之光) . . . . .	✓	✓	✓	✓			21
SW series (SW系列) . . . . .						✓	8
Special tuning products (特調產品) . . . . .	✓	✓	✓		✓		89
Velvet series (天鵝絨系列) . . . . .	✓	✓	✓		✓		5
Anti-yellowing series (抗黃變系列) . . . . .	✓	✓	✓		✓	✓	4
Jade series (weather resistance) (翡翠系列(耐候)) . . . . .	✓	✓	✓		✓	✓	4
Weather resistant series (耐候系列) . . . . .	✓					✓	2
High purity series (高純系列) . . . . .	✓	✓	✓		✓		2
3D series (3D 系列) . . . . .	✓						2
Jade series (翡翠系列) . . . . .	✓	✓	✓		✓		1
Iron series (鐵系列) . . . . .	✓	✓	✓		✓		42
Silver-white series (銀白系列) . . . . .	✓	✓	✓		✓		91
CC series (CC 系列) . . . . .				✓			11
<b>Total</b>							<b>476</b>

### Synthetic mica-based pearlescent pigment products

Synthetic mica-based pearlescent pigment products are produced by synthetic mica coated with a single or multiple layers of metal oxides. Synthetic mica-based pearlescent pigments products have high colour density and strong metallic lustre, and can provide a wide array of colours. Synthetic mica-based pearlescent pigments products are resistant to high temperature, non-radioactive and have low impurity level. Synthetic mica-based pearlescent pigment products are increasingly used in the cosmetics industry as they are non-toxic, free of heavy metal contents level and dermatologically safe to use, which provides a good alternative to organic and metallic pigment products. The use of white synthetic mica-based pearlescent pigments products in combination with transparent dyes or pigments of other colours can provide various visual effects. The production process of synthetic mica-based pearlescent pigment products is generally eco-friendly, clean and free of heavy metals.

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The table below sets forth the product series (comprising different colours, texture and glossiness) and the number of synthetic mica-based pearlescent pigment products offered by us:

Product series of our synthetic mica-based pearlescent pigment products	Major applications						Number of products offered as of the Latest Practicable Date
	Industrial coatings	Plastics	Textiles and leather	Cosmetics	Ceramics	Automotive coatings	
Crystal rainbow series (水晶虹彩系列) . . . . .	✓	✓	✓			✓	53
Crystal silver series (水晶銀白系列) . . . . .	✓	✓	✓			✓	33
Crystal iron series (水晶鐵系列) . . . . .	✓	✓	✓			✓	26
Crystal gold series (水晶金色系列) . . . . .	✓	✓	✓			✓	25
Crystal cosmetics makeup series (水晶彩妝系列) . . . . .	✓	✓	✓			✓	10
Special tuning products (特調產品) . . . . .	✓	✓	✓			✓	8
CC series (CC系列) . . . . .				✓			89
Special products for powder coating (粉末塗料專用) . . . . .	✓						5
China red series (中國紅系列) . . . . .	✓	✓	✓				5
Morning light series (晨曦之光系列) . . . . .	✓	✓	✓	✓			3
ZD series (ZD系列) . . . . .				✓			2
Highlight series (高亮系列) . . . . .	✓	✓	✓			✓	2
High purity series (高純系列) . . . . .	✓	✓	✓			✓	2
SW series (SW系列) . . . . .	✓					✓	3
<b>Total</b>							<b>266</b>

### Glass flake-based pearlescent pigment products

Glass flake-based pearlescent pigment products are produced by glass flakes coated with a single or multiple layers of metal oxides. Glass flake-based pearlescent pigment products can create strong visual effect due to its good transparency, high refractive index and its large and smooth flake structure.

The table below sets forth the product series (comprising different colours, texture and glossiness) and the number of glass flake-based pearlescent pigment products offered by us:

Product series of our glass flake-based pearlescent pigment products	Major applications						Number of products offered as of the Latest Practicable Date
	Industrial coatings	Plastics	Textiles and leather	Cosmetics	Ceramics	Automotive coatings	
Diamond series (鑽石系列) . . . . .	✓	✓	✓			✓	22
Chameleon series (變色龍系列) . . . . .	✓	✓	✓			✓	8
<b>Total</b>							<b>30</b>

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### Silicon oxide-based pearlescent pigment products

Silicon oxide-based pearlescent pigment products are produced by silica particles coated with metal oxides such as titanium dioxide and iron oxide. The thickness of the metal oxide coating can be varied to provide a variety of colours. Silicon oxide-based pearlescent pigment products have the characteristics of matte finish, high temperature resistance, good skin adhesion, strong dispersibility, low heavy metal contents and UV absorption. In addition, with special processing, silicon oxide-based pearlescent pigment products can have the oil control and easy cleaning properties.

Product series of our silicon oxide-based pearlescent pigment products	Major applications						Number of products offered as of the Latest Practicable Date
	Industrial coatings	Plastics	Textiles and leather	Cosmetics	Ceramics	Automotive coatings	
Blurred starry sky series (迷離星空系列) . . . . .	✓	✓	✓	✓	✓	✓	<u>5</u>

### Synthetic mica powder products

Synthetic mica simulates the composition and structure of natural mica and is produced by synthesis of various minerals under a controlled environment. There are primarily five raw materials which are used for the production of synthetic mica, namely silica, fused magnesia, alumina, potassium fluorosilicate and potassium carbonate. Synthetic mica has the characteristics of good transparency, high level of whiteness, strong water resistance and is free of heavy metal contents, and has increasingly been used in cosmetics application. As confirmed in the Frost & Sullivan Report, the number of synthetic mica powder suppliers in the industry in 2020 was around 150. Frost & Sullivan further confirms that around 50 suppliers out of these 150 suppliers would manufacture synthetic mica powder and that around 10 suppliers out of these 50 suppliers would manufacture synthetic mica powder for the purpose of production of pearlescent pigments products. As advised by Frost & Sullivan, it is an industry norm for manufacturers of synthetic mica-based pearlescent pigment products to source synthetic mica powder externally due to the high investment cost and technological entry barriers involved for the production of synthetic mica powder.

We produce synthetic mica powder of different granule sizes (from 5 µm to 0.4 mm). Synthetic mica powder can be used for the production of pearlescent pigment products and also as raw materials for the production of functional fillers, insulating materials, refractory materials and nickel-hydrogen batteries. Synthetic mica powder produced by us is primarily used for our own production of synthetic mica-based pearlescent pigment products, but we also sell synthetic mica powder to our customers for various downstream industrial applications. As the technological development in the production and application of synthetic mica continues to improve, it is expected that the use of synthetic mica will expand into more downstream applications and there would be a significant growth in synthetic mica-based pearlescent pigment industry in both the PRC and international markets.

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### SALES AND CUSTOMERS

#### Products, sales volume and average selling prices

The table below sets forth an analysis of our revenue by products for the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	<i>% of the revenue</i>	<i>RMB'000</i>	<i>% of the revenue</i>	<i>RMB'000</i>	<i>% of the revenue</i>
Pearlescent pigment products . . . . .	314,976	99.0	434,155	98.5	565,788	99.4
- Natural mica-based . . . . .	245,321	77.1	295,510	67.1	318,958	56.0
- Synthetic mica-based . . . . .	68,280	21.5	124,705	28.3	197,141	34.6
- Glass flakes-based . . . . .	1,375	0.4	13,865	3.1	46,820	8.2
- Silicon oxide-based . . . . .	—	—	75	—*	2,869	0.5
Synthetic mica powder . . . . .	3,268	1.0	6,428	1.5	3,325	0.6
<b>Total</b>	<b>318,244</b>	<b>100.0</b>	<b>440,583</b>	<b>100.0</b>	<b>569,113</b>	<b>100.0</b>

\* Value insignificant

The table below sets forth the sales volume and the average unit selling prices by products for the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<b>Sales volume</b>	<b>Average unit selling price</b>	<b>Sales volume</b>	<b>Average unit selling price</b>	<b>Sales volume</b>	<b>Average unit selling price</b>
	<i>(tonnes)</i>	<i>(RMB'000 per tonne)</i>	<i>(tonnes)</i>	<i>(RMB'000 per tonne)</i>	<i>(tonnes)</i>	<i>(RMB'000 per tonne)</i>
Pearlescent pigment products						
- Natural mica-based . . . . .	7,217.9	34.0	8,822.4	33.5	10,056.8	31.7
- Synthetic mica-based . . . . .	1,228.8	55.6	2,231.8	55.9	3,943.5	50.0
- Glass flakes-based . . . . .	4.4	312.6	42.4	327.0	158.9	294.7
- Silicon oxide-based . . . . .	—	—	0.1	750.0	5.9	486.3
	8,451.1	37.3	11,096.7	39.1	14,165.1	39.9
Synthetic mica powder . . . . .	84.4	38.7	167.8	38.3	78.2	42.5
<b>Total</b>	<b>8,535.5</b>		<b>11,264.5</b>		<b>14,243.3</b>	

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Our sales volume of pearlescent pigment products increased continuously throughout the Track Record Period. Our sales volume of pearlescent pigment products increased from 8,451.1 tonnes for the year ended 31 December 2018 to 11,096.7 tonnes for the year ended 31 December 2019. The increases were primarily due to the increase in the sales volume of natural mica-based pearlescent pigment to 8,822.4 tonnes and synthetic mica-based pearlescent pigment to 2,231.8 tonnes, as compared to 7,217.9 tonnes and 1,228.8 tonnes during the year ended 31 December 2018, respectively. Whilst the average unit selling prices of these two types of pearlescent pigment products remained generally stable, the increases were primarily attributable to the combined effects of quality improvements, increase in our marketing efforts, increase in the number of pearlescent products offered to our customers, and increasing demand from our existing customers.

Our sales volume of pearlescent pigment products increased further to 14,165.1 tonnes for the year ended 31 December 2020. Such increase was primarily attributable to the increasing demand for our pearlescent pigment products which is in line with the PRC and the global trends of pearlescent pigment market. Nevertheless, the average unit selling prices for both natural mica-based pearlescent pigment products and synthetic-mica based pearlescent pigment products decreased by 5.4% and 10.6% between the two years ended 31 December 2020, respectively. The decreases were primarily due to our initiative to reduce the selling prices of selected pearlescent pigment products in response to the pandemic and the global lockdown as a result of COVID-19.


We sold 42.4 tonnes of glass flakes-based pearlescent pigment products during the year ended 31 December 2019, as compared to 4.4 tonnes during the year ended 31 December 2018 as a result of the increase in the number of glass flake-based pearlescent pigment products offered by us and our marketing efforts to promote our glass flake-based pearlescent pigment products. We could also command for a higher average unit selling price of RMB327,000 per tonne of glass flake-based pearlescent pigment products in 2019 as compared to RMB312,600 per tonne in 2018. Despite that we sold 158.9 tonnes of glass flake-based pearlescent pigment products during the year ended 31 December 2020 due to our increased promotion, the average selling prices of glass flake-based pearlescent pigment decreased by 9.9% as compared with the year ended 31 December 2019 primarily due to our competitive pricing strategy to promote our sales to trading company customers. During the two years ended 31 December 2020, sales to trading company customers accounted for 71.5% and 89.8%, respectively, of the sales revenue of glass flakes-based pearlescent pigment products.

We also started selling silicon oxide-based pearlescent pigment products and recorded sales of RMB75,000 during the year ended 31 December 2019, which represented one of our fastest growing products in 2020. Nevertheless, the average unit selling prices for silicon oxide-based pearlescent pigment products decreased by 35.2% for the year ended 31 December 2020. Such decrease was primarily due to our increasing sales to trading company customers, which accounted for 99.0% of the total revenue generated from such sales for the year ended 31 December 2020, as compared to 33.3% for the year ended 31 December 2019.



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### Our brand

We have sold our products under our brand of “Chesir Pearl”  since the commencement of our business. During the period between 2016 and 2019, “Chesir Pearl” was named as one of the famous brands in Guangxi Zhuang Autonomous Region (廣西壯族自治區知名品牌). We also participate in various industry exhibitions and trade fairs in the PRC and other countries to promote our business and our brand. For instance, we participated in CHINACOAT 2020 and SFCHINA 2020 in Guangzhou, the PRC in December 2020.

### Our markets

During the Track Record Period, we sold our products in the PRC and to more than 30 countries and territories in Asia (excluding the PRC), Europe, Africa and South America. We categorise our PRC market into three main geographical regions, namely Eastern, Western and Central regions, for ease of management of our sales activities. Trading company customers and end user customers in the region are managed by dedicated teams of sales personnel. We also have separate teams of sales personnel who are responsible for coordinating our sales to the international markets. The table below sets forth an analysis of our revenue by delivery destinations for the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
PRC						
- Eastern region <sup>(1)</sup> . . . . .	239,526	75.2	332,282	75.4	436,527	76.7
- Western region <sup>(2)</sup> . . . . .	24,408	7.7	36,635	8.3	45,267	8.0
- Central region <sup>(3)</sup> . . . . .	29,269	9.2	41,511	9.4	57,378	10.1
	293,203	92.0	410,428	93.1	539,172	94.8
Asia <sup>(4)</sup> . . . . .	11,351	3.6	14,084	3.2	13,287	2.3
Europe <sup>(5)</sup> . . . . .	10,144	3.2	13,653	3.1	11,174	2.0
Africa <sup>(6)</sup> . . . . .	2,944	0.9	2,058	0.5	5,276	0.9
South America <sup>(7)</sup> . . . . .	602	0.2	360	0.1	205	—*
<b>Total</b>	<b>318,244</b>	<b>100.0</b>	<b>440,583</b>	<b>100.0</b>	<b>569,113</b>	<b>100.0</b>

\* Value insignificant

#### Notes:

- (1) Eastern region in the PRC refers to Beijing, Fujian, Guangdong, Hebei, Jiangsu, Liaoning, Shandong, Shanghai, Tianjin and Zhejiang.
- (2) Western region in the PRC refers to Guangxi, Guizhou, Shaanxi, Sichuan, Xinjiang, Yunnan and Chongqing.
- (3) Central region in the PRC refers to Anhui, Henan, Hubei, Hunan, Jiangxi and Shanxi.
- (4) Countries and territories in Asia refer to Pakistan, Hong Kong, Macau, Taiwan, Korea, Kuwait, Bangladesh, Japan, Saudi Arabia, Thailand, Turkey, Israel, India, Indonesia, Jordan and Vietnam.
- (5) European countries refer to Estonia, Belgium, Poland, Germany, Russia, Ukraine, Finland, Netherlands, Serbia, Greece, Italy and United Kingdom.
- (6) Countries in Africa refer to Algeria, Morocco, Tunisia and Egypt.
- (7) Countries in South America refer to Brazil and Chile.

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## BUSINESS

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### *PRC market*

During the Track Record Period, our sales in the PRC market are conducted with trading company customers and end user manufacturers in various industries such as automotive coatings, cosmetics, industrial coatings, plastics, printing, textile and leather and ceramics.

### *International markets*

We have started selling to customers in the international markets since 2015. During the Track Record Period, our products are sold to customers in more than 30 countries and territories in Asia (excluding China), Europe, Africa and South America. As of the Latest Practicable Date, we had a team of 11 sales personnel dedicated to managing our sales to customers in the international markets.

As our products are sold to overseas customers, our products are subject to the relevant quality control laws and regulations of different countries, such as the REACH standards issued by the EU in order to control and regulate chemicals entering the EU market. We would engage independent certification organisations to perform testing of chemical substances, such as synthetic mica powder, titanium dioxide (二氧化鈦), iron trioxide (三氧化二鐵) and tin dioxide (二氧化錫), in our products in order to comply with the REACH standards. Our international customers may also require us to follow the prescribed standards in respect of quality, raw materials, and labelling.

As confirmed by our PRC Legal Advisers, we are in compliance with all applicable PRC laws and regulations relevant to our international sales during the Track Record Period. Our Directors confirm that we have not encountered any material import issues or difficulties or product returns for our sales to customers in international markets due to non-compliance with the quality or safety standards in the countries we sold our products.

### **Our customers**

Our pearlescent pigment products and synthetic mica powder products are sold to trading company customers and end user customers. According to the Frost & Sullivan Report and our Directors' industry experience, it is an industry practice that end user customers may choose to source from trading company customers. We have no particular preference or priority in selling to end user customers or trading company customers. In the case of sales to trading company customers, after-sales consultation services will be provided to the end user customers through the relevant trading company customers. We believe our sales network of trading company customers and direct sales to end user customers allow us to increase our market presence.

Based on the public information available to our Directors and to their best knowledge and belief, our Directors confirm that all of our ten largest customers and their ultimate beneficial owners throughout the Track Record Period are Independent Third Parties and none of them has any past or present relationship with any member of our Group (other than customer relationship), our Directors and senior management team members, our Controlling Shareholders and their respective associates.

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During the Track Record Period, a significant percentage of our sales of pearlescent pigment products and synthetic mica powder were sold to trading company customers. Our end user customers include manufacturers in different industries, such as automotive coatings, cosmetics, industrial coatings, plastics, printing, textile and leather and ceramics. The table below sets forth an analysis of our sales to end user customers and trading company customers in the PRC and international markets during the Track Record Period:

	Year ended 31 December								
	2018			2019			2020		
	<i>Number</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>Number</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>Number</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Trading company customers									
- PRC . . . . .	190	241,028	75.7	185	325,628	73.9	206	441,662	77.6
- International . . . . .	22	16,579	5.2	28	20,981	4.8	29	21,821	3.8
	<u>212</u>	<u>257,607</u>	<u>80.9</u>	<u>213</u>	<u>346,610</u>	<u>78.7</u>	<u>235</u>	<u>463,483</u>	<u>81.4</u>
End user customers									
- PRC . . . . .	69	52,175	16.4	77	84,800	19.2	120	97,509	17.1
- International . . . . .	13	8,462	2.7	8	9,173	2.1	12	8,121	1.5
	<u>82</u>	<u>60,637</u>	<u>19.1</u>	<u>85</u>	<u>93,973</u>	<u>21.3</u>	<u>132</u>	<u>105,630</u>	<u>18.6</u>
<b>Total</b>	<u>294</u>	<u>318,244</u>	<u>100.0</u>	<u>298</u>	<u>440,583</u>	<u>100.0</u>	<u>367</u>	<u>569,113</u>	<u>100.0</u>

The table below sets forth an analysis of our sales to trading customers and end user customers by products during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	<i>% of the revenue</i>	<i>RMB'000</i>	<i>% of the revenue</i>	<i>RMB'000</i>	<i>% of the revenue</i>
Trading company customers						
- Pearlescent pigment products . . . . .	256,866	80.7	344,734	78.2	463,367	81.4
- Synthetic mica powder . . . . .	741	0.2	1,876	0.5	116	—*
	<u>257,607</u>	<u>80.9</u>	<u>346,610</u>	<u>78.7</u>	<u>463,483</u>	<u>81.4</u>
End user customers						
- Pearlescent pigment products . . . . .	58,111	18.3	89,421	20.3	102,421	18.0
- Synthetic mica powder . . . . .	2,526	0.8	4,552	1.0	3,209	0.6
	<u>60,637</u>	<u>19.1</u>	<u>93,973</u>	<u>21.3</u>	<u>105,630</u>	<u>18.6</u>
<b>Total</b>	<u>318,244</u>	<u>100.0</u>	<u>440,583</u>	<u>100.0</u>	<u>569,113</u>	<u>100.0</u>

\* Value insignificant

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### *Trading company customers*

We sell our pearlescent pigment products to trading company customers in the PRC and international markets. These trading company customers will re-sell our products to their own customers and may use our original packaging for re-selling purpose or they may use their own packaging if their own customers would like to have different package sizes and weights. The relationship between us and the trading company customers is seller and buyers and the transactions are outright sales transactions. According to the Frost & Sullivan Report and the industry experience of our Directors, it is an industry practice that end user customers would choose to source pearlescent pigment products from specialist trading companies. Hence, sales to the trading company customers is an industry practice in the pearlescent pigment industry. As far as our Directors are aware, our sales to the trading company customers during the Track Record Period were supported by purchase orders from their own customers or their estimation of sales to their own customers.

Among the trading company customers in the PRC, we have entered into sales framework agreements with selected major trading companies. Pursuant to the sales framework agreements, these trading company customers may use our brand name, i.e. “授權品牌經銷商” (Authorised Reseller), and they are required to purchase from us an agreed minimum amount of our pearlescent pigment products in each period of 12 months. The minimum purchase amount is determined based on arm’s length negotiations with these trading company customers. If the relevant trading company customer cannot meet the minimum purchase amount, we may consider terminating the authorisation of “授權品牌經銷商” (Authorised Reseller).

During the Track Record Period, we had 12, 15 and 22 Authorised Resellers, respectively, and among which, ten, 15 and six of them generated revenue less than the minimum purchase amounts as set forth in the relevant sales framework agreements. Our Directors consider that the performance of the Authorised Resellers were not entirely satisfactory, but we did not terminate any of the sales framework agreement or impose compensation on any of the Authorised Resellers as we consider the Authorised Resellers as our business partners in the sales of our pearlescent pigment products. During the Track Record Period, the aggregate revenue generated by all Authorised Resellers represented 91.1%, 93.3% and 106.5% of the aggregate minimum purchase amounts stated in the sales framework agreements, respectively. For the purpose of increasing the sales of our products through these Authorised Resellers, we discuss with them from time to time on any marketing and sales and promotion initiatives or campaigns or value-added service that we may launch.

All other terms of trade, including the selling prices, product return policy and delivery and logistic arrangements, are not materially different from other trading company customers. During the Track Record Period, no member of our Group had offered any rebates in cash or otherwise to the trading company customers (including the Authorised Resellers).

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The table below sets forth the salient terms of our existing sales framework agreement:

Duration	:	Our sales framework agreement has a term of one year with no automatic renewal clause upon expiration.
Minimum purchase commitment	:	We require our selected major trading company customers to purchase a specified minimum purchase amount per annum. If our selected major trading company customers are unable to meet such minimum purchase target, we have the rights to terminate the sales framework agreement or not to renew the sales framework agreement.
Pricing basis of our products and price adjustment provisions	:	We require our selected major trading company customers to sell at our recommended retail prices and keep confidential of their respective price they purchased from us.
Promotion and advertising	:	We require our selected major trading company customers to provide mutual assistance on promotional activities or marketing campaigns organised by either party.
Delivery and shipping costs	:	We are responsible for the costs of shipping and delivery of products to designated location specified by our selected major trading company customers, or in case our selected major trading company customers arrange for pick-up of the products from our warehouse, our selected major trading company customers are responsible for their own cost of shipping after pick-up.
Payment terms	:	We offer a credit period of 120 days from the date of delivery. Settlement are made by bank transfer or bank drafts in RMB.
Return and exchange policy	:	If any product delivered by us to our selected major trading company customers has manufacturing defects, we offer a refund or return and will arrange for exchange of such products within a specified period of time from the date of delivery. We normally do not accept return of non-defective products.

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Use of our brand name : We authorise our selected major trading company customers to name themselves as the authorised reseller of our products under our brand in connection with the sales, promotion, marketing, advertising and reselling of our products, provided that our selected major trading company customers shall not alter or change our trademark, packaging, or use our brand in products not produced by us. If our selected major trading company customers are unable to comply with the guidelines, we are entitled to terminate the sales framework agreement and demand for a compensation of 20% of the purchase amount under the sales framework agreement.

There are benefits associated with sales to trading company customers. The end user customers may leverage the sourcing capability of the trading companies to identify the most suitable supply of pearlescent pigment products from different producers. Further, trading company customers may also provide after-sale consultation services on the features and applications of pearlescent pigment products, thereby saving the time and costs of the end user customers. The end user customers may engage more than one trading company for sourcing of pearlescent pigment products, and these trading companies would not normally disclose to their suppliers the identity of and the terms of trade with their end user customers. From the perspective of the pearlescent pigment producers like us, sales to trading companies allow them to increase sales without expending substantial marketing efforts to establish the sales network.

Our customers include trading company customers because the end user customers may prefer sourcing raw materials through trading companies engaged by them, as set forth in the Frost & Sullivan Report. The trading company customers are not exclusively conducting business with us, and they may source different types of pearlescent pigment products for different customers and, as far as our Directors are aware, they will on-sell our products to their own customers. As far as our Directors are aware, our sales to the trading company customers during the Track Record Period were supported by purchase orders from their own customers or their estimation of sales to their own customers. Our Directors further understand that these trading company customers would approach different suppliers (including members of our Group) for comparison of the pricing, delivery time and product quality.

Each transaction with the trading company customers is independently negotiated and conducted on a non-consignment basis without any right to return products to us except that (a) the products are defective or damaged in transit (b) the quality/specifications of the products are not in compliance with the quality/specifications of the products required by the customers. For selected trading company customers which are the Authorised Resellers, we normally do not accept return of non-defective products unless the Authorised Resellers are in extreme financial difficulties, e.g. payment defaults or business dissolution, in which we have to take all the necessary steps to protect our interest in the relevant products. The Authorised Resellers will also be required to bear the

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transportation cost and 2.0% of the amount of return as our handling fee. During the Track Record Period, we had not received such request from our customers. During the Track Record Period, sales returns amounted to RMB0.2 million, RMB0.1 million and RMB83,000, respectively, were requested by our customers, and were deducted from our revenue. All of these returns were due to damaged products during transit.

Our sales to the trading company customers are conducted on the basis of purchase orders we receive from such trading company customers from time to time, the terms of which are entered into on an arm's length basis upon normal commercial terms. We have imposed on the Authorised Resellers pricing standards on our products and restrictions on the use of our brand name in the sales of our products. Other than these restrictions, we do not have any contractual rights to impose any control over the business affairs of the trading company customers, nor can we require the trading company customers to follow our preferred pricing and market strategies, packaging requirements and our preference on which end customers to whom our products can be sold. We may pay visit to the trading company customers from time to time. Our Directors believe that such regular communications would provide us with useful information on the likely performance and stock level of the trading company customers. Based on the confirmations obtained from the trading company customers and the industry knowledge of our Directors, all the trading company customers and their ultimate beneficial owners are Independent Third Parties.

Our Directors are also aware, as part of their industry knowledge, that the trading company customers would not normally keep significant amount of inventory of products to be sold. In addition, we understand that the trading company customers would place purchase orders with us when they believe that they have sufficient demand from their own customers.

During the Track Record Period, our products were sold to 212, 213 and 235 trading company customers. We recognise revenue from the sales of goods to the trading company customers upon delivery of our products to the trading company customers. During the Track Record Period, our revenue generated from our sales to trading company customers amounted to RMB257.6 million, RMB346.6 million and RMB463.5 million, respectively, accounting for 80.9%, 78.7% and 81.4% of our total revenue, respectively.

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### *Additional information on the trading company customers*

The table below sets forth the changes in the number of trading company customers for the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	Number of trading company customers	RMB'million (% to total revenue)	Number of trading company customers	RMB'million (% to total revenue)	Number of trading company customers	RMB'million (% to total revenue)
As of the beginning of the year	173		212		213	
Increase in the number of trading company customers during the year/Revenue generated from these new trading company customers	71	RMB15.8/(5.0%)	39	RMB8.4/(1.9%)	43	RMB22.2/(3.9%)
Decrease in number of trading company customers during the year	32		38		21	
Net increase/(decrease) in number of trading company customers during the year	39		1		22	
As of the end of the year	212		213		235	
Number of the Authorised Resellers during the year <sup>(1)</sup> /Revenue generated from the Authorised Resellers	12	RMB117.8/(37.0%)	15	RMB186.7/(42.4%)	22	RMB285.7/(50.2%)
Number of recurring Authorised Resellers during the year <sup>(2)</sup> / Revenue generated from these recurring Authorised Resellers	8	RMB76.1/(23.9%)	12	RMB150.8/(34.2%)	15	RMB232.3/(40.8%)
Amount of revenue contributed by the trading company customers		RMB257.6/(80.9%)		RMB346.6/(78.7%)		RMB463.5/(81.4%)

*Notes:*

- (1) Authorised Resellers are the trading company customers with which we have entered into sales framework agreements. See the paragraphs under “Sales and customers — Our customers — Trading company customers” above for further information.
- (2) Recurring Authorised Resellers refer to those Authorised Resellers as of the end of the relevant year which have purchased pearlescent pigment products from us in the previous year.

Our sales with trading company customers were negotiated and concluded on a case-by-case basis, and the purchase orders placed by the trading company customers will include information of product specifications, purchase quantity, unit price, payment and delivery terms. Our business volume with each trading company customer in a particular year is dependent on:

- (a) the business of the trading company customers with their own end user customers;
- (b) the nature of the products required by the downstream customers of the trading company customers; and
- (c) whether the prices offered by us are competitive as compared with other suppliers of the trading company customers.



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In light of the foregoing, we may not be able to anticipate movements in the number of the trading company customers during a particular year. During the Track Record Period, we terminated business relationship with 32, 38 and 21 of the trading company customers due to their small scale of business operations. We consider that this will enable us to focus on the sales to the sizeable trading company customers to ensure that we can provide sufficient support of after-sales services. The number of new trading company customers decreased from 71 in 2018 to 39 in 2019 due to our intended efforts to maintain the number of the active trading company customers with our limited production capacity. There was a net increase in the number of the trading company customers throughout the Track Record Period, and such increase was primarily due to our marketing efforts, our reputation as a reliable supplier of pearlescent pigment products and the increased demand of pearlescent pigment products driven by the steady increase in the downstream applications.

During the Track Record Period, all Authorised Resellers have renewed their sales framework agreements with us, and none of those agreements was subsequently or early terminated by us or the recurring Authorised Resellers.

We recognise our sales following the delivery of our products and acceptance of such products by our customers, subsequent to which the title and the risk of such products shall have been passed to our customers. We may either deliver our products to the warehouse of our customers or our customers may arrange for their own delivery from our production facilities or warehouses.

### *End user customers*

Some of our pearlescent pigment products and synthetic mica powder are sold directly to end user customers including manufacturers in the paint, chemical and cosmetics industries, which use our pearlescent pigment products or synthetic mica powder as raw materials for processing or manufacturing of their end products, such as automotive coatings, cosmetics, industrial coatings, plastics, printing, textile and leather and ceramics.

The table below sets forth an analysis of revenue by downstream industries of our end user customers during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Industrial coatings . . . . .	41,178	67.9	58,261	62.0	60,204	57.0
Plastics . . . . .	12,031	19.8	16,918	18.0	20,716	19.6
Textiles and leather . . . . .	5,778	9.5	7,514	8.0	5,092	4.8
Cosmetics . . . . .	466	0.8	9,118	9.7	15,467	14.6
Ceramics . . . . .	682	1.1	1,212	1.3	2,082	2.0
Automotive coatings . . . . .	471	0.8	950	1.0	2,054	2.0
Others . . . . .	31	0.1	—	—	15	—*
<b>Total</b>	<b>60,637</b>	<b>100.0</b>	<b>93,973</b>	<b>100.0</b>	<b>105,630</b>	<b>100.0</b>

\* Value insignificant

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During the Track Record Period, revenue generated from our sales to end user customers amounted to RMB60.6 million, RMB94.0 million and RMB105.6 million, respectively, accounting for 19.1%, 21.3% and 18.6%, respectively, of our total revenue. As of 31 December 2018, 2019 and 2020, we sold our products to 82, 85 and 132 end user customers, respectively. Our marketing efforts focused on the promotion of the new products to the existing and prospective customers as well as the industry reputation and the quality standards achieved by our products. Our principal marketing channel involves participating in leading industry exhibitions in the PRC and other countries every year to provide product updates and introducing new products to our target customers. In 2018, we participated in two large-scale industry exhibitions in the PRC and two international exhibitions in the Netherlands and Thailand. In 2019, in addition to the exhibitions in the PRC, we participated in three international large-scale exhibitions in France, Germany and Brazil. We have undertaken extensive preparation works for each of these exhibitions, including preparing product catalogues and brochures, product samples and testing kits, video presentations, introduction sessions on production features and specifications, one-on-one meetings and scheduled visits to local customers and prospective customers. Our Directors believe that participating in the industry exhibitions, which are attended by our target customers, provide us with a direct and effective way to reach out to our target customers for marketing purposes. As a result, our marketing expenses in 2019 increased by approximately five times, as compared to 2018, the outcome of which is reflected in the subsequent increases in the total numbers of our end user customers from 85 in 2019 to 132 in 2020 and the trading company customers from 213 in 2019 to 235 in 2020. All our end user customers and trading company customers are Independent Third Parties.

### **Our five largest customers**

During the Track Record Period, sales to our five largest customers accounted for 20.2%, 17.8% and 16.8% of our total revenue, respectively, and sales to our largest customer, accounted for 5.0%, 4.2% and 3.6% of our total revenue, respectively. Changes in the composition of our five largest customers during the Track Record Period were primarily due to the fact that we have not entered into any long-term sales arrangement with any of our customers. The level of sales to our customers is therefore to a large extent depending on the business needs of our end user customers or the business needs of customers of the trading company customers. To the best knowledge of our Directors, none of our Directors, their respective associates or any Shareholder who owns more than five per cent. of our Shares in issue immediately following completion of the Global Offering has any interests in any of our five largest customers during the Track Record Period.

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The tables below set forth certain information on our five largest customers during the Track Record Period:

### *Year ended 31 December 2018*

Five largest customers	Sales amount		Type of products purchased	Customer type	Location of customers	Background of customers and their scale of operation	Credit term	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	RMB'000	%						
Customer A	15,954	5.0	Pearlescent pigment products	Trading company	PRC	A company engaging in the wholesale and retail of various goods including pearlescent powder, nail products, and printing aids. The registered capital of this customer is RMB10 million. <sup>(1)</sup>	110 days	5
Customer E	15,662	4.9	Pearlescent pigment products	Trading company	PRC	A company specialising in the distribution of chemical raw materials and products, plastic raw materials and products, and hardware and building materials. The registered capital of this customer is RMB5 million. <sup>(1)</sup>	110 days	5
Customer G	11,635	3.7	Pearlescent pigment products and synthetic mica powder	Trading company	PRC	A company engaging in mica processing and sales and import and export of goods. The registered capital of this customer is RMB1 million. <sup>(1)</sup>	110 days	4
Customer D	10,601	3.3	Pearlescent pigment products	Trading company	PRC	A company specialising in the wholesale of pigment products and chemical products. The registered capital of this customer is RMB5 million. <sup>(1)</sup>	110 days	5
Customer F	10,481	3.3	Pearlescent pigment products and synthetic mica powder	Trading company	PRC	A company engaging in the research and development and online sales of mica powder and pearlescent pigment products, and import and export of goods. The registered capital of this customer is RMB3 million. <sup>(1)</sup>	110 days	5
<b>Total</b>	<u>64,333</u>	<u>20.2</u>						

*Note:*

(1) Based on the information obtained from the National Enterprise Credit Information Publicity System.

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*Year ended 31 December 2019*

Five largest customers	Sales amount		Type of products purchased	Customer type	Location of customers	Background of customers and their scale of operation	Credit term	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	RMB'000	%						
Customer A	18,596	4.2	Pearlescent pigment products and synthetic mica powder	Trading company	PRC	A company engaging in the wholesale and retail of various goods including pearlescent powder, nail products, and printing aids. The registered capital of this customer is RMB10 million. <sup>(1)</sup>	90 days	5
Customer E	16,593	3.8	Pearlescent pigment products and synthetic mica powder	Trading company	PRC	A company specialising in the distribution of chemical raw materials and products, plastic raw materials and products, and hardware and building materials. The registered capital of this customer is RMB5 million. <sup>(1)</sup>	90 days	5
Customer D	14,588	3.3	Pearlescent pigment products	Trading company	PRC	A company engaging in the wholesale and retail of pigment products and special chemical products. The registered capital of this customer is RMB5 million. <sup>(1)</sup>	90 days	5
Customer F	14,483	3.3	Pearlescent pigment products and synthetic mica powder	Trading company	PRC	A company engaging in the research and development and online sales of mica powder and pearlescent pigment products, and import and export of goods. The registered capital of this customer is RMB3 million. <sup>(1)</sup>	90 days	5
Customer C	14,206	3.2	Pearlescent pigment products and synthetic mica powder	Trading company	PRC	A company specialising in the wholesale of dangerous chemical products, chemical products, and industrial equipment. The registered capital of this customer is RMB0.5 million. <sup>(1)</sup>	90 days	5
<b>Total</b>	<u>78,466</u>	<u>17.8</u>						

*Note:*

(1) Based on the information obtained from the National Enterprise Credit Information Publicity System.

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*Year ended 31 December 2020*

Five largest customers	Sales amount		Type of products purchased	Customer type	Location of customers	Background of customers and their scale of operation	Credit term	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	RMB'000	%						
Customer D	20,321	3.6	Pearlescent pigment products	Trading company	PRC	A company engaging in the wholesale and retail of pigment products and special chemical products. The registered capital of this customer is RMB5 million. <sup>(1)</sup>	90-120 days	5
Customer B	19,819	3.5	Pearlescent pigment products	Trading company	PRC	A company engaging in the import and export of goods including chemical products and environmental protection equipment. The registered capital of this customer is RMB5 million. <sup>(1)</sup>	90-120 days	5
Customer E	19,242	3.4	Pearlescent pigment products and synthetic mica powder	Trading company	PRC	A company specialising in the distribution of chemical raw materials and products, plastic raw materials and products, and hardware and building materials. The registered capital of this customer is RMB5 million. <sup>(1)</sup>	90-120 days	5
Customer A	18,473	3.2	Pearlescent pigment products and synthetic mica powder	Trading company	PRC	A company engaging in the wholesale and retail of various goods including pearlescent powder, nail products, and printing aids. The registered capital of this customer is RMB10 million. <sup>(1)</sup>	90-120 days	5
Customer H	17,778	3.1	Pearlescent pigment products	Trading company	PRC	A company engaging in import and export of goods, wholesale and retail of chemical products. The registered capital of this customer is RMB5 million. <sup>(1)</sup>	90-120 days	7
<b>Total</b>	<u>95,633</u>	<u>16.8</u>						

*Note:*

(1) Based on the information obtained from the National Enterprise Credit Information Publicity System.

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### Credit period and payments

The credit period we provide to our customers is subject to a number of factors, including their scale of operations, length of business relationship with us and their historical payment records. We generally allow a credit period from 90 to 180 days for our customers. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. Our customers in the PRC are required to settle the payments with us in Renminbi and our international customers mainly settle our payments in US dollars. The table below sets forth an analysis of our sales by different currencies during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
RMB . . . . .	296,284	93.1	414,590	94.1	545,363	95.8
US\$ . . . . .	21,960	6.9	25,993	5.9	23,750	4.2
<b>Total</b>	<u>318,244</u>	<u>100.0</u>	<u>440,583</u>	<u>100.0</u>	<u>569,113</u>	<u>100.0</u>

We have limited exposure to foreign currency risk as most of our business transactions, assets and liabilities are principally denominated in RMB, while payment for the purchase of certain imported raw materials are required to be settled in US\$. We have not maintained any long-term hedging arrangement for this limited exposure as we monitor the exchange rates between RMB and US\$ from time to time and maintain sufficient amount of US\$ for settlement purpose.

During the Track Record Period, we did not experience any major default in payments by our customers which could have a material adverse impact on our business and financial condition and operating results. Our Directors confirm that none of our customers have settled their payments to us through third parties.

### Product pricing

We takes into account a number of factors when determining the unit selling prices of our pearlescent pigment products and synthetic mica powder. Such factors include (a) cost of raw materials, (b) size of purchase orders, (c) technical production requirements and (d) market prices. In determining the price for some of our high-end and market-leading products, such as pearlescent pigment products for use in automotive and high-end cosmetics, we generally have greater flexibility to charge a higher price within the acceptable price range of our customers, which often becomes the market indicative price. We would not compete with our competitors in terms of pricing because our products are generally accepted by our customers and we have a strong market position in the pearlescent pigment market in the PRC and international markets. If there is any material increase in the cost of our raw materials, we would increase our unit selling prices as the pricing information is generally transparent amongst the customers and suppliers. Fluctuations in the foreign exchange rates between RMB and US\$ will also affect the unit selling prices of our products.

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## BUSINESS

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### **Delivery and warehousing**

Delivery of our products to our customers in the PRC is primarily made by trucks, whereas delivery to our international customers is on Free On Board (FOB) or Cost, Insurance and Freight (CIF) basis. We generally engage third party transportation/logistics service providers for the transportation of our products from our production facilities or warehouses to the ports or locations designated by our customers. We select shipment/logistics service providers based on their reputation, scale of operation, track record and cost estimates.

We have two warehouses in the PRC, which are located in our headquarters in Guangxi Province and Shanghai, respectively. Our warehouse in Guangxi Province is mainly used for the storage of raw materials and finished products. Our warehouse in Shanghai is solely for the storage of finished products.

We are responsible for the transportation cost pursuant to the terms and conditions of the sales contracts we entered with our customers. We usually enter into agreements with our transportation/logistics service providers on an annual basis under the standardised terms and conditions of our transportation/logistics service providers. Upon departing from our warehouse, our transportation/logistics service providers will be liable for any delay of delivery and loss in transit until the products are received by our customers. During the Track Record Period, the transportation and packaging cost incurred by us amounted to RMB7.1 million, RMB9.1 million and RMB10.1 million, respectively, representing 53.4%, 39.1% and 41.1% of our selling expenses, respectively.

Our Directors confirm that we have not experienced any material disruption or damage to our products in the delivery of our products to our customers during the Track Record Period and up to the Latest Practicable Date.

### **Product return and consumer feedbacks**

We have established policies for (a) handling customers' complaints and feedbacks and (b) product return and quality assurance. See the paragraphs under "Quality control" below for further information. During the Track Record Period and up to the Latest Practicable Date, we have not received any material complaints from our customers on product quality or any request for product return due to product defects. During the Track Record Period and up to the Latest Practicable Date, we have not had any incident of product recall.

### **Seasonality**


Taking into consideration the diverse locations of our customers and the wide range of applications and end products that our products could be used for production and processing, our Directors confirm that sales of our products are generally not subject to seasonal fluctuations from an overall perspective.

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## BUSINESS

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### OUR MARKETING

Our products are marketed and sold under our brand of “Chesir Pearl” . To promote brand recognition, we are engaged in different marketing and promotional activities, including trade shows, exhibitions, industry forums, and product launch. Our customers and perspective customers may be invited to join these events, which are good opportunities for us to collect market feedbacks and information on consumer preferences. We believe such marketing and promotional events are effective to promote our brand and increase product awareness among our target customers. Going forward, we plan to increase the use of internet and online media for the promotion of our brand. We will focus our marketing and promotional efforts on our target customers, including raw material suppliers, trading companies and manufacturers of different industrial and consumer products.

During the Track Record Period, our marketing and promotion expenses amounted to RMB1.2 million, RMB6.7 million and RMB4.6 million, respectively, equivalent to 0.4%, 1.5% and 0.8% of our total revenue.

As of the Latest Practicable Date, our sales and marketing department is led by Mr. JIN, one of our executive Directors, and consisted of 51 sales personnel with designated groups responsible for the sales to the PRC and international markets. For the sales in the PRC, we have different teams responsible for three specified geographical regions in which our customers are located. We have sales offices in Chengdu in Sichuan Province, Hangzhou in Zhejiang Province, Zhengzhou in Henan Province, Wuhan in Hubei Province, Guangzhou and Dongguan in Guangdong Province and Shanghai.

A majority of our sales personnel have over five years of experience in the sales of pearlescent pigment products. They are primarily responsible for approaching the potential customers, liaising with our existing customers, promoting our products, assisting with the provision of after-sales services and providing trainings on product technical specifications and downstream applications to our customers, implementing our marketing strategies, marketing and promotional activities and providing customers’ feedback, market trend and industry update to our production team and research and development team.

### PRODUCTION PROCESS

Our production process is designed with considerations for environmental protection and safety production. See the paragraphs under “Environmental and social governance” and “Occupational safety” below for further information.

We have separate production facilities for the production of pearlescent pigment products and synthetic mica powder. Our production facilities for pearlescent pigment products can be used interchangeably for the production of natural mica-based pearlescent pigment products, synthetic mica-based pearlescent pigment products, glass flake-based pearlescent pigment products and silicon oxide-based pearlescent pigment product.



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## BUSINESS

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We have processing facilities for the processing of natural mica flakes to provide natural mica powder as raw material for the production of natural mica-based pearlescent pigment products. We also have processing facilities for the processing of glass flakes to provide processed glass flakes as raw material for the production of glass flake-based pearlescent pigment products.

We use natural mica powder, synthetic mica powder (in wet state), processed glass flakes and silica as raw materials for the production of pearlescent pigment products with different substrates.

- Natural mica flakes are used as a raw material for the production of natural mica-based pearlescent pigment products. We source natural mica flakes from India directly or through trading companies in the PRC, which will undergo further processing in our production plants to form natural mica powder for the production of natural mica-based pearlescent pigment products.
- We produce synthetic mica powder ourselves for use as raw material in our production of synthetic mica-based pearlescent pigment products. We also produce and sell synthetic mica powder to our customers for their downstream applications. Synthetic mica flakes will undergo processing procedures of calcination, grinding, milling and dehydration to form synthetic mica powder, which is a semi-finished product. Synthetic mica powder (in wet state) is used in our own production of synthetic mica-based pearlescent pigment products. Synthetic mica powder (in wet state) will undergo further processing procedures of grinding, milling and dehydration in our production plants to form the finished product of synthetic mica powder (in dry state) for sales to our customers. During the Track Record Period, we only sold a small portion of synthetic mica powder to our customers.
- Glass flakes are used as raw material in our production of glass flake-based pearlescent pigment products. We source glass flakes from the suppliers in the PRC and overseas. Certain high-end glass flakes are sourced from overseas suppliers.
- During the Track Record Period, we produced a small amount of pearlescent pigment products using silicon oxide as the substrate.

Our production facilities in our Phase 1 Production Plant are designed in a way as to allow concurrent running of our production facilities and processing facilities. Hence, the bottleneck of the entire production process lies in the processing and production of work-in-progress products of natural mica powder, synthetic mica powder and processed glass flakes.

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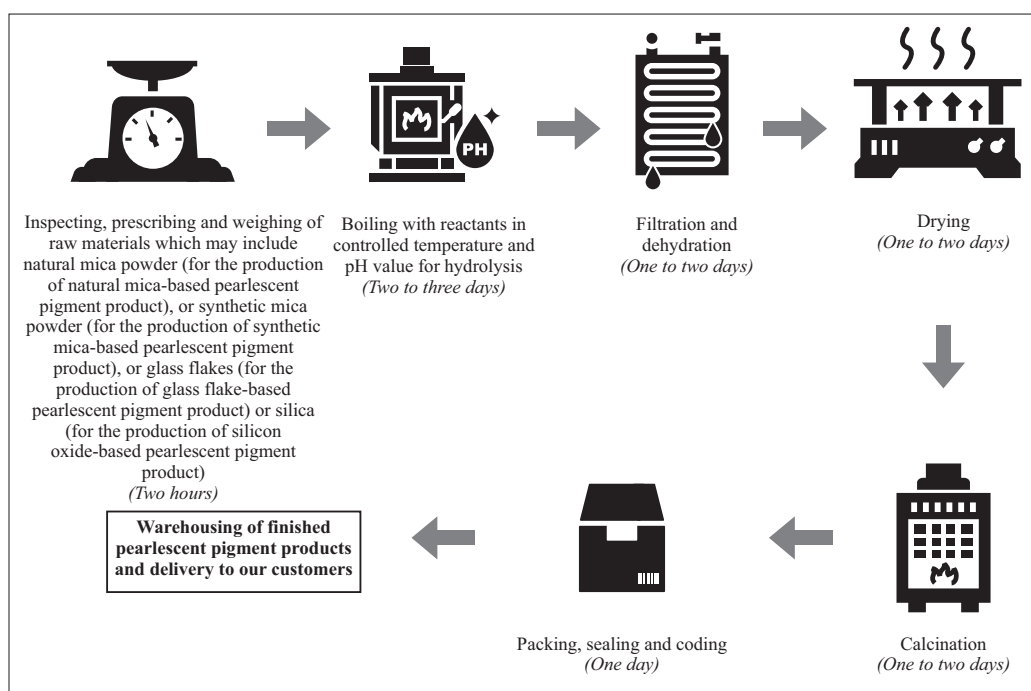
## BUSINESS

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The diagrams below illustrate the key stages of the production process of our pearlescent pigment products.

### Core production process of pearlescent pigment products

The entire production process will take 10 days to complete.



The core production process of pearlescent pigment products involves the following steps:

#### ***Inspecting, prescribing and weighting of raw materials***

Prescription, weighting and mixing of raw materials, which may include natural mica powder, synthetic mica powder, glass flakes or silica pursuant to different formulations for the production of pearlescent pigment products of different colours, glossiness, texture and specifications. Natural mica powder, synthetic mica powder and glass flake fine particles are processed products from our preceding processing steps. Raw materials for silica are already in the form of fine particles when we procure from our suppliers and no processing is required.

#### ***Boiling with reactants in controlled temperature and pH value for hydrolysis***

The prescribed natural mica powder, synthetic mica powder, glass flakes or silica are put into a reactor and mixed with deionised water to form a suspension, which are then added with reactants, where temperature and pH value are precisely monitored. Depositing agent and neutraliser are added until complete hydrolysis.

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### *Filtration and dehydration*

Subsequent to the hydrolysis process, the acidic compounds are washed and neutralised with deionised water, which will then undergo vacuum filtration and dehydration.

### *Drying*

The semi-finished pearlescent pigment products are then dried in the oven for conversion from wet powder to dry powder.

### *Calcination*

The dried compounds undergo calcination in calcination furnace for removal of water on the surface and completing the crystallisation process stabilising the physical and chemical properties.

### *Packing, sealing and coding*

The finished pearlescent pigment products are sent for packaging (which will be weighed and packed pursuant to the product specifications), sealing and coding. The product packaging contains information including the product name, net weight, batch number of production and production date. Our system keeps track of the finished products in storage or in transit until they are sold to our customers. We conduct sampling tests on every batch of the finished products to ensure they meet the quality requirements and specifications.

### *Warehousing*

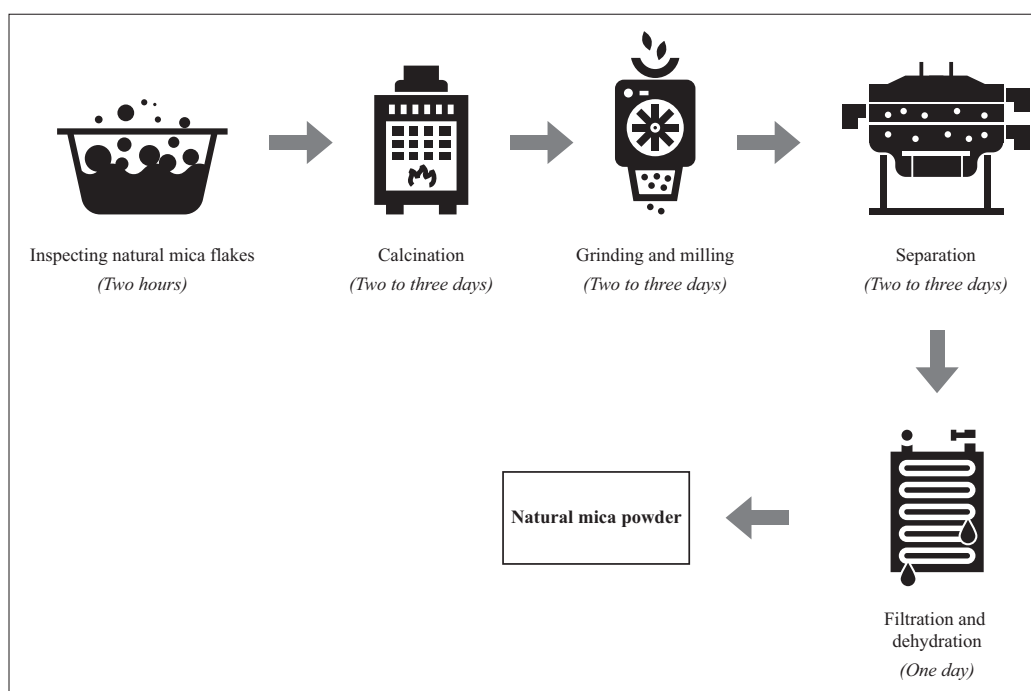
The finished products are moved to our warehouse for storage.

***Delivery***

We conduct final random inspection on our finished products. Upon completing the batch inspection, the finished products are delivered to our customers.

**Processing of natural mica flakes**

The entire process will take 10 days to complete.



The processing of natural mica flakes into natural mica powder involves the following steps:

***Inspecting natural mica flakes***

On-site inspections are carried out on the incoming raw material of natural mica flakes, and only natural mica flakes that can meet our quality requirements will be delivered to the warehouse and dispatched for further processing.

***Calcination***

Natural mica flakes are calcined in a high-temperature rotary kiln for removal of crystal water on the surface, which expands and softens the natural mica flakes and remove the sand particles and oxidised impurities. The calcined natural mica flakes are then soaked in water for removal of surface impurities.

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### *Grinding and milling*

Natural mica flakes that have been soaked are fed to the dewatering screen for water separation, which are then moved to the mill for stripping, grinding, and milling until the natural mica flakes become fine particles pursuant to different technical specifications.

### *Separation*

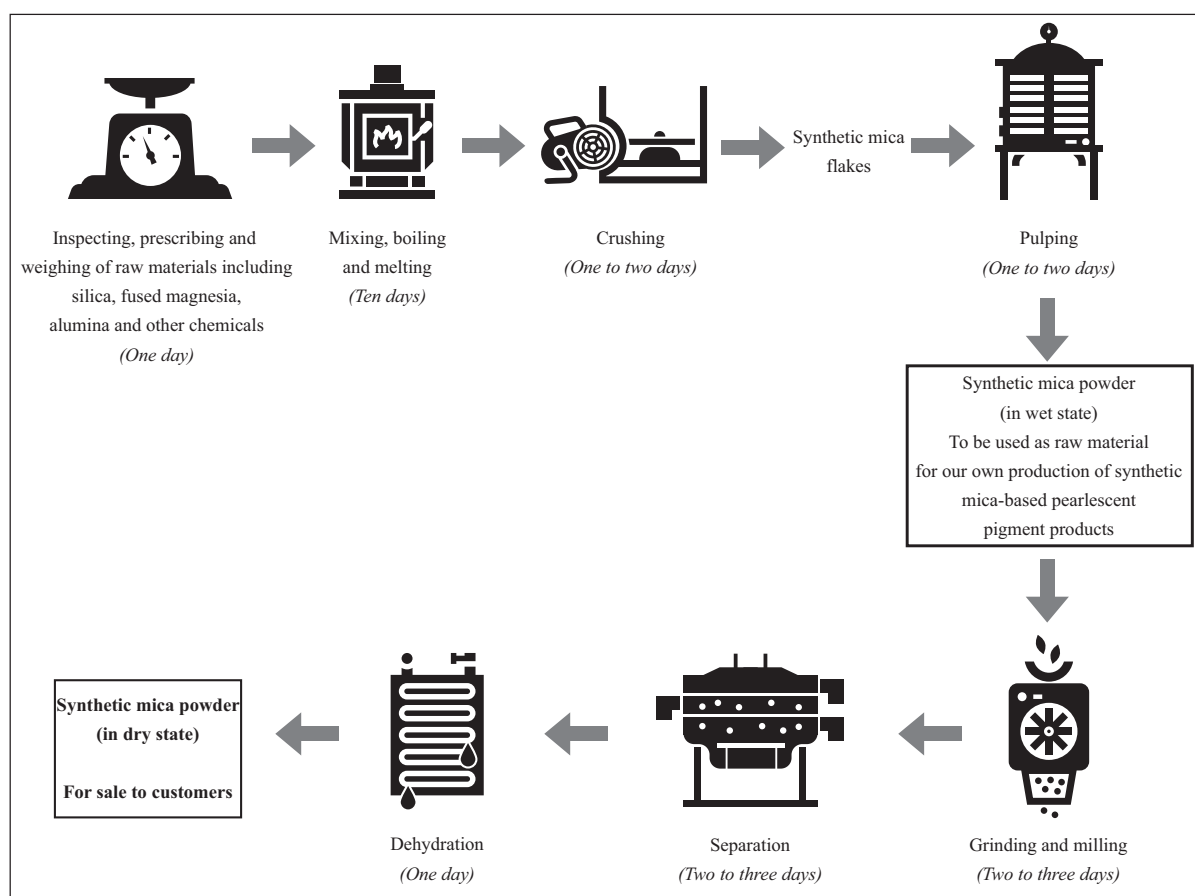
Grinded natural mica particles are sorted by sedimentation according to particle sizes into different types of natural mica powder, which are then added with additives for surface activation treatment.

### *Filtration and dehydration*

Grinded and treated natural mica powder undergoes dehydration by way of vacuum filtration to form natural mica powder.

### **Production process of synthetic mica powder**

The entire process will take 20 days to complete.



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The production process of synthetic mica powder involves the following steps:

### *Inspecting, prescribing and weighing of raw materials*

Raw materials for the production of synthetic mica powder, which include silica, fused magnesia, potassium fluorosilicate, alumina and potassium carbonate, are weighted and poured into a mixer.

### *Mixing, boiling and melting*

The mixture of raw materials are put into a furnace built by refractory bricks and are heated to the temperature of 1,500°C for complete melting. The heated compounds are then cooled to form crystals.

### *Crushing*

The cooled extracts in blocks are crushed to fragments to form synthetic mica flakes.

### *Pulping*

The synthetic mica flakes are crushed to smaller particles under high-pressure water flow. After screening and filtering, semi-finished synthetic mica powder (in wet state) are formed.

### *Grinding and milling*

The semi-finished synthetic mica powder is sent to the mill for rolling and stripping to form fine particles that meet different technical specifications.

### *Separation*

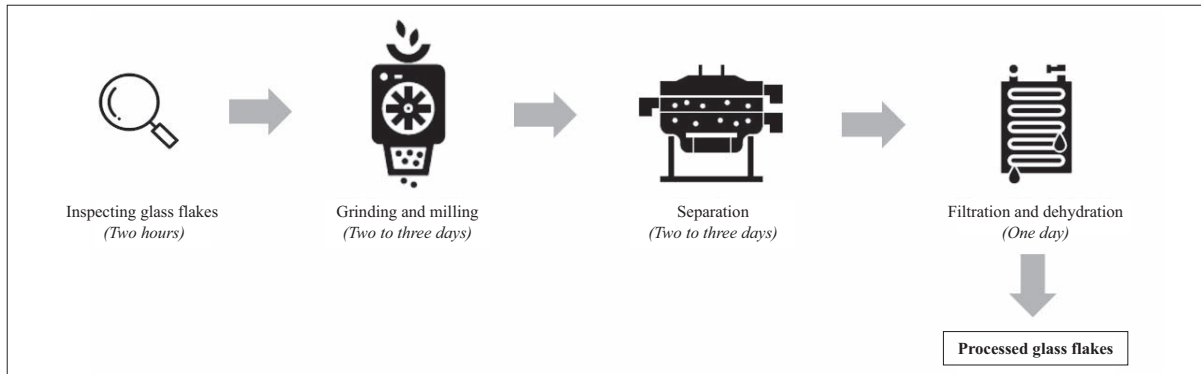
The grinded particles are sorted by sedimentation according to particle sizes into different types of synthetic mica powder, and added with additives for surface activation treatment.

### *Dehydration*

The synthetic mica powder undergoes further dehydration to form synthetic mica powder (in dry state).

### **Processing of glass flakes**

The entire process will take seven days to complete.



The following sets forth the principal steps of processing of glass flakes:

#### ***Inspecting the glass flakes***

On-site inspections are carried out on the incoming raw material of glass flakes. Only glass flakes that can meet our quality requirements will be delivered to our warehouse and dispatched for further processing.

#### ***Grinding and milling***

The glass flakes are sent directly to the mill for rolling and stripping until they become fine particles that meet different technical specifications.

#### ***Separation***

The grinded glass flakes are sorted by sedimentation according to different particle sizes pursuant to different product specifications.

#### ***Filtration and dehydration***

The grinded and processed glass flakes undergo further filtration and dehydration to form processed glass flakes.

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### OUR PRODUCTION FACILITIES

Our Phase 1 Production Plant is situated at No. 380, Feilu Road (Pearlescent Industrial Park), Luzhai Town, Luzhai County, Liuzhou City, Guangxi Zhuang Autonomous Region, the PRC, and is strategically located adjacent to the highways network which provides convenient access for the delivery of raw materials and finished products. As of the Latest Practicable Date, our Phase 1 Production Plant occupied a total site area of 99,688.2 sq.m. with an aggregate gross floor area of 56,445.6 sq.m., including eight factory buildings, an office building, staff quarter and certain ancillary facilities. Our Phase 1 Production Plant has commenced production of pearlescent pigment products since 2014. The designed annual production capacity of pearlescent pigment products increased from 10,464 tonnes for the year ended 31 December 2018 to 12,978 tonnes for the year ended 31 December 2019 and the designed annual production capacity of synthetic mica powder remained stable at 4,752 tonnes during the two years ended 31 December 2019. The designed production capacity of pearlescent pigment products and synthetic mica powder recorded 13,740 tonnes and 9,504 tonnes, respectively, for the year ended 31 December 2020.

We are planning to construct our Phase 2 Production Plant and our Luzhai Synthetic Mica Plant and will use a significant portion of the net proceeds from the Global Offering for the purpose. See the sections headed “Future Plans and Proposed Use of the Net Proceeds from the Global Offering — Construction of our Phase 2 Production Plant” and “— Construction of our Luzhai Synthetic Mica Plant” in this prospectus for further information.

### Major plant and machinery

We have made significant investments in plant and machinery. We own all the plant and machinery used in our production and processing. Some of our plant and machinery are specifically built for our production and processing requirements, either for specific functions, or to achieve better product quality and cost efficiency. We also endeavour to keep abreast of technological development and upgrade our plant and machinery. We do not have any plan, other than those set forth in the section headed “Future Plans and Proposed Use of the Net Proceeds from the Global Offering” in this prospectus, for material replacement of our major plant and processing machinery.

Our major plant and machinery generally have useful lives of around 20 years, which may be extended with appropriate repairs and maintenance. Such useful lives are expected to be longer than the useful lives for our depreciation purpose according to the accounting policy. We believe that our plant and machinery are maintained in good operating condition. We have implemented relevant procedures and guidelines in respect of the operation, management and maintenance of our plant and machinery. We carry out regular inspections, repairs and maintenance on our plant and machinery. During the Track Record Period, the average scheduled downtime for maintenance and repairs of our production facilities was 30 days. Manufacturers of plant and machinery also provide on-site maintenance services as required during the warranty period. We estimate that the average remaining useful lives of our major plant and machinery are in the range between 14 years and 16 years. During the Track Record Period, we did not experience any unexpected disruption to our production as a result of technical failure or shut-down of our plant and machinery.



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Our Phase 1 Production Plant operates 24 hours a day supported by three working shifts of labour. The following sets forth the information on our major plant and machinery and their respective usage:

Plant and machinery	Production process involved	Major function	Usage	Quantity	Designed annual production capacity (tonnes per annum)	Date of completion of installation in different stage	Weighted average remaining useful life
Reactor (反應釜) . . .	Production of pearlescent pigment products	Hydrolysis	Used for the production of natural mica-based pearlescent pigment product, synthetic mica-based pearlescent pigment product, glass flake-based pearlescent pigment product and silicon oxide-based pearlescent pigment product	39	17,025	2014-2020	15 years
Calciner (煨燒窯) . . .		Calcination		9	16,698	2014-2020	14 years
Calcination rotary kiln (煨燒回轉窯) . . .	Processing of natural mica flakes or glass flakes	Calcination	Used for the processing of natural mica flakes and glass flakes	2	15,180	2014-2017	15 years
Wheel mill (輪碾機) . . . .		Grinding and milling		9	17,424	2014-2020	16 years
Mica protection kiln (雲母保護窯) . . .	Production of synthetic mica flakes and powders	Mixing, boiling and melting	Used solely for the production of synthetic mica	9	5,049	2015	14 years
Grinding mill (碾磨機) . . . . .		Grinding		8	9,504	2015-2020	14 years

**Utilisation rates of our Phase 1 Production Plant**

The utilisation rates of our Phase 1 Production Plant would be affected by various factors including demands for our products and inspections, repairs and maintenance of our plant and machinery. The average utilisation rates of our Phase 1 Production Plant (comprising the production for pearlescent pigment products and synthetic mica powder) during the Track Record Period were 68.2%, 84.6% and 76.3%, respectively. The table below sets forth our designed production/processing capacity, actual production/processing volume and the utilisation rate of our Phase 1 Production Plant during the Track Record Period:

	Year ended 31 December								
	2018			2019			2020		
	Designed production/ processing capacity <sup>(1)</sup> (tonnes)	Actual production/ processing volume (tonnes)	Utilisation rate <sup>(2)</sup> (%)	Designed production/ processing capacity <sup>(1)</sup> (tonnes)	Actual production/ processing volume (tonnes)	Utilisation rate <sup>(2)</sup> (%)	Designed production/ processing capacity <sup>(1)</sup> (tonnes)	Actual production/ processing volume (tonnes)	Utilisation rate <sup>(2)</sup> (%)
Finished products									
Pearlescent pigment products . . . . .	10,464 <sup>(3)</sup>	8,809	84.2	12,978	11,348	87.4	13,740	13,503	98.3
Synthetic mica powder . . . . .	4,752	1,564	32.9	4,752	3,653	76.9	9,504	4,227	44.5
<b>Total</b>	<u>15,216</u>	<u>10,373</u>		<u>17,730</u>	<u>15,001</u>		<u>23,244</u>	<u>17,730</u>	
Work-in-progress and semi-finished products <sup>(4)</sup>									
Natural mica powder <sup>(5)</sup> . . . . .	14,256	7,871	55.21	14,256	9,644	67.65	16,560	11,382	68.73
Synthetic mica flakes <sup>(6)</sup> . . . . .	5,049	2,097	41.53	5,049	3,519	69.70	5,049	4,757	94.22

**Notes:**

- (1) The designed production/processing capacity is the total quantity of the relevant type of products or semi-finished products that can be produced on each day multiplied by 365 days for 2018 and 2019 and 366 days for 2020. Such capacity is the maximum output that can be achieved based on the specifications of the relevant plant and machinery. In calculating the designed annual production/processing capacity, we assume that we require 35 days in each year to carry out the inspections, repairs and maintenance as well as the annual overhaul during the Chinese New Year holiday.
- (2) The calculation of the utilisation rates is based on the actual production/processing volume divided by the designed production/processing capacity in a given year.
- (3) For the year ended 31 December 2018, we spent 65 days on annual maintenance and upgrade of the production facilities.
- (4) The work-in-progress and semi-finished products of natural mica powder and synthetic mica powder are used as raw materials for the production of natural mica-based pearlescent pigment product and synthetic mica-based pearlescent pigment product, respectively.
- (5) Natural mica flakes are sourced from India directly or through trading companies in the PRC. Natural mica flakes will undergo processing procedures of calcination, grinding, milling and dehydration to form natural mica powder for our own production of natural mica-based pearlescent pigment products.
- (6) Synthetic mica flakes are produced by us in our production plant, which will undergo further processing procedures of pulping, grinding, milling and dehydration to form synthetic mica powder for sales to our customers. No dehydration process would be required for synthetic mica powder used as raw material in our own production of synthetic mica-based pearlescent pigment products.

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### *Production of pearlescent pigment products*

The designed annual production capacity for the production of pearlescent pigment products increased from 10,464 tonnes for the year ended 31 December 2018, to 12,978 tonnes for the year ended 31 December 2019, and such increase was primarily due to (a) the installation and commencement of operation of one calcination furnace and (b) the upgrade of one calcination furnace. The designed annual production capacity further increased to 13,740 tonnes for the year ended 31 December 2020, and such increase was primarily due to the installation and commencement of operation of one calcination furnace.

The actual production volume of pearlescent pigment products increased from 8,809 tonnes for the year ended 31 December 2018 to 11,348 tonnes for the year ended 31 December 2019. The increases in the actual production volume were due to the increase in demand for pearlescent pigment products, expanded product offerings and increase in the number of our customers. We recorded an actual production volume of 13,503 tonnes of pearlescent pigment products for the year ended 31 December 2020 primarily due to significant increase in demand for synthetic mica-based pearlescent products and glass-flake based pearlescent pigment products.

The utilisation rate of our production facilities for the production of our pearlescent pigment products improved from 84.2% for the year ended 31 December 2018 to 98.3% for the year ended 31 December 2020. Such improvement was generally consistent with the increase in our actual production volume of pearlescent pigment products during the corresponding years.

### *Production of synthetic mica powder*

Our designed annual production capacity of synthetic mica powder had remained stable during the two years ended 31 December 2019. The designed production capacity increased from 4,752 tonnes for the year ended 31 December 2019 to 9,504 tonnes for the year ended 31 December 2020. Such increase was due to the reallocation of four grinding machines from the processing of natural mica flakes to the processing of synthetic mica flakes in response to the increase in demand for synthetic mica-based pearlescent pigment products.

The actual production volume of synthetic mica powder increased from 1,564 tonnes for the year ended 31 December 2018 to 3,653 tonnes for the year ended 31 December 2019 and further increased to 4,227 tonnes for the year ended 31 December 2020. The increase was primarily due to the increased demand for our synthetic mica-based pearlescent pigment products. The actual production volume of synthetic mica powder is subject to the actual production volume of synthetic mica flakes and our inventory level of synthetic mica flakes. The actual production volume of synthetic mica powder for the year ended 31 December 2019 was higher than the actual production volume of synthetic mica flakes for the same year, primarily due to the inventory of synthetic mica flakes brought forward from 2018, which was used for the processing of synthetic mica flakes to produce synthetic mica powder in 2019.

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The utilisation rate of our facilities for the production of synthetic mica powder improved from 32.9% during the year ended 31 December 2018 to 76.9% for the year ended 31 December 2019. Such increase in the utilisation rate was generally consistent with the increase in the production volume of synthetic mica flakes. During the year ended 31 December 2020, the utilisation rate for the production of synthetic mica powder decreased to 44.5% for the year ended 31 December 2020 as a result of the increase in our designed annual production capacity which outpaced the increase in the actual production volume of synthetic mica powder.

### *Processing of natural mica flakes to form natural mica powder*

The designed annual processing capacity of natural mica flakes to form natural mica powder had remained stable during the two years ended 31 December 2019. In May 2020, we installed a grinding machine of higher productivity to replace four of the grinding machines, which had increased the designed annual processing capacity for the year ended 31 December 2020.

The utilisation rate of our facilities for the processing of natural mica flakes into natural mica powder improved from 55.2% for the year ended 31 December 2018 to 68.7% for the year ended 31 December 2020. Such improvement was generally consistent with the increase in our production of natural mica-based pearlescent pigment products in response to the increase in demand for natural mica-based pearlescent product.

### *Production of synthetic mica flakes*

The designed annual production capacity of synthetic mica flakes had remained stable during the three years ended 31 December 2020.

The actual production volume of synthetic mica flakes increased from 2,097 tonnes for the year ended 31 December 2018 to 3,519 tonnes for the year ended 31 December 2019 and further increased to 4,757 tonnes for the year ended 31 December 2020. The increase was primarily due to the increase in demand for and the expanded product offerings of our synthetic mica based-pearlescent pigment products.

We had relatively low utilisation rates for the production of synthetic mica flakes during the year ended 31 December 2018, primarily due to the gradual growth in demand for our synthetic mica-based pearlescent pigment products. The utilisation rate of our production facilities for the production of synthetic mica flakes increased to 69.7% during the year ended 31 December 2019 and to 94.2% during the year ended 31 December 2020 due to our increased production volume of synthetic-mica based pearlescent pigment products in response to increased demand for the products.

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### PROCUREMENT OF RAW MATERIALS AND SUPPLIERS

#### Raw materials

The principal raw materials used in our production process include natural mica flakes and titanium tetrachloride. Natural mica flakes are used as raw material for the production of natural mica-based pearlescent pigment products. Titanium tetrachloride is a major chemical raw material used for the metal oxide coating in the production of natural mica-based pearlescent pigment products, synthetic mica-based pearlescent pigment products, glass flake-based pearlescent pigment products and silicon oxide-based pearlescent pigment products. The table below sets forth an analysis of our purchase cost of raw materials during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	<i>% of total cost of purchase of raw materials</i>	<i>RMB'000</i>	<i>% of total cost of purchase of raw materials</i>	<i>RMB'000</i>	<i>% of total cost of purchase of raw materials</i>
Raw materials						
— Natural mica flakes . . .	39,050	30.9	40,930	24.6	51,270	24.5
— Other raw materials . . .	10,474	8.3	18,747	11.3	25,393	12.1
	<u>49,524</u>	<u>39.2</u>	<u>59,677</u>	<u>35.9</u>	<u>76,663</u>	<u>36.6</u>
Chemical raw materials						
— Titanium tetrachloride.	51,099	40.4	70,158	42.2	75,467	36.1
— Other chemical raw materials . . . . .	17,196	13.6	25,910	15.6	41,025	19.6
	<u>68,295</u>	<u>54.0</u>	<u>96,068</u>	<u>57.8</u>	<u>116,492</u>	<u>55.7</u>
Packaging materials . . . .	6,518	5.2	8,092	4.9	11,196	5.3
Furnace materials and utensils . . . . .	2,098	1.7	2,274	1.4	4,974	2.4
<b>Total</b>	<u>126,435</u>	<u>100.0</u>	<u>166,111</u>	<u>100.0</u>	<u>209,325</u>	<u>100.0</u>

The table below sets forth an analysis of the average unit purchase cost (per tonne) of natural mica flakes and titanium tetrachloride, our principal raw materials, during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<b>Quantity of purchase</b>	<b>Average unit purchase cost</b>	<b>Quantity of purchase</b>	<b>Average unit purchase cost</b>	<b>Quantity of purchase</b>	<b>Average unit purchase cost</b>
	<i>(tonnes)</i>	<i>(RMB'000 per tonne)</i>	<i>(tonnes)</i>	<i>(RMB'000 per tonne)</i>	<i>(tonnes)</i>	<i>(RMB'000 per tonne)</i>
Natural mica flakes . . . .	10,086	3.87	9,985	4.10	13,107	3.91
Titanium tetrachloride . .	7,660	6.67	10,025	7.00	12,354	6.11

## BUSINESS

### *Natural mica flakes*

Natural mica flakes are used as a raw material for the production of natural mica-based pearlescent pigment products. We source natural mica flakes from India directly or through trading companies in the PRC, which will undergo further processing in our production plants to form natural mica powder for the production of natural mica-based pearlescent pigment products. Our inventory of natural mica flakes would normally be sufficient for our processing requirement for one month. The prices of natural mica flakes vary pursuant to the level of scarcity and demand. During the Track Record Period, the average unit purchase prices of natural mica flakes were in the range between RMB3.87 and RMB4.10 per tonne.

The table below sets forth an analysis of our purchase cost of natural mica flakes during the Track Record Period:

	Years ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
PRC . . . . .	23,145	59.3	14,343	35.0	33,964	66.2
India . . . . .	15,905	40.7	26,587	65.0	17,307	33.8
<b>Total</b>	<u>39,050</u>	<u>100.0</u>	<u>40,930</u>	<u>100.0</u>	<u>51,271</u>	<u>100.0</u>

### *Other raw materials*

Other raw materials include silica, fused magnesia, glass flakes and calcium carbonate, which are used in the production and processing of synthetic mica-based pearlescent pigment products and other products. Other than natural mica flakes and certain high-end glass flakes, we purchase other raw materials from suppliers in the PRC. The prices of these raw materials have been relatively stable during the Track Record Period because of their abundant supply in the PRC. The table below sets forth an analysis of our purchase cost of other raw materials during the Track Record Period:

	Years ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Fused magnesia . . . . .	5,568	53.2	9,774	52.1	11,239	44.2
Calcium carbonate . . . . .	3,480	33.2	4,943	26.4	5,917	23.3
Glass flakes . . . . .	254	2.4	2,003	10.7	5,630	22.2
Silica . . . . .	1,171	11.2	2,027	10.8	2,607	10.3
<b>Total</b>	<u>10,473</u>	<u>100.0</u>	<u>18,747</u>	<u>100.0</u>	<u>25,393</u>	<u>100.0</u>

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### Chemical raw materials

#### *Titanium tetrachloride (TiCl<sub>4</sub>)*

Titanium tetrachloride is a major chemical raw material for the production of pearlescent pigment products. Titanium tetrachloride is used to form the metal oxide coating to the substrates of pearlescent pigment products. We procure titanium tetrachloride from the suppliers in the PRC. We do not bulk purchase or maintain significant inventory of titanium tetrachloride as it is an inorganic chemical compound in liquid form at room temperature. The storage of titanium tetrachloride would involve safety risk and the risk of deteriorating quality. Our suppliers for titanium tetrachloride are domestic suppliers which can arrange for delivery to our warehouse from time to time. Titanium tetrachloride is an inorganic compound produced under chemical reactions, and its price may vary according to the price of chlorine and high titanium slag, both of which are the raw materials for the production of titanium tetrachloride. During the Track Record Period, the average unit purchase prices of titanium tetrachloride were in the range between RMB6.11 and RMB7.00 per tonne.

#### *Other chemical raw materials*

Our production process involves the use of different kinds of chemical reactants and additives. We purchase other chemical raw materials from suppliers in the PRC. The prices of these chemical raw materials have been relatively stable throughout the Track Record Period owing to abundant supply with many suppliers in the PRC.

The table below sets forth an analysis of our purchase cost of other chemical raw materials during the Track Record Period:

	Years ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Tin tetrachloride . . . . .	5,870	34.1	8,492	32.7	15,798	38.4
Ferric chloride . . . . .	3,212	18.7	6,529	25.2	6,760	16.5
Potassium fluorosilicate . . . . .	3,057	17.8	4,428	17.1	6,094	14.9
Clarification agent . . . . .	2,285	13.3	2,139	8.3	3,967	9.7
Other chemicals <sup>(1)</sup> . . . . .	598	3.5	1,376	5.3	3,896	9.5
Alumina . . . . .	1,237	7.2	1,044	4.0	1,597	3.9
Sodium hydroxide . . . . .	158	0.9	1,185	4.6	1,786	4.4
Potassium carbonate . . . . .	779	4.5	718	2.8	1,127	2.7
<b>Total</b>	<u>17,196</u>	<u>100.0</u>	<u>25,911</u>	<u>100.0</u>	<u>41,025</u>	<u>100.0</u>

*Note:*

- (1) Other chemicals include tetrasodium pyrophosphate decahydrate, organosilicon, sodium hydroxide, tin tetroxide, borax, ferric chloride, catalysts and other additives.

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Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulty or significant shortage or delay in the supply and delivery of natural mica flakes, titanium tetrachloride and other raw and chemical raw materials to us and do not anticipate that there would be any significant shortage or delay in the near future.

### **Procurement policy**

We procure most of our raw materials in the PRC, except for some natural mica flakes and certain high-end glass flakes, which are imported from India and Australia, respectively. Pursuant to our communication with our suppliers, some of the natural mica flakes procured from our suppliers in the PRC are imported from overseas countries, including India and Madagascar. We are also exploring sourcing alternative supply of natural mica flakes from Brazil, Nigeria and Pakistan and high-end glass flakes from Japan to ensure we have adequate supply of natural mica flakes and high-end glass flakes in response to potential trade restriction or trade tension with the PRC. We generally request our suppliers to deliver raw materials samples for testing prior to bulk delivery. We perform random quality checks upon delivery and will return the entire batch of raw materials if the batch does not meet our quality standards. Our raw material procurement schedule is largely dependent on our production schedule. We generally maintain inventory of raw materials that would be sufficient for production/processing requirement of one month.

Our procurement team is responsible for (a) monitoring the market prices of raw materials on a regular basis; (b) conducting analyses on the likely changes and fluctuations in the market prices and supply of raw materials; (c) negotiating the purchase prices of raw materials with our suppliers; and (d) identifying new raw materials suppliers with competitive pricing. During the Track Record Period, there were no material fluctuations in the market prices of our raw materials and any such fluctuations have been partially passed on to our customers. If we expect any significant price fluctuation or likely shortage in the supply of certain raw materials, our procurement team may proceed to place advance orders to secure a stable supply of raw materials.

### **Delivery of raw materials**

Raw materials we purchased from our PRC suppliers are delivered to our production plant. Raw materials purchased from our overseas suppliers are shipped to a designated port in the PRC. The costs for the delivery of the raw materials from the PRC ports to our production plant are borne by us.

### **Suppliers of our raw materials**

We maintain a list of approved suppliers based on certain assessment criteria, including quality, price, business history, production capacity and credibility. We conduct annual review on our suppliers based on such criteria. We maintain at least three suppliers for each type of our principal raw materials to reduce our reliance on any single source of supply. We do not have any long-term purchase commitment with our suppliers. We normally enter into purchase orders with our suppliers, which will specify the type of raw materials, specifications, quantity, terms of delivery, credit period and payment methods for each purchase. The terms and conditions on warranties for product quality and return policy are also stated in the purchase orders.



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Our key suppliers generally grant us a credit period up to 90 days. The purchase price of our raw materials generally follows market prices. During the Track Record Period, we have not experienced any major quality issue with our raw materials or shortages of raw materials during the course of our operations or experience any difficulty in sourcing alternative raw materials suppliers which materially affected our operations. Our domestic purchases are paid in Renminbi whereas our foreign purchases are paid in US dollars primarily. Purchases are settled either by bank transfers or endorsement of our customers' bank draft to our suppliers.

The table below sets forth information on our purchase of raw materials by countries during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
PRC . . . . .	110,530	87.4	139,524	84.0	191,550	91.5
India . . . . .	15,905	12.6	26,587	16.0	17,307	8.3
Australia . . . . .	—	—	—	—	468	0.2
<b>Total</b>	126,435	100.0	166,111	100.0	209,325	100.0

During the Track Record Period, the cost of purchase from our suppliers in the PRC amounted to RMB110.5 million, RMB139.5 million and RMB191.6 million, respectively, representing 87.4%, 84.0% and 91.5%, respectively, of our total purchase.

During the Track Record Period, the cost of purchase from our suppliers in India amounted to RMB15.9 million, RMB26.6 million and RMB17.3 million, respectively, representing 12.6%, 16.0% and 8.3%, respectively, of our total purchase.

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### Our five largest suppliers

The tables below set forth certain information with respect to our five largest suppliers during the Track Record Period:

*Year ended 31 December 2018*

Five largest suppliers	Purchase amount		Type of products purchased	Location of suppliers	Background of suppliers and their scale of operation	Credit term	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	RMB'000	%					
Supplier A	25,939	20.5	Titanium tetrachloride	PRC	Manufacturer and supplier of chemical products, synthetic mica products, and pearlescent materials with registered capital of RMB10 million. <sup>(1)</sup>	60 days	3
Supplier B	23,144	18.3	Natural mica flakes	PRC	Supplier of chemical products and raw materials; import and export of goods with registered capital of RMB5 million. <sup>(1)</sup>	60 days	4
Supplier C	8,132	6.4	Titanium tetrachloride	PRC	Manufacturer and supplier of dangerous chemical products with registered capital of RMB1 million. <sup>(1)</sup>	60 days	4
Supplier H	6,323	5.0	Natural mica flakes	India	An enterprise founded in 1953 specialising in processing and exports of natural mica products with no published information on scale of business operation. <sup>(2)</sup>	Nil	4
Supplier I	5,988	4.7	Titanium tetrachloride	PRC	Manufacturer and supplier of chemical products with registered capital of RMB 28.2 million. <sup>(1)</sup>	90 days	4
<b>Total</b>	<u>69,526</u>	<u>54.9</u>					

Notes:

- (1) Based on the information obtained from the National Enterprise Credit Information Publicity System.  
(2) Based on the information available in the public domain.

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*Year ended 31 December 2019*

Five largest suppliers	Purchase amount		Type of products purchased	Location of suppliers	Background of suppliers and their scale of operation	Credit term	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	RMB'000	%					
Supplier A	37,345	22.5	Titanium tetrachloride	PRC	Manufacturer and supplier of chemical products, synthetic mica products, and pearlescent materials with registered capital of RMB10 million. <sup>(1)</sup>	60 days	3
Supplier C	15,728	9.5	Titanium tetrachloride	PRC	Manufacturer and supplier of dangerous chemical products with registered capital of RMB1 million. <sup>(1)</sup>	60 days	4
Supplier B	14,344	8.6	Natural mica flakes	PRC	Supplier of chemical products and raw materials; import and export of goods with registered capital of RMB5 million. <sup>(1)</sup>	60 days	4
Supplier F	7,880	4.7	Other chemical raw materials	PRC	Supplier of chemical products and raw materials with registered capital of RMB0.5 million. <sup>(1)</sup>	60 days	6
Supplier G	7,668	4.6	Natural mica flakes	India	Manufacturer and supplier of mica products with issued share capital of Indian Rupee 900,000 (equivalent to RMB 0.08 million). <sup>(2)</sup>	Nil	5
<b>Total</b>	<u>82,965</u>	<u>49.9</u>					

*Notes:*

(1) Based on the information obtained from the National Enterprise Credit Information Publicity System.

(2) Based on the information available in the public domain.

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*Year ended 31 December 2020*

Five largest suppliers	Purchase amount		Type of products purchased	Location of suppliers	Background of suppliers and their scale of operation	Credit term	Approximate length of relationship with our Group as of the Latest Practicable Date (year)
	RMB'000	%					
Supplier B	32,211	15.4	Natural mica flakes	PRC	Import and export of goods including chemical products and raw materials with registered capital of RMB5 million. <sup>(1)</sup>	60 days	4
Supplier A	31,938	15.3	Titanium tetrachloride	PRC	Manufacturer and supplier of chemical products, synthetic mica products, and pearlescent materials with registered capital of RMB10 million. <sup>(1)</sup>	60 days	3
Supplier C	28,288	13.5	Titanium tetrachloride	PRC	Manufacturer and supplier of dangerous chemical products with registered capital of RMB1 million. <sup>(1)</sup>	60 days	4
Supplier D	11,102	5.3	Other chemical raw materials	PRC	Supplier of chemical products, chemical reagents and glassware; provision of chemical equipment installation services with registered capital of RMB15 million. <sup>(1)</sup>	90 days	5
Supplier J	8,355	4.0	Packaging materials	PRC	Supplier of dangerous chemical products, factory machines and equipment, and goods with registered capital of RMB2.1 million. <sup>(1)</sup>	60 days	1
<b>Total</b>	<u>111,894</u>	<u>53.5</u>					

*Note:*

(1) Based on the information obtained from the National Enterprise Credit Information Publicity System.

During the Track Record Period, the cost of purchase from our five largest suppliers amounted to RMB69.5 million, RMB83.0 million and RMB111.9 million, respectively, representing 55.0%, 49.9% and 53.5%, respectively, of our total purchase and the cost of purchase from our largest supplier amounted to RMB25.9 million, RMB37.3 million and RMB32.2 million, respectively, representing 20.5%, 22.5% and 15.4%, respectively, of our total purchase.

To the best knowledge of our Directors, none of our Directors, their respective close associates or any Shareholder who owns more than five per cent. of our Shares of issue immediately following completion of the Global Offering has any interest in any of our five largest suppliers during the Track Record Period.

### QUALITY CONTROL

In order to ensure our product quality meets the market needs and requirements of our customers, we have established a quality control system in accordance with the requirements of the relevant PRC laws and regulations, international standards, national standards and industry standards. We ensure effective quality control through implementation of quality control and management measures in various aspects including procurement of raw materials, production process, storage of raw materials and finished products, delivery of goods to our customers, and obtaining feedback from our customers.

Our quality control department is responsible for overseeing quality control in various aspects including procurement of raw materials, production processes and finished products and evaluates on a regular basis the implementation of our quality control system. Our quality control department takes initiatives to identify any quality issues, provide solutions to address the relevant quality issues, and monitor and track the implementation of solutions to ensure that quality issues are satisfactorily resolved. Our quality control department also examines our semi-finished or finished products at different stages of our production process to ensure our products meet the required quality standards. In addition, our quality control staff also regularly reports to our management team the quality of our raw materials and finished products and our production process as well as our compliance with the relevant national standards on quality control and any recommended improvement procedures. We also require members of our production team and quality control team to attend trainings from time to time to acquire up-to-date knowledge in relation to quality control of the production process and product assessment.

As of 31 December 2020, our quality control team consisted of 12 members. All members in our quality control team have more than five years of experience of quality control in the pearlescent pigment industry. We have been accredited with GB/T19001-2016/ISO 9001:2015 quality management system since 2014 and completed the certification audit in June 2020. Since 2017, we have been accredited with IATF16949:2016, the quality management system for the automotive industry and completed the supervisory audit in December 2019.

As our products are sold to overseas customers, our products are subject to the relevant quality control laws and regulations of different countries, such as the REACH standards issued by the EU in order to control and regulate chemicals entering the EU market. For products sold to the EU market, we would engage independent certification organisations to perform testing of chemical substances, such as synthetic mica powder, titanium dioxide (二氧化鈦), iron trioxide (三氧化二鐵) and tin dioxide (二氧化錫), in our products in order to comply with the REACH standards.

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### Quality control certification

Our quality control management system has been recognised with international quality management certifications. We received these certifications granted by the independent accreditation bodies by way of on-site inspections and are subject to regular reviews. The table below sets forth the major certifications which Chesir Pearl has received:

Nature	Certification	Awarding organisation	Validity	Objectives
Quality Management System . . . . .	GB/T19001-2016/ISO9001:2015	China Quality Mark Certification Group	24 September 2020 to 24 March 2023	Demonstrate our ability to consistently provide products and services that meet customer and applicable statutory and regulatory requirements
International Standard for Automotive Quality Management Systems . . . . .	IATF16949:2016	NQA-Global Certification Body	28 November 2018 to 27 November 2021	Demonstrate our continual improvement, emphasis on defect prevention and the reduction of variation and waste in the automotive industry supply chain and production
REACH Certification . . . . .	REACH compliance	REACH24H Consulting Group	Continuously effective from 10 August 2017	Certification on products imported to EU
KKDIK Pre-registration Certificate . . . . .	KKDIK compliance	REACH24H Consulting Group	16 November 2020 to 31 December 2023	Certification on products imported to Turkey

### Quality control on our raw materials

We have adopted and carried out designated procedures in the selection and evaluation of our suppliers. We select and evaluate our suppliers taking into account their product quality, supply capacity, business history, production capacity and credibility. We conduct annual review of our qualified suppliers to ensure stable supply of raw materials.

After the delivery of raw materials to our warehouses/production plant, our quality control department will perform batch inspections and check against the supplier's delivery report to ensure that the raw materials satisfy with our required quality standards and specifications. We only accept raw materials that meet our quality standards and specifications and will return the entire batch of raw materials to our suppliers for any failure to meet our quality standards.

### Quality control in the production process

We apply and adhere to the relevant industry standards in our production process, including GB/T19001-2016/ISO 9001:2015 and IATF16949:2016, to ensure that our products are consistently produced in compliance with the relevant industry standards.

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Our production department and quality control department work together to formulate the procedures and standard for the inspection of the production processes to ensure product quality. Our quality control department is responsible for quality control over the entire production process and closely monitors each stage of our production. The quality control team monitors and performs quality inspections of the semi-finished products during each stage of the production process and only qualified semi-finished products can be passed to the next stage of the production procedure.

If any unqualified semi-finished products is identified during the production process, our production team will make relevant corrections. In the event that the batch production is unqualified for further production processes, the relevant production process will be suspended and our quality control, technical and production departments will establish an ad hoc group to resolve the problem for rectification and the rectification notice will also be filed for internal record.

### **Quality control on finished products**

Our quality control department and the research and development department have formulated quality inspection standards for our finished products according to the characteristics of pearlescent products and industry application requirements.

Each batch of our finished products is tested on a sampling basis with respect to various requirements including colour difference, particle size, brightness and density to ensure that they have met the relevant quality standards and product specifications.

### **Quality control for storage of inventory**

We have formulated and implemented policies and procedures for inventory management and warehousing. We regularly monitor our storage of raw materials and finished products in terms of storage condition, storage location, packaging, labelling and inventory ledgers. We also review the shelf life of our inventory of raw materials and finished products to ensure they would not be obsolete because of passage of time. We manage our inventory of raw materials on a “first-in first-out” basis.

### **Response to customers’ complaints and feedbacks**

We have established and strictly implement procedures for ensuring customer satisfaction level and proper handling of customer feedbacks and complaints. It is our policy that all complaints and feedbacks from our customers are handled promptly upon receipt. We pay regular visits to our customers to collect feedbacks on our product quality and product applications. Such feedbacks from our customers will be directed to our production department and quality control department for prompt handling. We supervise and improve our product quality through customers’ feedbacks to ensure our products can align with the customer requirements and market needs.

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### Product return or refund policy

Our product return or refund policy is as follows:

- For all customers, defective products will only be accepted for return if the defects are caused during the production process or that the products are damaged in transit. Customers may request for refund or return of the same type of products if the products are defective.
- For selected trading company customers which are the Authorised Resellers, we normally do not accept return of non-defective products unless the Authorised Resellers are in extreme financial difficulties, e.g. payment defaults or business dissolution, in which we have to take all the necessary steps to protect our interest in the relevant products. The Authorised Resellers will also be required to bear the transportation cost and 2.0% of the amount of return as our handling fee. During the Track Record Period, we had not received such request from our customers.

During the Track Record Period, sales returns amounted to RMB0.2 million, RMB0.1 million and RMB83,000, respectively, were requested by our customers, and were deducted from our revenue. All of these returns were due to damaged products during transit.

### INVENTORY MANAGEMENT

Our inventory consists of raw materials, work-in-progress and finished products. An analysis of the levels of our inventory as of 31 December 2018, 2019 and 2020 is set forth in the section headed “Financial Information — Components of our current assets and current liabilities — Inventories” in this prospectus. We closely monitor our inventory level as maintaining an excessive level of inventory would tie up our working capital although most of our inventories have no expiry dates for usage.

For the inventory of our raw materials, we place purchase orders with our suppliers based on the expected level of production activities taking into consideration the sales orders on hand and the historical trends of sales as well as the number of new customers and the products that they would purchase from us within the next two to three months. If there is an expected shortage of any particular type of raw materials or if the market prices of the raw materials are on an increasing trend, we would increase our inventory level of raw materials.

The level of inventory of our finished products is dependent on our production volume as well as the sales orders on hand and the time for delivery of the finished products to our customers. Our pearlescent pigment products are produced based on the specifications of the sales orders placed by our customers, and we would produce in advance some pearlescent pigment products based on our estimation on industry demand for the purpose of responding quickly to the needs of our customers. The level of inventory of our finished products has increased during the Track Record Period primarily due to the continuous increases in our business scale.

The level of inventory of our work-in-progress is also dependent on the production process. The level of inventory of our work-in-progress is subject to the production volume which in turn is determined by our sales orders on hand and our expectation of the achievable sales amount.



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As part of our quality control for inventory storage, we have also implemented operation procedures for our warehouse, which include record keeping in a timely manner, proper and clear labelling and periodic stocktaking.

### RESEARCH AND DEVELOPMENT

Our research and development efforts focus on two major areas, namely (a) research and development of new products and new applications and (b) improvement in the production machinery and the related production and processing technology. We are committed to develop new products, new applications and improve our production and processing technology to align with the industry trend and the requirements of our customers in various downstream applications, such as automotive coatings, cosmetics, industrial coatings, plastics, printing, textile and leather and ceramics. We have registered 26 patents in the PRC and had also submitted 14 patent applications in the PRC as of the Latest Practicable Date. For example, we have obtained patents in the PRC in connection with the development and improvement in the production and processing technology of pearlescent pigment products and synthetic mica powder. See the paragraphs under “B. Further information about the business of our Group — 2. Intellectual property” in Appendix V to this prospectus for additional information on our patents.

We place strong emphasis on research and development which is important to maintain our market position in pearlescent pigment and synthetic mica industries. For this purpose, we have established a research and development centre, namely Liuzhou City Pearlescent Effect Material Engineering Technology Research Centre (柳州市珠光材料工程技术研究中心), since December 2014 for the purpose of researching on the production technology in the production of pearlescent pigment products. We also have our technical engineering team overseeing the entire production process. We have obtained the accreditation of National Intellectual Property Advantage Enterprise (國家知識產權優勢企業) in 2017 and Innovative Technology Exemplary Enterprise (技術創新示範企業) granted by Guangxi Zhuang Autonomous Region in 2018. See the paragraphs under “— Awards and recognitions” below for further information on the awards and recognitions received by us during the Track Record Period.

Our research and development process generally commences with the preparation of a brief feasibility analysis reports on the new products, new applications or new production technology, which forms part of our annual research and development plan. These reports are based on the feedbacks from the sales and marketing department and the suggestions of our chief engineer. Upon being approved by the board of directors of Chesir Pearl, a project team will be formed and a project management schedule and plan for the development of new products or new applications will also be prepared. The project team will also carry out the assigned research and development tasks following a pre-determined timetable. If the test results are satisfactory, pilot production will commence and samples will be provided to our customers for application testing. We will proceed with mass and full-scale production if the new products meet the quality requirements.

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### **Research and development of new products and new applications of our products**

Our research and development efforts focus on the use of substrates in the production of pearlescent pigment products. We have improved and refined our production and processing technology in the production of synthetic mica-based pearlescent pigment products and natural mica-based pearlescent pigment products. During the Track Record Period, we introduced synthetic mica-based pearlescent pigment products which is non-toxic and free of heavy metal contents for use in high-end cosmetics and natural mica-based pearlescent pigment products with improved dispersion and colour fastness for use in automotive coatings and industrial coatings. We have also carried out research and development on the use of alternative substrates of glass flakes and silica to develop a more diversified portfolio of pearlescent pigment products. We introduced glass flake-based pearlescent pigment products with higher level of glossiness and colour saturation for use in plastics, industrial coatings and textiles and leathers and silicon oxide-based pearlescent pigment products with mattifying property and improved skin adhesion for use in high-end cosmetics during the Track Record Period.

We have diversified the applications of our products and have developed and introduced pearlescent pigment products for use in automotive and high-end cosmetics. Our automotive-grade pearlescent pigment products have passed the IATF 16949:2016 certification, the general standard of the international automotive industry, since 2017. Our automotive-grade pearlescent pigment products can withstand harsh environmental conditions and UV exposure and have the characteristics of weather resistance, light stability, chemical inertness, thermal stability, with high colour fidelity, colour durability, colour constancy and lasting brilliance. Our synthetic mica powder product is certified as having free fluorine level of less than 10ppm pursuant to the Japanese Standard of Quasi-drug Ingredients Standards and is safe for use in cosmetics applications. Our cosmetic-grade pearlescent pigment products can be used in high-end cosmetics because they are either free of or contain low content of heavy metals, and also with the remarkable properties of high colour saturation, colour richness and comfortable to be used on the skin with UV protection due to their fine particles. Our cosmetic-grade pearlescent pigment products comprise primarily synthetic mica-based pearlescent pigment product, which are free of heavy metal contents, and also silicon-oxide based pearlescent pigment products and natural mica-based pearlescent pigment products, which contain low heavy metal contents.

### **Improvement in our production and processing technologies**

The following sets forth our research and development efforts to improve the production process of synthetic mica powder and the key technologies in relation to the production of natural mica-based pearlescent pigment products and synthetic mica-based pearlescent pigment products:

#### ***Production process of synthetic mica powder***

Optimising the synthetic mica production formula and production processes

We have undertaken rigorous technical improvement and performance testings for optimisation of the production formula and production processes of synthetic mica.

Intelligent automation control system for the melting and crystallisation processes in the production of synthetic mica (合成雲母熔制結晶智慧控制系統)

Our self-developed intelligent automation control system for the production of synthetic mica allows us to have precise control of the crystallisation process ensuring complete crystallisation with thorough removal of impurities.

Fully-sealed negative pressure melting in the production of synthetic mica (合成雲母全密封負壓熔制技術)

Our fully sealed and insulated negative pressure melting in the production of synthetic mica ensures energy saving and prevents exhaust gas volatilised by the crystals from emitting and being treated internally for environmental protection.

Advanced technology of synthetic mica production equipment (合成雲母製造設備的先進技術)

We use internal thermal resistance method (內熱電阻法) in the production of synthetic mica, pursuant to which the furnace for the melting process is built with special insulation materials with intelligent automation control, which has improved the output level, minimised impurities created, enhanced energy saving and reduced pollution made to the environment.

***Production and processing technology for synthetic mica powder and natural mica powder***

Synthetic mica high-pressure pulping, mica powder grinding and classification technology (合成雲母高壓制漿、雲母粉研磨分級技術)

Through our research and development effort, we have refined the technology of high-pressure hydraulic pulping and centrifugal classification technology in the production of synthetic mica, which has significantly improved the whiteness and diameter-to-thickness ratio of synthetic mica and has also enhanced our output level and production efficiency.

Patents for two mica classification technologies, namely “A method for wet classification of flake powder materials”《一種片狀粉體材料的濕法分級方法》and “A method for preparing  $\text{KMg}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$  crystal powder synthesised by wet method”《一種濕法合成 $\text{KMg}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$ 晶體粉的製備方法》

Through the use of our patented wet classification and wet synthesis technology and our automatically controlled centrifugal classification method, we have optimised our production process and reduced the time required for the classification and sedimentation processes in the production and processing of mica and the mica powder generated has uniform particle size and low coarse particles, which has greatly enhanced our productivity and utilisation rate and reduced the production cost.

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Mica grinding technology (雲母輾磨技術)

With the development of a new milling equipment and advancement of the mica grinding technology, we can have accurate and precise control of the particle size and diameter of mica powder and reduce the coarse particles, ensuring a smooth surface and good diameter-to-thickness ratio of mica powder. The improved mica grinding technology and equipment has greatly improved our production efficiency.

### *Production technology for pearlescent pigment products*

Intelligent automation of wet chemical hydrolysis coating process (濕化學法水解包覆智慧化控制技術)

We have implemented intelligent automation in the wet chemical hydrolysis coating process, from the feeding of mica slurry to the control of various parameter conditions during the entire hydrolysis coating process, which stabilises the product quality and minimises any colour difference.

Multilayer coating technology of pearlescent pigment (珠光顏料的多層包覆技術)

Through the use of wet chemical hydrolysis coating, we can have multi-layered coating of metal oxides and non-metal oxides on the surface of mica substrate and accurately control the thickness of each oxide coating layer. The use of different types of metal oxides during the coating process gives the pearlescent pigment products the characteristics of high brilliance, colour richness and intensity and metallic lustre look.

Surface treatment technology (表面處理技術) for pearlescent pigment

Our self-developed pearlescent pigment surface treatment technology has enhanced the performance of coating application of pearlescent pigment, including improving its weather resistance, brightness level, dispersion and ease of application.

**Research projects on national, provincial and ministerial level and collaborations with universities and institutions in the PRC**

As of the Latest Practicable Date, Chesir Pearl has undertaken eight scientific research projects on national, provincial and ministerial level in the PRC. The table below sets forth a list of the research and development projects undertaken by us on national, provincial and ministerial level in the PRC and a brief description of such projects:

No.	Awarding date	Duration of projects	Governmental level	Governmental authority funding the projects	Awarded institutions	Research topics/objectives	Amount of research funding	Key assessment indicators	Intellectual property right arisen out of the research and development projects
1.	November 2020	Nil <sup>(1)</sup>	Provincial	Science and Technology Department of Guangxi Zhuang Autonomous Region (广西壮族自治区科学技术厅)	Chesir Pearl and Chesir Luzhai	Industrialisation of synthetic mica powder and research and development of its key equipment (人工合成雲母粉體的產業化及其關鍵裝備的研製)	RMB1.0 million	Nil <sup>(1)</sup>	Nil <sup>(1)</sup>
2.	May 2018	June 2018 — June 2020	Provincial	Science and Technology Department of Guangxi Zhuang Autonomous Region (广西壮族自治区科学技术厅)	Chesir Pearl	Research and development and industrialisation of cosmetic-grade synthetic mica (化妝品級人工合成雲母的研製及產業化)	Total research and development budget of RMB20.0 million, of which RMB4.5 million is funded by the government in instalments according to the stage of completion of the project and RMB15.5 million is self-funded by Chesir Pearl	(i) Fulfil technical specifications for synthetic mica powder; (ii) Invention of three cosmetic-grade synthetic mica products; (iii) Achieve a designed annual production capacity of 1,800 tonnes of cosmetic-grade synthetic mica products	Chesir Pearl shall be entitled to the intellectual property rights except those related to national security, national interest and public interest

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No.	Awarding date	Duration of projects	Governmental level	Governmental authority funding the projects	Awarded institutions	Research topics/objectives	Amount of research funding	Key assessment indicators	Intellectual property right arisen out of the research and development projects
3.	September 2016	September 2016 — August 2018	Provincial	Science and Technology Department of Guangxi Zhuang Autonomous Region (广西壮族自治区科学技术厅)	Chesir Pearl and Guangxi Academy of Sciences (广西科学院)	Research and development of key technology and industrialisation of weather-resistance pearlescent pigment products for automobiles (汽車專用耐候級珠光材料關鍵技術研發及產業化)	Total research and development budget of RMB1.2 million shall be funded by the government, of which Chesir Pearl shall receive one-time funding of RMB1.08 million and Guangxi Academy of Sciences shall receive one-time funding of RMB120,000	(i) Fulfill technical specifications of pearlescent pigment products for automobiles; (ii) During the period of the research project, shall achieve total sales revenue of RMB52.5 million for automotive pearlescent pigment products and making profit of RMB7.85 million; (iii) Submit 10 invention patent applications; including six industrialised new products; one new technology, one new research and development platform and one new trial production line	Chesir Pearl and Guangxi Academy of Sciences shall be entitled to the intellectual property rights except those related to national security, national interest and public interest

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No.	Awarding date	Duration of projects	Governmental level	Governmental authority funding the projects	Awarded institutions	Research topics/objectives	Amount of research funding	Key assessment indicators	Intellectual property right arisen out of the research and development projects
4.	August 2015	November 2014 — November 2016	Provincial	Science and Technology Department of Guangxi Zhuang Autonomous Region (广西壮族自治区科学技术厅)	Chesir Pearl	Research and development of key technology for wet synthesis of $KM_3(AISi_3O_{10})F_2$ crystal powder (濕法合成 $KM_3(AISi_3O_{10})F_2$ 晶體粉關鍵技術的研發)	Total research and development budget of RMB3.2 million, of which RMB0.5 million shall be funded by the government and RMB2.7 million shall be self-funded by Chesir Pearl	(i) Fulfill technical specifications of wet synthetic mica powder; (ii) Achieve sales revenue of synthetic mica powder in the amount of RMB4.2 million, RMB4.5 million, RMB4.9 million and RMB5.3 million in the second, third, fourth and fifth year, respectively, after commencement of the project;	Chesir Pearl shall be entitled to the intellectual property rights except those related to national security, national interest and public interest
5.	June 2015	1 January 2015 — 30 June 2016	National and ministerial	Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部)	Chesir Pearl	Implementation plan of synthetic mica (人工合成雲母實施方案)	Total research and development budget of RMB61.6 million, of which RMB12.0 million shall be funded by the government in instalments according to the stage of completion of the project and RMB49.6 million shall be self-funded by Chesir Pearl	(iii) Submit two applications for invention patents; (iv) Recruit five technical specialists for the project	Nil <sup>(2)</sup>

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No.	Awarding date	Duration of projects	Governmental level	Governmental authority funding the projects	Awarded institutions	Research topics/objectives	Amount of research funding	Key assessment indicators	Intellectual property right arisen out of the research and development projects
6.	December 2014	1 December 2014 — 30 June 2015	Provincial	Industry and Information Committee of the Guangxi Zhuang Autonomous Region (广西壮族自治区工业和信息化委员会)	Chesir Pearl	Research and development of key technology of pearlescent effect materials for new plastics (新型塑膠專用珠光效應材料關鍵技術的研發)	RMB3.0 million shall be funded by the government	Nil <sup>(3)</sup>	Nil <sup>(3)</sup>
7.	October 2014	January 2015 — December 2015	Provincial	Science and Technology Department of Guangxi Zhuang Autonomous Region (Intellectual Property Office) (广西壮族自治区科学技术厅(智慧产权局))	Chesir Pearl and Guangzhou Aokai Information Consulting Co., Ltd. (廣州奧凱資訊諮詢有限公司)	Demonstration of early awareness, evaluation and patent application for synthetic mica 成雲母關鍵技術專利預警評價應用示範)	One-time funding of RMB600,000 shall be provided by the government	(i) Establish a special database containing information on patents, patent owners and patent inventors for the pearlescent material industry;  (ii) Complete the early awareness, evaluation report for patent applications in the pearlescent material industry;  (iii) Provide training to personnel to provoke awareness of importance of intellectual property rights in the industry	Chesir Pearl and Guangzhou Aokai Information Consulting Co., Ltd. shall be entitled to the intellectual property rights except those related to national security, national interest and public interest



No.	Awarding date	Duration of projects	Governmental level	Governmental authority funding the projects	Awarded institutions	Research topics/objectives	Amount of research funding	Key assessment indicators	Intellectual property right arisen out of the research and development projects
8.	July 2014	1 July 2014 – 30 April 2016	Provincial	Industry and Information Committee of the Guangxi Zhuang Autonomous Region (广西壮族自治区工业和信息化委员会)	Chesir Pearl	Research and development of key technology for the designed annual production of 300 tonnes of new pearl leather (年產300噸新型皮革專用珠光效應材料關鍵技術的研發)	RMB10.6 million shall be funded by the government	Nil <sup>(3)</sup>	Nil <sup>(3)</sup>

Notes:

- (1) The research and development project is awarded to us by a public notice issued by the Science and Technology Department of Guangxi Zhuang Autonomous Region on 12 November 2020 and we are in the course of entering into the agreement with the relevant governmental authority.
- (2) No such term is specified in the agreement.
- (3) No agreement was entered into in relation to such research and development project.

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Chesir Pearl also cooperate, with the universities and institutions in the PRC on research projects. For example, we cooperated with (a) Guangxi Academy of Sciences (广西科学院) to establish the National Enterprise Research and Development Technology Center (国家企业研发技术中心) to carry out research on the industrial applications of pearlescent pigment products and synthetic mica and (b) Hubei University of Technology (湖北工业大学) to establish the Chesir Pearlescent New Material Research and Development Center (七色珠光新材料研发中心) on new product development, production technologies and production process.

The table below sets forth a list of our collaborations with universities and institutions in the PRC during the Track Record Period and a brief description of such collaborations:

Year	Research institutions	Collaborating universities	Research topics/objectives	Economic benefits sharing	Intellectual property right arisen out of the research and development projects	Investment amount	Status
May 2017 - May 2022	Hubei University of Technology Chesir Pearlescent New Material Research and Development Centre (湖北工业大学七色珠光新材料研发中心)	Hubei University of Technology	Innovation of new technology, product, production process and equipment	Nil	Intellectual property solely belongs to Chesir Pearl and rights from both parties to designate the inventor; if Chesir Pearl transfers the intellectual property rights to a third party, Chesir Pearl enjoys 60% of transfer benefits, and Hubei University of Technology enjoys 40% of transfer benefits	Chesir Pearl to provide not less than RMB100,000 per annual research and development expenditures; Hubei University of Technology to provide solutions to technology advancement and priority intake of staff of Chesir Pearl to advance study programs including master's degree in public administration (MPA) and master's degree in business administration (MBA)	Active

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Year	Research institutions	Collaborating universities	Research topics/objectives	Economic benefits sharing	Intellectual property right arisen out of the research and development projects	Investment amount	Status
From September 2013 until further agreement to terminate	Guangxi University Base for Research Collaboration (广西大学产学研合作基地)	Guangxi University	Research and development on pearlescent material product and manufacturing process	Equal share of economic benefits	Equal share of intellectual property rights; Chesir Pearl enjoy exclusive rights of use	Chesir Pearl to provide technical support and facilities to research and development activities and internship opportunities; Guangxi University to provide business management consultation and analysis, trainings and priority intake of staff of Chesir Pearl into advance study programs including executive master's degree in business administration (EMBA), master's degree in business administration (MBA) and executive development programs (EDP)	Active
From September 2012 until further agreement to terminate	Guangxi University of Science and Technology Base for Research Collaboration (广西科技大学产学研合作基地)	Guangxi University of Science and Technology	Research and development on pearlescent material product and production process	Equal share of economic benefits	Equal share of intellectual property rights; Chesir Pearl enjoy exclusive rights of use	Chesir Pearl to provide RMB60,000 annual research and development expenditures; Guangxi University of Science and Technology to meet the development needs of Chesir Pearl and provide solutions to technology advancement and supervision of production process	Active
August 2014 - August 2019	Guangxi Academy of Sciences Joint laboratories (广西科学院联合实验室)	Guangxi Academy of Sciences (广西科学院)	Research and development on pearlescent material product and process equipment for manufacturing analysis and testing, post-doctoral research work substation	Share of economic benefits based on ratio on research and development expenditures	Case-by-case per negotiation on each research outcome	Chesir Pearl to provide research and development facilities; Guangxi Academy of Sciences to provide technical advice and personnel trainings	Expired

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### Staffing

As of 31 December 2020, we had 40 research and development team members in our research and development centre and 28 technicians overseeing production activities at our production plant. Among our 40 research and development team members, more than 20 of them are holders of bachelor's degrees or above, including five master's degree holders, four doctor's degree holders and three professors. Our research and development efforts are currently led by Professor FU (付建生教授), our chief engineer and a pioneer in pearlescent pigment industry in the PRC, Mr. LIN Zhengjiao (林正交先生), our research and development director and Mr. FENG Zhongqi (冯中起先生), our deputy chief engineer, all have extensive experience in the pearlescent pigment and synthetic mica industries. We have entered into confidential agreements and non-competition agreements with members of our research and development team, which require them to comply with the confidentiality and non-compete obligations.

We emphasise the creation and cultivation of a favourable working environment and encourage innovation. Our research and development personnel regularly (a) communicate with our sales and marketing department to understand the market trends, (b) collect customer feedbacks in order that we can design and develop products pursuant to the needs of our customers, (c) participate in exhibitions in Europe and Asia for exchange of industry information and business intelligence and (d) collect latest industry data and technological updates in the PRC and international markets, to ensure that our research and development direction could align with the market trend and development.

On 9 October 2016, we established our “Chesir Pearl School of Business (七色珠光商学院)” within our industry park and was the first pearlescent pigment products manufacturer to establish a business school in the PRC. The business school follows our motto of “seeking truth, innovation, leadership (求是、創新、領先)”, with the educational philosophy of “training of talents with practical experience for enterprises (為企業培養實戰型人才)”. The business school focuses on talent development and provision of staff training. We hope that through creating a model for research and development and talent training, we can develop sustainable human resources for us and promote the overall development of the pearlescent pigment industry in the PRC.

Our research and development expenditures mainly include the cost of raw materials, staff costs and utilities. During the Track Record Period, our research and development expenditures amounted to RMB10.7 million, RMB23.2 million and RMB29.3 million, respectively. These amounts were also charged to our consolidated statements of profit or loss as part of our administrative and other expenses. Our research and development expenditures accounted for 3.4%, 5.3% and 5.1% of our total revenue for the Track Record Period, respectively. We currently expect that around five per cent. of our revenue in each year will be used for product research and development activities for that year.

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### LICENCES AND PERMITS

We have established business presence in the PRC. In the PRC, our PRC Legal Advisers confirm that each member of our Group has obtained the requisite governmental licences, permits, and certification necessary for our business operations. Our PRC Legal Advisers further confirm that we are in full compliance with the terms and conditions of our licences, permits, and certification in all material respects and we did not experience any difficulty in applying for or renewing any of our licences, permits, and certification necessary for our business operations in the PRC.

The table below sets forth the governmental licences, permits, and certification which are material to our business:

<u>Members of our Group</u>	<u>Certificate/licence</u>	<u>Issuing authority</u>	<u>Date of issue</u>	<u>Expiry date</u>
Chesir Pearl	Pollution Discharge Registration for Fixed Pollution Sources	Liuzhou City Ecology and Environment Bureau	11 March 2020	30 March 2025
Chesir Pearl	Safety Production Standardisation Certificate	Liuzhou City Emergency Management Bureau	15 October 2020	October 2023

### INTELLECTUAL PROPERTY

We rely on intellectual property laws in the PRC to protect our intellectual property rights. We also rely on a combination of confidentiality procedures and contractual provisions to protect our intellectual property rights. We have entered into confidential agreements and non-competition agreements with selected senior members of our research and development team, which require them to comply with the confidentiality and non-compete obligations.

On 13 September 2005, Mr. YANG Lunquan, our deputy general engineer, obtained the patent of “Preparation method of electrically conductive sericite in powder (導電絹雲母粉的製備方法)”. On 16 July 2007, Ms. TAN Guangqiong, the spouse of Mr. YANG Lunquan, obtained the patent of “A method for film shaped powder material dispersion (一種片狀粉體材料的濕法分級方法)”. As confirmed by Mr. YANG Lunquan and Ms. TAN Guangqiong, they had entered into respective patent licence agreements with an Independent Third Party on 1 April 2010, pursuant to which Mr. YANG Lunquan and Ms. TAN Guangqiong agreed to grant an exclusive right to use the above two patented technologies to the Independent Third Party during the period from 1 April 2010 to 1 April 2015. Mr. YANG Lunquan worked as an employee with the Independent Third Party during the period from March 2009 to April 2013. Mr. YANG Lungquan subsequently joined Chesir Pearl in July 2013. Mr. YANG Lunquan and Ms. TAN Guangqiong transferred the above two patents to Chesir Pearl on 29 August 2013.

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Despite that Chesir Pearl has become the registered owner of the above two patented technologies since 29 August 2013, Chesir Pearl had not used the two patented technologies until after 1 April 2015. After expiration of the exclusive rights granted to the Independent Third Party, Chesir Pearl commenced commercial production of synthetic mica-based pearlescent pigment product and synthetic mica with the use of our own patented technologies. For the applications of our patented technologies in the production and processing of synthetic mica powder, see the paragraphs under “Research and development — Improvement in our production and processing technologies” above.

As of the Latest Practicable Date, we had (a) 26 patents in PRC; (b) 13 trademarks in the PRC; (c) one domain name in the PRC; (d) four software copyrights in the PRC; (e) one trademark in Hong Kong; and (f) 14 patent applications for registration in the PRC under review. See the paragraphs under “B. Further information about the business of our Group — 2. Intellectual property” in Appendix V to this prospectus for further information.

Among our 11 registered patents, one patent was awarded with gold award and three patents were awarded with silver award from Guangxi Invention Creation Exhibition and Trade Fair Project (廣西發明創造成果展覽交易會項目).

Despite our efforts to protect our proprietary rights, unauthorised parties may attempt to copy or otherwise obtain and use our intellectual property rights. It is difficult to monitor unauthorised use of technology and know-how. In addition, our competitors may independently develop technology and/or know-how similar to ours. Our precautions may not prevent misappropriation or infringement of our intellectual property. During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge, we had not been subject to any material intellectual property infringement claims which could have a material adverse effect on our business or operations.

### INFORMATION TECHNOLOGY

Our enterprise resources planning (ERP) system and our information technology management policy regulate our operations, inventory control, procurement, production and sales management. Our sales and production status are reflected in the ERP system on a real time basis, and different departments of our Group are connected through the ERP system to ensure the completeness and integrity of our business information. Timely access to inventory and sales data allows our management to monitor our sales performance and make appropriate adjustments in response to the market conditions. It also facilitates our procurement, marketing strategies and decision making process.

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### AWARDS AND RECOGNITIONS

The table below sets forth the major awards and recognitions received by us during the Track Record Period:

Year of receipt	Awards/recognitions	Issuing entities
December 2020	National Workers' Home (全國模範職工之家)	The All-China Federation of Trade Unions (中华全国总工会)
September 2020	High and New Technology Enterprise (高新技術企業)	Department of Science and Technology of Guangxi Zhuang Autonomous Region (广西壮族自治区科技厅), Department of Finance of Guangxi Zhuang Autonomous Region (广西壮族自治区财政厅), Guangxi Office of the State Administration of Taxation (广西国家税务局) and Guangxi Local Taxation Bureau (广西地方税务局)
September 2019	Top 100 Guangxi Private Enterprise in the Manufacturing Industry of year 2019 (2019年廣西民營企業製造業100強)	Guangxi Zhuang Autonomous Region Federation of Industry and Commerce (广西壮族自治区工商业联合会)
September 2019	Certificate of Most Promising Enterprise in China (2019廣西最具潛力民營企業)	Guangxi Zhuang Autonomous Region Federation of Industry and Commerce (广西壮族自治区工商业联合会)
November 2018	Innovative Technology Exemplary Enterprise in Guangxi Zhuang Autonomous Region (廣西壯族自治區技術創新示範企業)	Commission for Industry and Information Technology of Guangxi Zhuang Autonomous Region (广西壮族自治区工业和信息化厅) and Department of Finance of Guangxi Zhuang Autonomous Region (广西壮族自治区财政厅)
September 2018	Certificate of Most Promising Enterprise in China (2018廣西最具潛力民營企業)	Guangxi Zhuang Autonomous Region Federation of Industry and Commerce (广西壮族自治区工商业联合会)

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Year of receipt	Awards/recognitions	Issuing entities
November 2018	<p>The 8th Guangxi Innovation Creation Exhibition and Trade Fair Participating Project Silver Award (第八屆廣西發明創造成果展覽交易會參展專案銀獎(2項))</p> <ol style="list-style-type: none"> <li>1. Blue-green series pigment with pearlescent Effect and preparation method (藍綠系列珠光效應顏料及其製備方法)</li> <li>2. Pearlescent pigment with high heat resistance and its preparation method (一種耐高溫珠光顏料及其製備方法)</li> </ol>	The commission of Guangxi Innovation Creation Exhibition and Trade Fair (广西发明创造成果展览交易会组织委员会)
December 2017	National Intellectual Property Superior Enterprises (國家知識產權優勢企業)	National Intellectual Property Administration (国家知识产权局)
December 2017	Guangxi Gazelle Company in Guangxi Zhuang Autonomous Region for the year 2017 (廣西壯族自治區2017年度瞪羚企業)	Department of Science and Technology of Guangxi Zhuang Autonomous Region (广西壮族自治区科学技术厅)
September 2017	Guangxi Zhuang Autonomous Region (Honour Contract and Commercial Integrity) Publicised Enterprise of the year 2016 (2016年度廣西壯族自治區“守合同重信用”公示企業)	Administration for Industry and Commerce of Guangxi Zhuang Autonomous Region (广西壮族自治区工商行政管理局)
February 2017	The 6th Guangxi Innovation Creation Exhibition and Trade Fair Participating Project Silver Award (第六屆廣西發明創造成果展覽交易會參展專案銀獎) - Magnetic Pearlescent Pigment with 3D effect and its preparation method (一種具有3D效果的磁性珠光顏料及其配製方法)	The commission of Guangxi Innovation Creation Exhibition and Trade Fair (广西发明创造成果展览交易会组织委员会)
April 2017	Key laboratory of Pearlescent Pigment Products in Liuzhou Province (柳州市珠光材料重點實驗室)	Liuzhou Provincial Department of Science and Technology (柳州市科学技术局)



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### EMPLOYEES

As of 31 December 2020, we employed a total of 462 employees in the PRC. The table below sets forth the number of our employees by functions as of 31 December 2020:

<b>Business functions</b>	<b>Number of employees as of 31 December 2020</b>
Administration and management . . . . .	7
Human resources and office administration . . . . .	45
Production . . . . .	295
Sales and marketing . . . . .	48
Research and development . . . . .	40
Accounting and finance . . . . .	15
Quality management . . . . .	12
<b>Total</b>	<b>462</b>

We recruit our employees based on our business needs. We recruit our employees through the recruitment centre, online recruitment platform and job fairs.

We provide our employees with competitive remuneration packages which include wages and salaries, year-end bonuses and different kinds of fringe benefits. Our human resources department will review remuneration packages of our employees from time to time. During the Track Record Period, we incurred total employee benefit expense of RMB41.0 million, RMB48.9 million and RMB50.6 million, respectively.

We place great importance on staff training. We provide regular trainings to our employees on updated technical know-how and sales techniques, knowledge on relevant product quality and production safety. We also arrange for our research and development staff to participate in conferences and trainings on the latest technology development and trends.

We have maintained amicable working relationship with our employees and offer equal opportunities to our employees regardless their gender, age, race, religion or any other social or personal characteristics. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulty in the recruitment and retention of workers and staff and there was no material dispute between our employees and us that could have a material and adverse impact our business and financial condition.

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### PRC

#### *Social insurance contribution*

As required under the applicable PRC laws and regulations, we are required to participate in the social welfare schemes which provide pension insurance, medical insurance, work injury insurance, maternity insurance and unemployment insurance for our employees.

#### *Housing provident fund*

We are also required under the applicable PRC laws and regulations to provide our employees in the PRC with the social welfare schemes covering housing provident funds and housing benefits.

As advised by our PRC Legal Advisers, according to the confirmations received from the relevant authorities and to the best of their knowledge, we have been in compliance in all material respects with applicable employment laws during the Track Record Period, save for matters as disclosed in the paragraphs under “Non-compliance matters” below.

### OCCUPATIONAL SAFETY

In the PRC, we are subject to the PRC laws and regulations on labour, safety and work-related incidents. We have put in place safety guidelines and operating manuals on the safety measures for our production process. We also provide our employees with trainings on work safety to ensure their awareness of safety procedures and policies, which include guidelines for safety management, proper operation and usage of equipment and machinery, emergency situations handling, and accident reporting rules. We have implemented various work safety policies and procedures to ensure that our operations are in compliance with the applicable laws and regulations. The equipment and machinery of our production facilities are also subject to periodical maintenance and our employees are required to receive trainings to enhance their awareness of workplace safety. During the Track Record Period, we did not encounter any material safety incidents.

Our safety and environmental protection department is responsible for the production safety management and implementation of safety policies and procedures in our production facilities. During the Track Record Period, we conducted our operations in accordance with the standards represented by our GB/T 45001-2020/ ISO 45001:2018 certification, which we obtained from China Quality Mark Certification Group. Our current certification is valid from 24 September 2020 through 24 March 2023.

As confirmed by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we complied with the PRC workplace safety regulatory requirements in all material aspects. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we did not encounter any incidents or complaints that would adversely affect our business and financial condition and operating results in any material aspect.

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### PROPERTIES

Pursuant to Chapter 5 of the Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, save and except the disclosure set forth in Appendix III to this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance (Miscellaneous Provisions) in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance (Miscellaneous Provisions) which requires a valuation report with respect to all our Group's interests in land or buildings.

Pursuant to Rule 5.01B(2) of the Listing Rules, our Directors confirm that:

- we do not have any property interest that forms part of property activities as of 31 December 2020; and
- save and except for the disclosure set forth in Appendix III to this prospectus, no single property interest that forms part of non-property activities has a carrying amount of 15% or more of our total assets as of 31 December 2020.

### Owned properties

We own and occupy certain land parcels and buildings in the PRC for our business operations. These owned properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. As of the Latest Practicable Date, we owned eight land parcels with a total site area of 290,869.1 sq.m. and 10 buildings with a total gross floor area of 56,445.6 sq.m. These properties are primarily used as our production facilities, warehouses, staff quarters, and offices to support our business operations.

The table below sets forth information on our legally owned properties as of the Latest Practicable Date:

No.	Location	Properties	Total site area	Total gross floor area	Approved land usage	Term	Particulars of occupancy
1.	Pearlescent Industrial Park, No. 380, Feilu Road, Luzhai Town, Luzhai County, Liuzhou City, Guangxi Zhuang Autonomous Region, the PRC	The property comprises two parcels of land with 10 buildings and various structures erected thereon.	99,688.2 sq.m.	56,445.6 sq.m.	Industrial use	The land use rights of the property have been granted for a term of 50 years and will expire on 20 December 2061.	The land is currently used as our Phase 1 Production Plant.

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No.	Location	Properties	Total site area	Total gross floor area	Approved land usage	Term	Particulars of occupancy
2.	Five parcels of land situated at the northwestern side of Xinliu Avenue (Duling Road Section), Luzhai County, Liuzhou City, Guangxi Zhuang Autonomous Region, the PRC	Not applicable	148,713.7 sq.m.	Expected to be 145,180.3 sq.m.	Industrial use	The land use rights of one parcel of land will expire on 31 August 2069, and the other will expire on 30 August 2070.	The land is proposed to be used for the construction of our Phase 2 Production Plant.
3.	A parcel of land situated at the southeastern side of National Highway G322 and the southwestern side of Mountain Guniang, Luzhai County, Liuzhou City, Guangxi Zhuang Autonomous Region, the PRC	Not applicable	42,467.2 sq.m.	Not applicable	Industrial use	The land use rights will expire on 26 April 2070.	The land is planned to be used for the construction of our Luzhai Synthetic Mica Plant.

As advised by our PRC Legal Advisers, we have obtained the land use right certificates and building ownership certificates and permits for, and legally own, our owned land parcels and properties in the PRC.

### Properties under construction

As of the Latest Practicable Date, as part of the expansion plan of our Phase 1 Production Plant, four industrial buildings were under construction on the land parcel in Pearlescent Industrial Park. These buildings would have a total planned gross floor area of 11,126.6 sq.m. and are expected to complete in December 2021. The total construction cost would be RMB48.0 million, of which we have settled RMB38.7 million as of 30 April 2021. In addition, we have incurred RMB333.9 million in relation to the purchase of plant and machinery. We have financed the construction cost and purchase cost of plant and machinery through our internal financial resources and debt financing. The remaining balance of the construction cost will be paid out of our internal resources.

In relation to our Phase 2 Production Plant, we have obtained the required approval for the construction of production facilities on five parcels of land situated on the northwestern side of Xinliu Avenue, Luzhai County, Liuzhou City, Guangxi, PRC.

Our PRC Legal Advisers confirm that we have obtained the relevant construction approvals and permits for commencement of the construction of the above buildings and facilities. See the property valuation report set forth in Appendix III to this prospectus for further information.

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In relation to our Luzhai Synthetic Mica Plant, we are not required to obtain relevant construction approvals and permits at this preliminary stage. Our Directors confirm that relevant construction approvals and permits will be obtained before commencing the construction works. Our PRC Legal Advisers have advised that there are no legal impediments to our obtaining the relevant construction approvals and permits for commencement of the construction works of Luzhai Synthetic Mica Plant.

### Leased properties

As of the Latest Practicable Date, we leased one property in France and six properties in the PRC for use as our offices and production facilities. The table below sets forth further information of our leased properties from Independent Third Parties:

<u>Location</u>	<u>Lessee</u>	<u>Lessor</u>	<u>Total gross floor area</u>	<u>Usage</u>	<u>Lease term</u>
<b>France</b>					
209, rue Jean Bart, Agora 1, Hall B, 31670 Labege, Toulouse . . . . .	Chesir France	Independent Third Party	20.0 sq.m.	Offices	1 September 2016 to 30 August 2025
<b>PRC</b>					
Room 2303, Unit 1, Building 3, Herong International, Jiaolong Port, Shuangliu County, Shuangliu District, Chengdu City, Sichuan Province. . . . .	Chesir Pearl	Independent Third Party	96.8 sq.m.	Offices and staff quarters	1 March 2021 to 1 March 2022
Room 601, Block 6, Linping Heyuting, Yuhang District, Hangzhou City, Zhejiang Province. . . . .	Chesir Pearl	Independent Third Party	50.5 sq.m.	Offices and staff quarters	5 March 2021 to 4 March 2022
East Unit, Third Floor, North Unit 4, Building 3, No. 16 Biyun Road, Erqi District, Zhengzhou City, Henan Province . . .	Chesir Pearl	Independent Third Party	87.2 sq.m.	Offices and staff quarters	15 September 2020 to 14 September 2021
Room 1002, Unit 2, Building 6, Fengshang Yulong Bay, Sandian, Dongxihu District, Wuhan City, Hubei Province. . . . .	Chesir Pearl	Independent Third Parties	83.0 sq.m.	Offices and staff quarters	12 May 2021 to 13 May 2022

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Location	Lessee	Lessor	Total gross floor area	Usage	Lease term
Venue No. 1-109, Dashihe Village Industrial Park, No. 17, Hecun Industrial 2nd Road, Panyu District, Guangzhou City, Guangdong Province . . . . .	Chesir Pearl	Independent Third Party	55.0 sq.m.	Staff quarter	27 July 2020 to 26 July 2021
Room 2002, Haitang Court, Hongyuan Garden, Nancheng District, Dongguan City, Guangdong Province . . .	Chesir Pearl	Independent Third Party	86.0 sq.m.	Offices and staff quarters	29 March 2021 to 28 March 2022
Factory Building 7, No.259 Shihui Road, Zhongshan Street, Songjiang District, Shanghai . . . . .	Shanghai Multicolour	Independent Third Party	1,530.6 sq.m.	Offices and warehouse	15 January 2019 to 14 January 2025

As advised by our PRC Legal Advisers and our legal advisers as to the French law, save as disclosed in the paragraphs under “Non-compliance matters” below, the lease agreements that we entered into for the relevant leased properties are in compliance with the applicable PRC and French laws and regulations.

### INSURANCE

We maintain insurance covering our buildings, assets and actual damages arising from our production activities. As confirmed by our PRC Legal Advisers, we are not required under the PRC laws to maintain any product liability insurance and as such, we have not maintained product liability insurance. Our employee-related insurance consists of employee pension insurance, medical insurance, work injury insurance, maternity insurance, unemployment insurance and housing funds as required by the PRC laws and regulations.

During the Track Record Period, the insurance premium paid by us amounted to RMB5.2 million, RMB6.3 million and RMB2.2 million, respectively. The decrease in the insurance premium paid by us during the year ended 31 December 2020 was mainly due to the government policy to reduce the amount of the social insurance contribution in light of the COVID-19 pandemic.

We believe that our insurance coverage is adequate taking into consideration the nature of our business and the industry practice in the PRC. During the Track Record Period and up to the Latest Practicable Date, we have not made any material insurance claims.

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### ENVIRONMENTAL AND SOCIAL GOVERNANCE

#### Governance regarding environmental, social and climate-related risks

Compared with other organic and metallic pigments products, pearlescent pigments products are generally eco-friendly, clean and free of heavy metals. Our Directors consider that promoting the use of pearlescent pigment products will help global energy saving, environmental protection and reduction in emission. Since our commencement of commercial production in June 2014, we have adhered to the concept of green development and ecological civilisation and strived to build a green production environment.

We are committed to environmental protection and have been accredited with the GB/T24001-2016/ISO 14001:2015 (environmental management system) certification issued by China Quality Mark Certification Group. Our current certification is valid until 22 September 2021. We implement internal environmental protection policy which targets to monitor the environmental impact of our business operations, demonstrate our commitment to operate our business with no significant and adverse impact on the environment and ensure that our operations are in compliance with the relevant environmental requirements pursuant to the laws of the PRC. We treat ourselves as a green pearlescent pigment product and synthetic mica powder manufacturer and take environmental protection seriously as we endeavour to produce environmental-friendly products.

Our Directors recognise environmental protection as an important social responsibility of our Group and consider building a “green factory” as our long-term sustainable development goal. In the course of our business development, we have continued to improve our environmental protection system. On 25 June 2019, we have been accredited with “Green Factory (綠色工廠)” by the Department of Industry and Information Technology of Guangxi Zhuang Autonomous Region.

#### Roles and extent of involvement of our Directors and senior management of our Group

Our Directors consider that establishing and implementing sound environmental, social and governance (“ESG”) principles and practices will help increase the investment value of our Company and provide long-term returns to our stakeholders. We are committed to comply with the Stock Exchange’s reporting requirements on ESG following the Listing. We will establish an ESG policy (the “ESG Policy”) following the Listing which outlined, among others, (a) the appropriate risk governance on ESG matters; (b) ESG strategy formation procedures; (c) ESG risk management and monitoring; and (d) the identification of key performance indicators (“KPIs”) and the relevant measurements. The ESG Policy will be established in accordance with the standards of Appendix 27 to the Listing Rules.

Our Board has the overall responsibility for evaluating and determining our ESG-related risks and establishing, adopting and reviewing the ESG vision, policy and target of our Group. We will establish the Safety Production Management Committee (安全生產委員會), which will be led by Mr. SU, to support our Board in formulating and implementing the ESG Policy and collecting ESG data for the purpose of preparing for the ESG report following the Listing. The Safety Production Management Committee will oversee and monitor the implementation of the ESG Policy and measures agreed by our Board and will report to the Board regularly.

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### **Actual and potential impact of environmental and climate-related risks on our businesses, strategies and financial performance**

We may be exposed to possible financial loss and non-financial detriments arising from environmental and climate-related risks. These risks include the following:

- (a) transition risks, being the risks arising from compliance with the applicable environmental laws and regulations and the stringent environmental protection standards; and
- (b) physical damages, being the damages arising from acute weather-related events and longer-term chronic shifts in climate patterns.

Our production process involves the discharge of waste water and solid waste and the use of different kinds of chemical materials. Our production activities in the PRC are subject to the national environmental laws and regulations in the PRC as well as the environmental regulations and standards promulgated by the relevant local government authorities. See the section headed “Applicable Laws and Regulations — Other laws — Environmental protection” in this prospectus for further information. If we fail to comply with any of the applicable environmental protection laws and regulations and standards, we may be subject to fine or penalty. The laws and regulations on environmental protection may change from time to time and any change may increase our cost of compliance and place burden on our operations. See the section headed “Risk Factors — Risks relating to our business — Our production and operation are subject to extensive environmental protection laws and regulations, and compliance with these laws and regulations may be costly” in this prospectus for further information. Such regulatory developments, together with the existing laws, regulations and expectations, may have significant impacts on the production activities of our Group and thus present “transition” risks to us, which may affect our production. Furthermore, if our Group is in breach of any environmental law and regulations, or faces any accusation of negligence in environmental protection, it will adversely affect our reputation and our creditability. It may also affect our business performances and reduce the competitiveness of our Group to new investors. Our business opportunities may also be negatively impacted as our Group may be disadvantaged by the reputational damage and loss of creditability, as our customers may be less willing to source from an unsustainable supplier.

On the other hand, if the governments fail to enact policies to mitigate the impact that may arise from climate change, such as global warming, high sea level and chaotic weather pattern, our business operations could be susceptible to the “physical damages” as a result of droughts, floods, hot weather and El Nino phenomenon. For instance, the global warming and the extreme weather conditions could affect the efficiency of different stages in the value chain of pearlescent pigment industry, from the exploitation of natural mica to the production, delivery and storage of the end products to the customers. These physical damages could affect our business, financial conditions, results of operation and prospects.

Our expenses incurred for environmental protection during the Track Record Period was RMB2.4 million, RMB4.2 million and RMB4.1 million, respectively. The increase in environmental protection expenses during the year ended 31 December 2019 was mainly due to the depreciation charged on our environmental-related improvements of RMB1.2 million.



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As advised by our PRC Legal Advisers, we have not been subject to any punishment as a result of any breach of the applicable environmental laws and regulations in the PRC and we have been in compliance with applicable environmental laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date. Save for the foregoing and up to the Latest Practicable Date, our Directors were not aware of any actual environmental and climate-related risks or damages that could negatively impact our businesses, strategies and financial performance.

### **Global environmental opportunities**

Protecting the environment is now a priority for consumers, companies and governments. Their converging interests, driven by increased global awareness of climate change, technological advances and health concerns, are underpinning a global drive to develop pearlescent pigment and synthetic mica industry which are eco-friendly and clean. Besides, the international trade restrictions and safety standards of organic pigments and metallic pigments have been tightened. Further natural mica reserves deplete with continual exploitation. Our Directors believe that with a gradual replacement of natural mica by synthetic mica, there is an increasing demand for synthetic pearlescent pigment products, and as a result, an increasing demand for synthetic mica powder.

The development of pearlescent pigment and synthetic mica industry is also benefiting from governments' policy changes. In the global market, according to The Revisions of Code of Federal Regulations (21CFR73.350) issued by the United States (Food and Drug Administration) in April 2019, the use of pearlescent pigment products prepared from titanium oxides and micas in beverages such as sweet wines with maximum proportion of weight being 0.1% is allowed. In Canada, Regulations Amending the Food and Drugs Act (SOR/2018-248) issued by Health Canada in November 2018, has permitted the use of mica coated with titanium dioxide and/or iron oxide as colouring agents in drugs in solid or liquid dosage forms for oral administration and/or external use within prescribed limit. These favourable policies have further broadened the application of pearlescent pigment products, which served as support for the development of pearlescent pigment and synthetic mica industry. In the PRC market, according to the Catalogue for Guiding Industrial Restructuring (Version 2019) (《產業結構調整指導目錄(2019年本)》) issued by NDRC in November 2019, the manufacturing of pearlescent pigment products belongs to the nationally encouraged high-tech industry and enjoy policy support.

Therefore, our Directors expects that the global response to environmental and climate-related risks in relation to the use of organic pigments and metallic pigments will have a positive and long-term impact on our Group. With this favourable development opportunity, we intend to expand our production capacity for pearlescent pigment and synthetic mica powder. See the paragraphs under "Our strategies — Expand our production capacity for the production of pearlescent pigment products" in this section for further information of our expansion plan.

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### *Our efforts to ensure that no child labour is used by our suppliers in India*

We source natural mica flakes from India directly or through trading companies in the PRC. Our Directors notice that the natural mica mining industry in India has been associated with negative issues such as the use of child labour. We require our suppliers in India to confirm to us that they are in full compliance with the national/local labour laws and regulations and provide us with the required supporting documentation. Nevertheless, we cannot assure you that the source of our natural mica would not be associated with negative publicity in respect of the use of child labour in India.

### **Environmental, social and climate-related risks identification, assessment and management**

Our Group will conduct enterprise risk assessment at least once a year on current and potential risks faced by us in our business, including, but not limited to the risks related to ESG. In order to manage the environmental-related risks and social sustainability risks, our Board will establish the ESG Policy following the Listing and adopt measures specified in our ESG Policy to tackle the risks identified during the enterprise risk assessment and minimise any potential risks inherent in our business operations.

Our Board has the overall responsibility for evaluating and determining our Group's ESG-related risks, and establishing, adopting and reviewing the ESG vision, policy and target of our Group. Our Safety Production Management Committee (安全生產委員會) and Safety and Environment Protection Department will monitor the implementation of the ESG policy and ESG-related aspects of our production activities. We will also engage independent third party(ies) to evaluate the risks and review our Group's existing strategy, target and internal controls, and necessary improvement will be implemented to mitigate the risks.

### **Environmental protection and monitoring**

Following the Listing, our Board will set targets for each material KPI at the beginning of each financial year in accordance with the disclosure requirement of Appendix 27 to the Listing Rules and other relevant rules and regulations. The relevant ESG targets on material KPIs will be reviewed on an annual basis to ensure that they remain relevant and appropriate to the needs of our operations. Our Directors consider that the major environmental risks of our operations include (i) air pollutant and waste gas, (ii) wastewater, (iii) noise and (iv) general industrial solid waste. To mitigate the major environmental risks of our operations and to ensure that our production processes are in full compliance with the applicable PRC environmental protection laws and regulations, we have implemented the following environmental protection measures:

#### *Air pollutant and waste gas*

Air pollutants generated during the production process mainly include nitrogen oxides and exhaust gas generated by calcination and industrial dust. These air pollutants are collected through and processed with centrifugal dust purifiers and water spray facilities. Besides, waste gas such as hydrochloric acid mist generated during hydrolysis process are processed with three-stage water spray absorption tower. We also closely monitor the air quality level to ensure that the air pollutants and

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waste gas emission are controlled in accordance with the “Emission Standard of Air Pollutants for Coal-burning, Oil-burning, Gas-fired Boiler” (GB13271-2014) jointly issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and the Ministry of Ecology and Environment of the PRC (the “MEE”).

### *Wastewater*

Water pollutants such as ammonia, phosphorus, particulates, organic particles, acid and alkali wastewater generated from our production process and domestic wastewater are processed in our sewage treatment plant before being discharged into Luzhai County Sewage Treatment Plant 2 for further processing. Our sewage treatment plant has achieved Class II discharge standard in “Integrated Wastewater Discharge Standard” (GB8978-1996) issued by the MEE. We regularly inspect and repair our pipelines for transportation of our raw materials and wastewater to prevent leakage. We also closely monitor and control the wastewater discharged from our sewage treatment plant in accordance with the “Integrated Wastewater Discharge Standard” (GB8978-1996).

### *Noise*

Noise may be generated during the operation of the production equipment such as grinding mill and water pump. We minimise our noise emission by constructing sound proofing walls to the factory building, installing damping pad at grinding mills and crushers and installing mufflers at wind blowers.

### *General industrial solid waste*

Our general industrial solid waste primarily includes slag generated from our dust purifiers and sewage treatment plant. Slag generated from our dust purifiers is mainly delivered to building material manufacturers and recycled into clay bricks. Slag generated from our sewage treatment plant and non-recyclable solid waste are disposed at designated landfills in Luzhai County. We closely monitor and control the hazardous chemical and heavy metal contents in our general industrial solid waste in accordance with the “Identification standards for hazardous wastes - Identification for extraction toxicity” (GB5085.3-2007) issued by the MEE.

In order to monitor and have an effective control over our environmental protection measures, we have installed pollution control equipments and devices at our production facilities to control and record the emission level of air pollutants, waste gas and wastewater, in order to evaluate any deviation from the emission standards under the applicable laws and regulations. Monitoring of the emission level of air pollutants, waste gas and wastewater on a regular basis allows us to have prompt investigation and rectification measures taken. Pursuant to the applicable PRC laws and regulations, the discharge of pollutants must comply with the waste discharge permitted levels and emission standards promulgated by the relevant government authorities. We have obtained confirmations from the relevant environmental protection authorities, confirming that the discharge of key pollutants had remained within the prescribed regulatory limits during the Track Record Period.

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### *Resources consumption*

We aim to carry out our production in an environmental-friendly manner. Minimising the consumption of resources of electricity, natural gas and water in our production process is one of the key considerations in our operations. We make constant technical improvements to our production equipment to reduce energy and water consumption. We place great importance to water resource management and in order to improve the efficiency in the use of water and reduce operating costs, we have installed industrial water cooling system to recycle and reuse our industrial water for production after cooling. We also advocate the concept of green office and encourage our employees to reduce energy consumption, including the use of energy efficient electrical appliances in the office and electricity-saving initiatives such as switching off the lights in public areas during non-working hours, minimise water consumption by using water-saving appliances, and reduce waste generation through the use of recycling bins to minimise the impact on the environment.

Upon the Listing, our Safety Production Management Committee will be responsible for monitoring the ESG performance of our Group and reports to the Board on a regular basis. The Board oversees the performance of our Group in achieving the ESG targets and objectives. The Safety Production Management Committee will investigate the reasons for any deviation from the targets and objectives and the Board will revise our ESG strategy as appropriate when significant variance from the target is identified.

As of the Latest Practicable Date, we have been accredited with GB/T19001-2016/ISO 9001:2015, GB/T 45001-2020/ISO 45001:2018 and GB/T24001-2016/ISO 14001:2015, for our quality management system, environmental management system and occupational health and safety management system. We would strive to maintain an effective internal control system on both environmental and social aspects to meet the ISO standard.

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### Our environmental protection performance

In line with our vision for sustainable development, we oversee our environmental protection performances in various aspects, such as efficiency in the use of resources, emissions and water and energy consumption. During the Track Record Period, our consumption energy and water increased due to the increase in our production volume and the scale of our production. The table below sets forth an analysis of our environmental protection performance during the Track Record Period:

	Year ended 31 December			Discharge permitted level
	2018	2019	2020	
<b>Air pollutant and waste gas</b>				
Sulfur dioxide intensity (mg/m <sup>3</sup> ) . . . . .	—	—	—	≤200
Nitrogen oxides intensity (mg/m <sup>3</sup> ) . . . . .	47	102	107	≤300
Particulates intensity (mg/m <sup>3</sup> ) . . . . .	13	12.2	11.3	≤80
<b>Wastewater</b>				
Chemical oxygen demand (mg/L) . . . . .	8	12	28	≤500
5-day biochemical oxygen demand (mg/L) . . . . .	4.4	2.0	7.4	≤300
Ammonia nitrogen (mg/L) . . . . .	4.2	2.4	2.2	Not specified
Particulates intensity (mg/L) . . . . .	22	34	30	≤400
<b>Water consumption</b>				
Total water consumption (m <sup>3</sup> ) . . . . .	1,229,228	1,815,086	2,102,560	
Water consumption intensity (m <sup>3</sup> per million RMB revenue) . . . . .	3,862.5	4,119.7	3,694.5	
<b>Energy consumption</b>				
Total energy consumption (tonne of coal equivalent) . . . . .	6,765.7	9,504.6	10,766.8	
Energy consumption intensity (tonne of coal equivalent per million RMB revenue) . . . . .	21.3	21.6	18.9	

**NON-COMPLIANCE MATTERS**

The table below sets forth the non-compliance incidents that we were involved during the Track Record Period. Our Directors believe that and, with the advice from our PRC Legal Advisers, these non-compliance incidents are immaterial and do not constitute material impact or systemic non-compliances. These non-compliance incidents would not, individually or in aggregate, have any material adverse effect on our business operations or financial position.

No.	Particulars of immaterial non-compliance incidents	Reasons for the non-compliance	Legal consequences and potential impact on our Group	Rectification actions and enhanced internal control measures
1.	<p>At the time when Chesir Pearl was listed and quoted for trading on NEEQ, the shareholders of Chesir Pearl approved on 6 April 2015 the issue and allotment of 20,000,000 shares at a price of RMB7.20 per share to 12 investors. On 4 May 2015, the registered capital of Chesir Pearl increased from RMB63.1 to RMB83.1 million and the cash contribution from the investors was fully settled in May 2015. Chesir Pearl raised a total of RMB144.0 million from this share issue. Chesir Pearl had used the proceeds from the new share issue prior to obtaining the letter of registration of new shares issued by NEEQ.</p>	<p>The non-compliance incident was due to the fact that the management was not fully familiar with the relevant requirements of NEEQ. It was mistakenly believed that the proceeds could be used right after our entering into the share subscription agreements with the investors and issue of the capital verification report. However, the NEEQ regulations required that the proceeds could only be used after completing the equity registration procedures with China Securities Depository and Clearing Co.</p>	<p>Under the Detailed Rules of Implementation of the Self-regulatory Measures and Disciplinary Penalty Measures of National Equities Exchange and Quotations (for Trial Implementation) (全國中小企業股份轉讓系統自律監管措施和紀律處分實施辦法(試行)), if NEEQ is of the view that we violate the Business Rules of the National Equities Exchange and Quotations (for Trial Implementation)(全國中小企業股份轉讓系統業務規則(試行)), NEEQ may require us to explain, illustrate and disclose relevant issues, engage intermediary agencies in verifying NEEQ issues and issuing opinions, develop supervisory talk, submit written acceptance, issue alarm letters, order to make correction, suspend the relief of stock sales moratorium of controlling shareholder and, report the illegal acts to CSRC, and circulate a notice of criticism or publicly reprimand in accordance with the circumstances and make records in credit archives.</p>	<p>On 23 September 2015, Chesir Pearl issued two explanation letters to NEEQ on (a) the use of proceeds and (b) all investors of the share issue were aware of the regulatory meeting conducted by NEEQ and had no objection to such regulatory meeting and the use of proceeds.</p> <p>Chesir Pearl had published a report on the deposit and the actual use of proceeds on the website of the NEEQ on 1 September 2016.</p> <p>At the extraordinary general meeting of Chesir Pearl held on 19 September 2016, the shareholders of Chesir Pearl approved the enhanced internal control policy relating to deposit, usage and supervision of the use of proceeds. We deposited the proceeds to a designated bank account and created a bookkeeping ledger for the use of proceeds.</p>
				<p>We were not required by NEEQ to submit a written rectification report for the above measures. As of the Latest Practicable Date, we have not received any further comments in respect of the non-compliance incident from NEEQ.</p>
				<p>Taking into consideration that (a) we have not been subject to any penalty or punishment by relevant regulatory bodies other than the regulatory meeting; (b) we had actively and voluntarily fulfilled the disclosure obligation and adopted the enhanced internal control policy; and (c) we have already delisted from NEEQ, our Directors are of the view, and our PRC Legal Advisers concur, that we will not be subject to any further legal consequences as a result of the aforesaid non-compliance. No provision has been made in respect of this non-compliance incident.</p>

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No.	Particulars of immaterial non-compliance incidents	Reasons for the non-compliance	Legal consequences and potential impact on our Group	Rectification actions and enhanced internal control measures
2.	<p>During the period from January to March 2016, Chesir Pearl purchased electronic equipment from a supplier which is an Independent Third Party. The supplier had not provided any valid VAT invoices to Chesir Pearl. Chesir Pearl was provided with 15 unauthentic VAT invoices by this supplier in the total amount of RMB1,658,299, of which RMB1,417,350 was the purchase price and RMB240,949 was the stated amount of VAT paid.</p> <p>Chesir Pearl submitted the 15 VAT invoices to Luzhai County Taxation Bureau of State Administration of Taxation (国家税务总局鹿寨县税务局) claiming for input VAT in relation to the 15 VAT invoices. It came to subsequent notice of Chesir Pearl that the supplier was under investigation by the tax authority in the PRC and the 15 VAT invoices issued by the supplier was unauthentic. As a result, Chesir Pearl was alleged for submitting a claim of over-stated amount of input VAT of RMB240,949.</p> <p>According to the Written Decision of Taxation Administrative Penalty (税务行政处罚决定书) issued by Liuzhou City Taxation Bureau of State Administration of Taxation (国家税务总局柳州市) on 3 July 2019, Chesir Pearl was required to pay an administrative penalty of RMB5,000, which was settled by Chesir Pearl in full on 11 July 2019.</p>	<p>The submission of over-stated amount of input VAT by Chesir Pearl was due to the act of the supplier who was an Independent Third Party. Chesir Pearl had no knowledge that the VAT invoices provided by the supplier were unauthentic.</p>	<p>Under the Law of the People's Republic of China on the Administration of Taxation (中华人民共和国税收征收管理法), where a taxpayer or withholding agent fabricates the basis on which tax is assessed, it may be subject to an administrative penalty of not more than RMB50,000 in addition to the VAT rectification steps to be made within a fixed period of time.</p>	<p>As a result of the enhanced internal control policy, such non-compliance had not reoccurred for the share issuance of Chesir Pearl in 2019.</p> <p>As advised by our PRC Legal Advisers, other than the payment of the administrative penalty, the maximum amount of which is RMB50,000, there is no other legal ramification as a result of the submission of claims for an over-stated amount of input VAT. We have obtained confirmation from Luzhai County Tax Service of State Taxation Administration (国家税务总局鹿寨县税务局) confirming that Chesir Pearl had duly completed tax registration with Luzhai County Tax Service of State Taxation Administration and did not have any record of administrative penalties or disputes and there were no disputes and circumstances due to the violation of relevant national or provincial laws and regulations relating to tax payment. Our PRC Legal Advisers confirm that (i) Luzhai County Tax Service of State Taxation Administration is a competent authority to issue the compliance certificate and (ii) our risk of being further penalised for this non-compliance incident is remote. No provision has been made in respect of this non-compliance incident.</p> <p>We have enhanced our policies on fixed asset management which require our staff to obtain further information and verify the background information of new fixed assets supplier and submit for management approval before placing purchase order with such supplier.</p> <p>In light of the foregoing, our Directors are of the view that this non-compliance incident has no material impact on our operations and is not material to our business operation and does not reflect negatively on us.</p>

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No.	Particulars of immaterial non-compliance incidents	Reasons for the non-compliance	Legal consequences and potential impact on our Group	Rectification actions and enhanced internal control measures
3.	<p>During the Track Record Period and up to the Latest Practicable Date, Chesir Pearl and Chesir Luzhai did not pay social insurance contributions and housing provident fund contributions for 20 of our employees and in full for 447 of our employees as the payment basis of social insurance contributions and housing provident fund contributions of employees had not been determined with reference to the actual salary level of employees as prescribed under the relevant PRC laws and regulations.</p>	<p>Failure to pay the social insurance contributions and make housing fund contributions timely or in full were mainly due to administrative oversight of the handling person of the department of Chesir Pearl.</p>	<p>If the competent PRC Government authority is of the view that the social insurance contributions we made for our employees breached the requirements under the relevant PRC laws and regulations, it can order us to pay the outstanding balance to the relevant PRC local authorities within a prescribed time period and a late fee of 0.05% of the total outstanding balance per day from the date of such failure of payment. If we fail to do so within the prescribed period, we may be subject to an additional fine ranging within one to three times of the total outstanding balance.</p> <p>If the competent PRC Government authority is of the view that the contributions for the housing provident fund do not satisfy the requirements under the relevant PRC laws and regulations, it can order us to pay the outstanding balance to the relevant PRC local authorities within a prescribed period. If we fail to do so within the time limit, it can apply to the People's Court for compulsory execution.</p> <p>The aggregate amount of social insurance contributions that we did not pay in full as of 31 December 2020 was RMB10.3 million. The aggregate amount of housing provident fund contributions that we failed to make as of 31 December 2020 was RMB4.5 million. As advised by our PRC Legal Advisers, the maximum penalty for underpayment of the social insurance contributions is RMB30.9 million. Such maximum penalty might only be imposed on us if we failed to make the required payment as ordered by the relevant PRC local authorities. Our PRC Legal Advisers have confirmed that the risk that we would be required to pay such maximum penalty is remote as Chesir Pearl and Chesir Luzhai have paid part of the social insurance contributions. As confirmed by our PRC Legal Advisers, there is no penalty provision for underpayment of the housing provident fund contributions.</p>	<p>As of the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant PRC Government authorities with respect to this non-compliance incident, nor has any order been received by our Group to settle the outstanding amount of social insurance contributions and housing provident fund contributions.</p> <p>We have obtained compliance certificates from Luzhai County Human Resources and Social Security Bureau (隰县人力资源和社会保障局) and Luzhou City Housing Provident Fund Centre (柳州市住房公积金管理中心) confirming that we did not have any record of administrative penalties or disputes and there was no potential disputes and circumstances of investigation, due to violation of relevant national or provincial laws and regulations relating to social insurance contribution and housing provident fund contribution. Our PRC Legal Advisers have confirmed that the relevant government authorities aforesaid are competent authorities to issue the compliance certificates.</p> <p>Our PRC Legal Advisers have advised us that the risk of Chesir Pearl and Chesir Luzhai being ordered to make up the under-payments, pay any late fees or be subject to fines for the social insurance and housing provident fund-related non-compliance by the relevant government authorities is remote. In this connection, we have made provision in the amount of RMB11.0 million during the Track Record Period in respect of the non-compliances based on the likelihood of being fined as set forth above, which comprise the unpaid social insurance contributions and housing provident fund contributions as of 31 December 2020. Our Directors confirm that we will have sufficient financial resources to settle the outstanding contributions if Chesir Pearl and Chesir Luzhai are required to do so. Taking into consideration the advice of our PRC Legal Advisers, our Directors are of the view that the provision is adequate and sufficient. The Reporting Accountants concur with the view of our Directors.</p>



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No.	Particulars of immaterial non-compliance incidents	Reasons for the non-compliance	Legal consequences and potential impact on our Group	Rectification actions and enhanced internal control measures
				<p>We have reviewed our internal control policy and we have designated our human resources director to closely monitor our on-going compliance with social insurance and housing provident fund contribution regulations and oversee the implementation of any necessary measures.</p> <p>We have made full social insurance contributions from January 2021. According to the Notice on Strictly Implementing the Policy on the Payment Base of the Housing Provident Fund (《關於嚴格執行住房公積金繳存基礎政策的通知》) issued by Liuzhou City Housing Provident Fund Centre on 5 June 2020, the payment of the housing provident fund in Liuzhou City can only be made for such year commencing from 1 July. Hence, the payment of the housing provident fund, as advised by our PRC Legal Advisers, can only be adjusted effective from that date. We undertake to make full housing provident fund contributions according to the relevant PRC laws and regulations from July 2021. We further undertake that if we receive any order from the relevant authorities requiring us to settle the unpaid social insurance payments and housing provident fund contributions within a certain time period, we will fulfil the requirements in a timely manner.</p> <p>In light of the foregoing, and given the remedies and rectification measures taken, our Directors are of the view that the non-compliance incident has no material impact on our operations and is not material to our business operation and does not reflect negatively on the ability of us, our Directors or our senior management, to operate in a compliant manner.</p>

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No.	Particulars of immaterial non-compliance incidents	Reasons for the non-compliance	Legal consequences and potential impact on our Group	Rectification actions and enhanced internal control measures
4.	<p>As of the Latest Practicable Date, we leased from Independent Third Parties a total of six properties with an aggregate gross floor area of 1,989.1 sq.m for use as offices, staff quarters product showroom and warehouse in various locations in the PRC. In addition, Chesir Luzhai leased certain premises from Chesir Pearl with an aggregate gross floor area of 3,292.5 sq.m. for use as office and production facilities. We had not registered the lease agreements for all of our leased premises with the local housing administration authorities pursuant to the applicable PRC laws and regulations.</p> <p>In addition, we have not obtained the title certificates and other ownership documents from the independent landlords of two leased properties with an aggregate gross floor area of 105.5 sq.m. Such properties are currently used by us as offices and staff quarters.</p>	<p>The non-registration was due to the lack of cooperation from our independent landlords in registering the relevant lease agreements and our staff being not familiar with the relevant regulatory requirements.</p> <p>The independent landlords refuse to provide us with the title certificates and other ownership documents without giving us any reason.</p>	<p>Pursuant to the Administration Measures for Administration of Commodity Housing Tenancy (《商品房屋租赁管理办法》), lease agreements in respect of real properties in the PRC would be required to be registered with the relevant authorities within 30 days of signing. Any unregistered lease agreement will be subject to an administrative penalty ranging between RMB1,000 to RMB10,000 in addition to the rectification steps to be made within a fixed period of time. The estimated total non-registration would be in the range between RMB7,000 to RMB70,000. As advised by our PRC Legal Advisers, we may be subject to a maximum penalty of RMB70,000 for the non-compliance incident. No provision has been made in respect of this non-compliance incident.</p>	<p>We have obtained confirmation from Luzhai County Housing and Urban-Rural Development Bureau (鹿寨縣住房和城鄉建設局) that Chesir Pearl did not have any record of administrative penalties or disputes and that there were no disputes and circumstances due to the non-registration of the leases. Our PRC Legal Advisers have confirmed that the Luzhai County Housing and Urban-Rural Development Bureau is a competent authority to issue the above confirmation.</p> <p>As of the Latest Practicable Date, we had not received any notice from any regulatory authority in the PRC on the non-compliance ordering for the payment of administrative penalty or any enforcement action that would be taken against any member of our Group. Our PRC Legal Advisers advise us that the non-registration would not affect the validity of the relevant lease agreements. Our Directors are also of the view that such non-registration of leases entered with Independent Third Parties has no impact on our business operations as none of these leased premises is being used for our production purpose. These leased premises are being used as our offices, staff quarters and warehouse, and we could relocate our offices should the landlord required us to vacate the premises. In respect of the lease within our Group, we have arranged for the registration of the lease agreement.</p> <p>For the two leased properties from Independent Third Parties without obtaining the title certificates and other ownership documents, our PRC Legal Advisers have advised that we are not able to determine if the landlords have the right to lease the relevant properties to us and whether the leased properties are subject to mortgage or other encumbrances. The lease agreements are valid, and we may sue the landlords for damages if we are required to vacate the properties. None of those leased properties are being used for production purpose, and our Directors are of the view that we could relocate to other locations with no material impact on our business, financial position and results of operations.</p>

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Our Directors are of the view, with which the Sole Sponsor concurs, that we have taken reasonable steps to establish internal control systems and procedures to enhance the control environment at both working and management levels, which are adequate and effective to prevent the non-compliance incidents during the Track Record Period from reoccurring. As advised by our PRC Legal Advisers, save for the matters as disclosed above, we have obtained all material licenses and certificates and have complied with relevant laws and regulations in all material aspects during the Track Record Period.

### LEGAL PROCEEDINGS

We may be involved in disputes or legal proceedings on product quality or issues relating to the delivery of our projects from time to time. Most of these disputes can be resolved amicably without initiating any legal proceedings in the PRC or elsewhere. As of the Latest Practicable Date, we were not involved in any actual or pending legal or arbitration proceedings that we believe would have a material impact on our financial or business condition or results of operation. We are also not aware of any current, pending or threatened litigation, claim or arbitration against any member of our Group which could have material adverse effect on our financial or business condition or results of operations.

### SALES TO THE SANCTIONED COUNTRIES

During the Track Record Period, we have engaged in the Secondary Sanctionable Activity as defined in the Guidance Letters HKEx-101-19 issued by the Stock Exchange. The trading company customers included companies and entities in countries like Russia, Tunisia, Serbia, Egypt and Ukraine, but the aggregate sales to these customers in each year was less than one per cent. of our revenue. Our Directors believe that such sales were immaterial to our business, and we will cease our sales to countries or territories which are subject to international sanctions programmes following the Listing. Our Directors are of the view, which has been supported by the advice to our Company from our legal advisers as to international sanctions law, that no member of our Group was violating any United Nations, United States, European Union and Australian sanctions.

In preparing its advice to our Company, our legal advisers as to international sanctions law have performed the following procedures under the international sanctions programmes:

- (a) reviewed documents provided by us including the lists of our customers, places of business presence of our customers and the respective amounts of revenue generated by sales to the customers during the Track Record Period;
- (b) compared the lists set forth in (a) against the lists of persons and organisations subject to the international sanctions programmes; and
- (c) received written confirmation from us that except as otherwise disclosed in this prospectus, neither our Group nor any of our affiliates (including any representative office, branch, subsidiary or other entity which forms part of our Group) conducted any business dealings in or with any other countries or persons that are subject to international sanctions programmes during the Track Record Period.

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In light of the scope of our Global Offering and the expected use of proceeds from the Global Offering as set forth in this prospectus, our legal advisers as to the international sanctions law have advised to our Directors that the involvement by the parties involved in the Global Offering will not implicate any applicable international sanctions on such parties, including our Company, our Shareholders and investors, the Stock Exchange, the Listing Committee and the related group companies, or any of the Relevant Persons and accordingly, the sanction risk exposure for such persons or entities who might, directly or indirectly, be involved in permitting the listing, trading and clearing of our Shares (including the Stock Exchange, the Listing Committee and the related group companies) is low.

We are not aware of any international sanctions that will be imposed on us for our sales and/or deliveries to our customers in Russia, Egypt, Serbia, Tunisia and Ukraine during the Track Record Period. None of our customers in Russia, Egypt, Serbia, Tunisia and Ukraine are specifically identified on the list of individuals and entities that are subject to sanctions and restricted from dealing with U.S. persons or other restricted parties lists maintained by the United Nations, European Union and Australia and therefore would not be deemed as sanctioned targets. Such sales and/or deliveries do not involve industries or sectors that are currently subject to international sanctions and therefore are not deemed to be prohibited activities under the relevant international sanctions law. Our Directors therefore expect to cease the sales to our existing customers in Russia, Tunisia, Serbia, Egypt and Ukraine and will not expand our sales coverage to countries or territories which are subject to international sanctions programmes following the Listing.

### INTERNAL CONTROL MEASURES AND RISK MANAGEMENT

#### General information

Our internal control system and risk management system are designed and implemented to address our specific business needs and operating environment and to minimise our risk exposure. We have adopted different internal guidelines, along with written policies and procedures, to monitor and reduce the risks which are relevant to the control our daily business operations and the improvement in our corporate governance for the purpose of ensuring due compliance with the applicable laws and regulations. Our senior management team is responsible for identifying and analysing the risks associated with our business operations, preparing risk mitigation plans and assessing and reporting to our Board their effectiveness.

In addition, for the purpose of preparing for the Listing, we have engaged an independent consultant (the “**Internal Control Consultant**”) to perform a review (the “**Internal Control Review**”) of our internal control over our financial reporting systems. The Internal Control Review was based on the information provided by us and no assurance or opinion on internal controls was expressed by the Internal Control Consultant. The Internal Control Review included two phases: the first phase was conducted during the period between September 2019 and September 2020 and the second phase, which was intended to have follow-up on the findings from the first phase, was completed in November 2020. The scope reviewed by the Internal Control Consultant included entity-level controls and business process-level controls, including revenue and receivables, production management, financial reporting, procurements and payables, inventory management, treasury, financial reporting, property, plant and equipment, taxation, payroll, intangible property management and general controls of information technology. Save for the matters as disclosed in the paragraphs under “Non-compliance matters” above. The Internal Control Consultant did not identify material internal control deficiency in the Internal Control Review.

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### **Internal control and Audit Committee**

Our Audit Committee is primarily responsible for advising our Board and providing our Board with an independent view on the effectiveness of our financial reporting process, internal control and risk management systems. See the section headed “Directors, Senior Management and Employees — Committees of our Board — Audit Committee” in this prospectus for further information on the composition and responsibilities of our Audit Committee. Members of our Audit Committee include our independent non-executive Directors.

We have also established since December 2020 an internal audit department (the “**Internal Audit Department**”) under the supervision of our Audit Committee. The Internal Audit Department is established to overseeing the daily and effective implementation of internal control measures and reporting to our Audit Committee on any compliance issue and the record of compliance in this respect.

With the Audit Committee and the Internal Audit Department, our Directors believe that we have established an effective internal control and risk management systems, which are commensurate with the standards required under the Listing Rules for companies listed on the Stock Exchange.

### **Sales to customers in sanctioned countries**

We have undertaken to the Stock Exchange that, after the Listing:

- (a) we will not use the net proceeds from the Global Offering to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, the countries subject to international sanctions programmes;
- (b) we will not enter into any transaction that would cause our Group, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders to violate or become a target of international sanctions programmes; and
- (c) we will make timely disclosure on the Stock Exchange’s website and on our own website if we believe that any of our business transactions would put our Group or our Shareholders at risk of being sanctioned and will disclose in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risks and our business intentions relating to the countries subject to international sanctions programmes.

We have adopted enhanced internal control and risk management measures to enable us to monitor and evaluate our business and to implement measures to protect the interest of our Group and our Shareholders against the economic sanctions risks. We have implemented a screening system on new trading company customers and end user customers to ensure that our products would not be sold to customers which are sanctioned entities under the international sanction programmes. We will update the list for screening purpose from time to time should there be any new development under the programmes. In the event that any of our existing trading company customers becomes a sanctioned entity, we will terminate all dealings with such trading company customer for the purpose of minimising the risk of violating the international sanctions laws and regulations. Furthermore, we will set up before the Listing a separate bank account in Hong Kong, which is used for the sole

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purpose of the deposit and deployment of the net proceeds from the Global Offering or any other funds raised through the Stock Exchange. Our Directors would continuously monitor the use of net proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, countries subject to international sanctions programmes. If necessary, we will engage external international legal advisers to assist us in evaluating the potential sanctions risks in our daily operations.

Our Directors are of the view that our measures provide a reasonably adequate and effective internal control framework to assist us in identifying and monitoring any material risk relating to sanctions laws so as to protect the interests of our Shareholders and us.

### **Anti-bribery and corruption risk management**

Since July 2019, we have also implemented appropriate policies and procedures to address any potential bribery and corruption issues. All department heads and managers are required to report to us any bribery or corruption incidents. We have also established a whistle blower policy for reporting any alleged bribery and corruption. Our internal anti-bribery and corruption policies and procedures include the following:

- (a) requiring our employees to report any bribery and corruption incident when they became aware of such incident;
- (b) prohibiting our employees and other engaged working parties from receiving bribes, either financial benefit or benefit-in-kind such as gift;
- (c) performing financial and internal audits by our internal audit department and external audit agency on a regular basis to identify any risk of bribery and corruption;
- (d) evaluating the anti-bribery and corruption policies by our internal audit department to ensure the effectiveness; and
- (e) providing training to our employees on how to identify and report misconduct.

In case our internal audit department has identified a material risk of bribery and corruption, it will initiate investigation with the assistance from one of our executive Directors. The investigation results will be reported to our Board (including our independent non-executive Directors). Our internal audit department is required to keep all information about and related to the investigation, including the fact that an investigation has been filed, the nature of the complaint and the persons involved, in strict confidence. We also require all new employees to go through anti-bribery training as part of their orientation training programmes.

Any of our staff who is in breach of our anti-bribery and corruption policy would be dismissed by us, and we may report the matter to the relevant governmental authorities should there be a violation of the applicable laws and regulations.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### DIRECTORS

Our Board is responsible for and has general power over the management and conduct of our business. As of the Latest Practicable Date, our Board consists of nine Directors comprising four executive Directors, two non-executive Directors and three independent non-executive Directors.

The table below sets forth certain information on the current members of our Board:

Name	Age	Position(s) in our Company	Date of joining us	Date of appointment as a Director	Roles and responsibilities	Relationship with other Directors or senior management
Mr. SU Ertian (苏尔田先生)	54	Chairman, Chief Executive Officer and executive Director	29 March 2011	8 June 2018	Formulating the overall business strategies and overseeing the overall implementation of business strategies of our Group	None
Mr. ZHENG Shizhan (郑世展先生)	54	Executive Director	29 March 2011	30 October 2020	Supervising social responsibilities and coordinating investor relationship	None
Mr. JIN Zengqin (金增勤先生)	51	Executive Director	29 May 2011	30 October 2020	Supervising sales operations and overseeing the overall implementation of business strategies of our Group	None
Mr. ZHOU Fangchao (周方超先生)	37	Executive Director and joint company secretary	1 April 2014	30 October 2020	Overseeing daily operation management and board secretary work	None
Mr. QIN Min (秦敏先生)	51	Non-executive Director	3 December 2015	22 December 2020	Assisting our Board in formulating overall corporate strategies	None
Mr. HU Yongxiang (胡永祥先生)	54	Non-executive Director	23 October 2020	22 December 2020	Assisting our Board in formulating overall corporate strategies	None

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Position(s) in our Company	Date of joining us	Date of appointment as a Director	Roles and responsibilities	Relationship with other Directors or senior management
Mr. MAK Hing Keung, Thomas (麥興強先生)	58	Independent non-executive Director	22 December 2020	22 December 2020	Supervising and providing independent advice and opinion to our Board	None
Professor HAN Gaorong (韩高荣教授)	58	Independent non-executive Director	22 December 2020	22 December 2020	Supervising and providing independent advice and opinion to our Board	None
Mr. LEUNG Kwai Wah Alex (梁貴華先生)	68	Independent non-executive Director	22 December 2020	22 December 2020	Supervising and providing independent advice and opinion to our Board	None

### Our executive Directors

**Mr. SU Ertian** (苏尔田先生), aged 54, is our founder, our executive Director, Chairman, Chief Executive Officer and one of our Controlling Shareholders. Mr. SU is also the general manager of Chesir Pearl. Mr. SU has been the Chairman of Chesir Pearl since its establishment on 29 March 2011. Mr. SU was appointed as a Director on 8 June 2018 and was redesignated as an executive Director on 22 December 2020. Mr. SU is primarily responsible for determining our business strategies and overseeing the implementation thereof. Prior to establishing Chesir Pearl, Mr. SU was working in a number of mining and trading companies in the PRC.

Mr. SU was the Chairman of the 3rd Liuzhou Wenzhou Chamber of Commerce (第三届柳州市温州商会), Honorary Chairman of the 4th Liuzhou Wenzhou Chamber of Commerce (第四届柳州市温州商会), a representative of the 13th and 14th People's Congress of Liuzhou City (柳州市第十三、第十四届人民代表大会), the vice chairman of the 13th and 14th Commerce of Liuzhou Federation of Industry and Commerce (第十三、第十四届柳州市工商业联合会) and a committee member of the 12th General Chamber of Commerce of the Guangxi Zhang's Autonomous Region Federation of Industry and Commerce (第十二届广西壮族自治区工商业联合会总商会).

Mr. SU obtained an Executive Master of Business Administration (EMBA) degree from Guangxi University (广西大学), the PRC in December 2012 by way of part-time studies. Mr. SU was an adjunct professor at Hubei University of Technology (湖北工业大学), the PRC during September 2017 to September 2020.



## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. SU was a director and/or legal representative of the following companies prior to its dissolution with details as follows:

Name of company	Place of incorporation/ establishment	Nature of business	Date of dissolution	Means of dissolution	Reasons of dissolution	Capacity
Fame Mark Group Holdings Limited (榮標控股集團有限公司)	Hong Kong	Investment holding	13 December 2019	Deregistration	Cessation of business	Director
Guangxi Jinjian Investment Co., Ltd. (廣西金健投資有限公司)	PRC	Business service	18 March 2019	Deregistration	Cessation of business	Executive director and legal representative
Guangxi Liuzhou Fengkai Trading Co., Ltd. (廣西柳州市丰凱貿易有限公司)	PRC	Wholesale	24 February 2010	Revocation	Cessation of business	Legal representative
Libo County Hongsheng Coal Co., Ltd. (荔波县紅盛煤炭有限公司)	PRC	Wholesale and retail	4 July 2014	Deregistration	Cessation of business	Executive director and legal representative
Guangxi Hongda Aviation Service Co., Ltd. (廣西鴻達航空服務有限公司)	PRC	Business service	21 July 2017	Deregistration	Cessation of business	Executive director and legal representative
Guangxi Honglin Investment Co., Ltd. (廣西鴻林投資有限公司)	PRC	Business service	23 October 2017	Deregistration	Cessation of business	Executive director and legal representative
Liuzhou City Chengtian Trading Co., Ltd. (柳州市成田貿易有限責任公司)	PRC	Wholesale	14 July 2014	Deregistration	Cessation of business	Legal representative
Liuzhou City Chengtian Trading Co., Ltd. Handicraft Business Department (柳州市成田貿易有限責任公司工藝品經營部)	PRC	Accommodation and catering	14 July 2014	Deregistration	Cessation of business	Legal representative

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. SU confirms that, to the best of his knowledge: (a) each of the dissolved companies was solvent and had no outstanding claims or liabilities immediately prior to its dissolution; (b) there was no wrongful act on his part leading to the dissolution of these companies; (c) he was not aware of any actual or potential claim that has been or will be made against him as a result of deregistration or strike off of these companies; and (d) these companies were not involved in any material non-compliance incidents, disputes or litigations during the time he was a director of these companies. Mr. SU did not hold any directorship in any listed companies during the last three years (except for Chesir Pearl which was listed and quoted for trading on NEEQ).

**Mr. ZHENG Shizhan (郑世展先生)**, aged 54, is our founder and our executive Director and one of our Controlling Shareholders. Mr. ZHENG has been the Vice Chairman and a director of Chesir Pearl since March 2011. Mr. ZHENG was the general manager of Chesir Pearl during the period from March 2011 to August 2017. Mr. ZHENG is currently responsible for supervising and coordinating the social and the investors' relationships of our Group. Prior to establishing Chesir Pearl, Mr. ZHENG was working in retail and trading businesses of glasses in the PRC.

Mr. ZHENG was the vice chairman of the 3rd Liuzhou Wenzhou Chamber of Commerce (第三届柳州市温州商会) and a member of the 11th Chinese People's Political Consultative Conference National Committee of Liuzhou City (柳州市第十一届政协委员).

Mr. ZHENG obtained a bachelor's degree in computer information management from Guilin Institute of Electronic Technology (桂林电子工业学院) (currently known as Guilin University of Electronic Technology (桂林电子科技大学)), the PRC in December 2000 and an Executive Master of Business Administration (EMBA) degree from Guangxi University (广西大学), the PRC in June 2018 by way of part-time studies.

Mr. ZHENG was a director and/or legal representative of the following companies prior to its dissolution with details as follows:

<u>Name of company</u>	<u>Place of incorporation/ establishment</u>	<u>Nature of business</u>	<u>Date of dissolution</u>	<u>Means of dissolution</u>	<u>Reasons of dissolution</u>	<u>Capacity</u>
Fame Mark Group Holdings Limited (榮標控股集團有限公司)	Hong Kong	Investment holding	13 December 2019	Deregistration	Cessation of business	Director
Liuzhou Zunjie Automobile Sales Co., Ltd. (柳州尊捷汽车销售有限公司)	PRC	Wholesale	18 October 2018	Deregistration	Cessation of business	Executive director and legal representative
Guangxi Ruixiang Investment Co., Ltd. (广西瑞祥投资有限公司)	PRC	Business service	31 August 2017	Deregistration	Cessation of business	Executive director and legal representative

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. ZHENG confirms that, to the best of his knowledge: (a) each of the dissolved companies was solvent and had no outstanding claims or liabilities immediately prior to its dissolution; (b) there was no wrongful act on his part leading to the dissolution of these companies; (c) he was not aware of any actual or potential claim that has been or will be made against him as a result of deregistration or strike off of these companies; and (d) these companies were not involved in any material non-compliance incidents, disputes or litigations during the time he was a director of these companies. Mr. ZHENG did not hold any directorship in any listed companies during the last three years (except for Chesir Pearl which was listed and quoted for trading on NEEQ).

**Mr. JIN Zengqin (金增勤先生)**, aged 51, is our executive Director and one of our Controlling Shareholders. Mr. JIN is also the Deputy General Manager of Chesir Pearl. Mr. JIN has been the executive director of Chesir Pearl as well as its Deputy General Manager since May 2011. Mr. JIN is primarily responsible for overseeing sales operations and the implementation of our business strategies and initiatives. Prior to joining our Group, Mr. JIN was working in a plastic manufacturing enterprise in the PRC for more than 15 years with his last position as the general manager.

Mr. JIN is a member of the 9th Chinese People's Political Consultative Conference National Committee of Luzhai County (鹿寨县第九届政协委员) and the vice chairman of Luzhai County Federation of Industry and Commerce (鹿寨县工商业联合会).

Mr. JIN obtained a bachelor's degree in economics from Hangzhou Institute of Commerce (杭州商学院), the PRC in July 1991, a bachelor's degree in business management from Guangxi University (广西大学) the PRC in June 1996, a bachelor's degree in arts and design from Wuchang Institute of Technology (武昌理工学院), the PRC in December 2013 by way of part-time studies and an Executive Master of Business Administration (EMBA) degree from Guangxi University (广西大学), the PRC in June 2020 by way of part-time studies. Mr. JIN did not hold any directorship in any listed companies during the last three years.

**Mr. ZHOU Fangchao (周方超先生)**, aged 37, is our executive Director and joint company secretary of our Company. Mr. ZHOU is also the Deputy General Manager of Chesir Pearl and the secretary to the board of directors of Chesir Pearl. Mr. ZHOU joined our Group in April 2014 as an assistant to the chairman of the board of directors of Chesir Pearl and was promoted to the position of the Deputy General Manager in April 2015. Since September 2018, Mr. ZHOU took on an additional role as the secretary to the board of directors of Chesir Pearl. In October 2020, Mr. ZHOU was appointed as a director of Chesir Pearl.

Prior to joining our Group, Mr. ZHOU worked as an engineer at SAIC-GM-Wuling Automobile (上汽通用五菱汽车股份有限公司), a sino-foreign joint venture in the PRC jointly established by Shanghai Automotive Group Co., Ltd., General Motors Corporation of the United States and Guangxi Automobile Group Co., Ltd. (formerly Liuzhou Wuling Automobile Co., Ltd.), during July 2005 to December 2007. Mr. ZHOU then started his own business from July 2008 to February 2010. From March 2010 to March 2013, Mr. ZHOU previously worked as a project director of an information technology company in Guangxi Province.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. ZHOU obtained a bachelor's degree in material forming and control engineering from Nanchang Institute of Aviation Industry (南昌航空工业大学) (currently known as Nanchang Aviation University (南昌航空大学)), the PRC in July 2005. Mr. ZHOU did not hold any directorship in any listed companies during the last three years.

### Our non-executive Directors

**Mr. QIN Min (秦敏先生)**, aged 51, is our non-executive Director. Mr. QIN has been a director of Chesir Pearl since December 2015. Mr. QIN is primarily responsible for formulating the overall implementation of business strategies of Chesir Pearl.

Mr. QIN graduated from Tianjin Institute of Commerce (天津商学院) (currently known as Tianjin University of Commerce (天津商业大学)), the PRC with a bachelor's degree in accounting in July 1993. Mr. QIN subsequently obtained a master's degree in finance from Guangxi University (广西大学), the PRC in October 2004. Mr. QIN was qualified as an accountant in the PRC in May 1997.

Since April 2014, Mr. QIN has been a director and the chairman of the board of Guidong Electric, which is a company listed on the Shanghai Stock Exchange (stock code: 600310), and one of our Pre-IPO Investors. Upon the Listing, Guidong Electric is interested in 108,000,000 Shares, representing 9.29% of our Shares in issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme). In addition, since December 2014, Mr. QIN has also been a non-independent director of Sealand Securities Co., Ltd. (国海证券股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000750). Save as the above and the directorship in Chesir Pearl which was listed and quoted for trading on NEEQ, Mr. QIN did not hold any directorship in any listed companies during the last three years. Mr. QIN confirms that he has the capacity and ability to devote sufficient time to discharge his duties and responsibilities as our non-executive Director.

Mr. QIN was a director or legal representative of the following companies prior to its dissolution with details as follows:

<u>Name of company</u>	<u>Place of incorporation/ establishment</u>	<u>Nature of business</u>	<u>Date of dissolution</u>	<u>Means of dissolution</u>	<u>Reasons of dissolution</u>	<u>Capacity</u>
Hezhou Changshou Yiyang Technology Co., Ltd.* (贺州长寿颐养科技有限公司)	PRC	Wholesale	17 June 2020	Deregistration	No actual business operation	Legal representative and chairman
Hezhou Ruanwei Technology Co., Ltd.* (贺州市软微科技有限公司)	PRC	Electrical machinery and equipment manufacturing	2 September 2019	Deregistration	Equity restructuring	Chairman

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. QIN confirms that, to the best of his knowledge: (a) each of the dissolved companies was solvent and had no outstanding claims or liabilities immediately prior to its dissolution; (b) there was no wrongful act on his part leading to the dissolution of these companies; (c) he was not aware of any actual or potential claim that has been or will be made against him as a result of deregistration or strike off of these companies; and (d) these companies were not involved in any material non-compliance incidents, disputes or litigations during the time he was a director of these companies.

**Mr. HU Yongxiang (胡永祥先生)**, aged 54, is a non-executive Director. Mr. HU has also been a director of Chesir Pearl since October 2020. Mr. HU is primarily responsible for formulating the overall implementation business plan of Chesir Pearl.

Mr. HU graduated from Tongji University (同济大学), the PRC with a master's degree in business administration in November 1998. Mr. HU has over 20 years of experience in venture capital. Mr. HU is currently a general manager of Zhejiang Venture Capital Group Co., Ltd. and is experienced in successful listing of companies in the new materials industry, including Western Metal Materials Co., Ltd. (西部金属材料股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002149) and Rutai Materials Tech Co., Ltd. (瑞泰科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002066). Mr. HU was an assessor and entrepreneurial instructor for the new materials finals of the China Innovation and Entrepreneurship Competition (中国创新创业大赛新材料总决赛) from 2017 to 2019. Mr. HU is currently the vice president of Zhejiang Venture Capital Association (浙江省创业投资协会).

Mr. HU has been a director of Zhejiang Qinglian Food Co., Ltd (浙江青莲食品股份有限公司), a company listed and quoted for trading on NEEQ on 17 March 2016 and was subsequently delisted on 21 July 2017, due to the reason of changes in strategic development planning since 28 June 2018.

Since February 2016, Mr. HU has been appointed as a director of China Building Material Test & Certification Group Co., Ltd. (中国建材检验认证集团股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 603060). Since September 2017, Mr. HU has also been appointed as the chairman of the supervisory board of Hangzhou Huaguang Welding New Material Co., Ltd. (杭州华光焊接新材料股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 688379).

Mr. HU has served as a supervisor of Dongyang Qingyu Media Co., Ltd., (东阳青雨传媒股份有限公司), a company listed and quoted for trading on NEEQ (stock code: 832698) since March 2018. Furthermore, Mr. HU has been a director of Hangzhou On Honest Tech. Corp., Ltd. (杭州安鸿科技股份有限公司), a company listed and quoted for trading on NEEQ (stock code: 837693), since January 2019. Save as disclosed above, Mr. HU did not hold any directorship in any listed companies during the last three years. Mr. HU confirms that he has the capacity and ability to devote sufficient time to discharge his duties and responsibilities as our non-executive Director.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. HU was a director or legal representative of the following companies prior to its dissolution with details as follows:

Name of company	Place of incorporation/ establishment	Nature of business	Date of dissolution	Means of dissolution	Reasons of dissolution	Capacity
Jingning She Autonomous County Hengsheng Trading Co., Ltd. (景宁畲族自治县恒生商贸有限公司)	PRC	Wholesale	9 June 2009	Deregistration	Cessation of business	Chairman, executive director and legal representative
Zhejiang Kechuang Economic and Trade Co., Ltd. (浙江科创经贸有限公司)	PRC	Wholesale	9 June 2009	Deregistration	Cessation of business	Chairman, executive director and legal representative

Mr. HU confirms that, to the best of his knowledge (a) each of the dissolved companies was solvent and had no outstanding claims or liabilities immediately prior to its dissolution; (b) there was no wrongful act on his part leading to the dissolution of these companies; (c) he was not aware of any actual or potential claim that has been or will be made against him as a result of deregistration or strike off of these companies; and (d) these companies were not involved in any material non-compliance incidents, disputes or litigations during the time he was a director of these companies.

### Our independent non-executive Directors

**Mr. MAK Hing Keung, Thomas (麥興強先生)**, aged 58, is an independent non-executive Director. Mr. MAK will provide independent advice and opinion on our strategy, performance, resources and financial operations.

Mr. MAK has over 30 years of experience in accounting and financial management. In May 1989, Mr. MAK obtained a bachelor's degree of commerce from Queen's University, Canada. Mr. MAK is currently a member of the Canadian Institute of Chartered Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. The table below sets forth the working experience of Mr. MAK:

Period of service	Name of entity	Principal business activities	Position held	Major responsibilities
February 2021 — present . . . . .	Ke Chuan Holding Co Limited	Retail management information system solutions provider	Chief financial officer	Overseeing financial and compliance matters
April 2020 — January 2021 . . .	M800 Limited	Telecommunications and cloud communication solutions provider	Chief financial officer	Overseeing financial and compliance matters

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Period of service	Name of entity	Principal business activities	Position held	Major responsibilities
January 2017 — January 2020 . . .	Fortunet E-Commerce Group Limited (a company listed on the Stock Exchange and currently known as Changyou Alliance Group Limited, stock code: 1039)	Development and operation of an electronic trading platform	Chief financial officer	Overseeing financial and compliance matters
May 2015 — January 2017 . . .	HF Financial Group Limited	Financial services	Chief operations officer	Overseeing daily operations and general matters
October 2014 — May 2015 . . . .	Heritage International Holdings Limited (a company listed on the Stock Exchange and currently known as China Shandong Hi-Speed Financial Group Limited, stock code: 412)	Property investment and financial services	Chief financial officer and company secretary	Overseeing financial and compliance and company secretarial matters
May 2010 — April 2014 . . . .	Jessica Management Company Limited, a member of South China Media Group, a member of South China Financial Holdings Limited (a company listed on the Stock Exchange, stock code: 619)	Media and publisher	Chief financial officer	Overseeing financial and compliance matters
October 2007 — April 2010 . . . .	Redgate Media (Hong Kong) Limited	Multimedia production	Chief financial officer	Overseeing financial and compliance matters
February 2006 — October 2007 . . .	Minmetals Resources Limited (a company listed on the Stock Exchange and currently known as MMG Limited, stock code: 1208)	Trading of non-ferrous metals and manufacturing and distribution of aluminium and copper products	Chief financial officer	Overseeing financial and compliance matters
June 2001 — January 2006 . . .	RoadShow Holdings Limited (a company listed on the Stock Exchange and currently known as Bison Finance Group Limited, stock code: 888)	Media sales, multimedia on board business and media advertising management services	Chief financial officer	Overseeing financial and compliance matters
June 2000 — June 2001 . . . .	Vickers Ballas (currently known as DBS Vickers (Hong Kong) Limited)	Financial services	Senior manager, corporate finance department	Providing corporate financial services
October 1997 — May 2000 . . . .	The Stock Exchange of Hong Kong Limited	Stock exchange	Manager, listing division	Responsible for listing matters
1989 — 1997 . . . .	Ernst & Young	Accounting	Manager	Responsible for audit functions of clients

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Mr. MAK also has experience in serving as a director of the following listed companies in Hong Kong:

Period of service	Name of entity	Principal business activities	Position held	Major responsibilities
October 2019 — present . . . . .	China PengFei Group Limited (a company listed on the Stock Exchange, stock code: 3348)	Production and sale of complete sets of equipment, construction of production line and provision of installation services	Independent non-executive director	Supervising and providing independent advice to the board
June 2007 — present . . . . .	Tao Heung Holdings Limited (a company listed on the Stock Exchange, stock code: 573)	Food and beverage businesses	Independent non-executive director	Supervising and providing independent advice to the board
May 2015 — July 2018 . . . . .	China Greenfresh Group Co., Ltd. (a company listed on the Stock Exchange, stock code: 6183)	Cultivation and sales of fresh edible fungi produce and the manufacture and sales of various processed edible fungi products	Independent non-executive director	Supervising and providing independent advice to the board
July 2015 — November 2018 .	Cocoon Holdings Limited, a company listed on the Stock Exchange and formerly known as Harmony Asset Limited and Huge China Holdings Limited (stock code: 428)	Investment businesses	Non-executive director	Providing strategic advice to the board
January 2015 — July 2015 . . . . .	Cocoon Holdings Limited, a company listed on the Stock Exchange and formerly known as Harmony Asset Limited and Huge China Holdings Limited (stock code: 428)	Investment businesses	Independent non-executive director	Supervising and providing independent advice to the board
May 2015 — July 2017 . . . . .	Millennium Pacific Group Holdings Limited (a company listed on the Stock Exchange, stock code: 8147)	Research, development, manufacturing and trading of electronic devices	Executive director	Formulating the strategic planning and overseeing business administration of the group

Save as disclosed above, Mr. MAK has not acted as a director in other listed companies over the past three years.

**Professor HAN Gaorong (韩高荣教授)**, aged 58, is an independent non-executive Director. Professor HAN will provide independent advice and opinion on our strategy, performance, resources and financial operations. Professor HAN is currently a distinguished professor of Zhejiang University (浙江大学), the PRC.



## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Professor HAN is mainly engaged in the research on inorganic functional nano-materials and new energy-saving coated glass. Professor HAN has authored various articles covering topics of the preparation, structure, performance and application of nano-semiconductor thin film materials. Professor HAN had participated in teaching and research projects established by the National Natural Science Foundation of China (国家自然科学基金委员会), China Innovation Funding (国家重点研发计划) and National Key Technology Research and Development Program of the Ministry of Science and Technology of China (国家科技支撑计划). Professor HAN was awarded the second prize of National Science and Technology Progress Award (國家科技進步二等獎) in 2008 and first prize of Zhejiang Province Science and Technology Progress Award (浙江省科技進步一等獎) in 2004 and 2013, respectively. In 2004, Professor HAN was also awarded special government allowances of the State Council (國務院政府特殊津貼).

Professor HAN obtained a bachelor's degree and a doctoral degree in material science and engineering from Zhejiang University (浙江大学), the PRC, in July 1983 and December 1989, respectively. During April 1988 to July 1989, Professor HAN participated in overseas doctoral training at Tokyo Institute of Technology, Japan.

Professor HAN was a director of the following companies prior to its dissolution with details as follows:

Name of company	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution	Reasons of dissolution	Capacity
Zhejiang Sanyi Electric Technology Co., Ltd. (浙江三伊电气科技有限公司)	PRC	Wholesale	29 January 2016	Deregistration	Cessation of business	Director
Zhejiang Sansheng Technology Co., Ltd. (浙江三盛科技有限公司)	PRC	Wholesale	26 February 2016	Deregistration	Cessation of business	Director
Zhejiang Shuaier Technology Co., Ltd. (浙江帅尔科技有限公司)	PRC	Research and experimental development	24 February 2019	Deregistration	Cessation of business	Chairman and legal representative
Zhejiang University Qiushi Digital Technology Co., Ltd. (浙江大学求是数码科技有限公司)	PRC	Software and information technology service	30 November 2020	Revocation	Cessation of business	Director
Zhejiang Dongsheng Battery Technology Co., Ltd. (浙江东升电池科技有限公司)	PRC	Electrical machinery and equipment manufacturing	24 April 2020	Revocation, deregistration	Cessation of business	Director
Jiaxing Zheda Parken Hydrogen Storage Technology Co., Ltd. (嘉兴浙大帕尔肯储氢技术有限公司)	PRC	Special equipment manufacturing	27 June 2018	Revocation, deregistration	Cessation of business	Vice chairman

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name of company	Place of incorporation	Nature of business	Date of dissolution	Means of dissolution	Reasons of dissolution	Capacity
Hangzhou Zheda Chinese Traditional Medicine Information Engineering Co., Ltd. (杭州浙大汉方中药信息工程有限公司)	PRC	Pharmaceutical manufacturing	27 December 2007	Revocation	Cessation of business	Director
Hangzhou Haichuang Technology Co., Ltd. (杭州海创科技有限公司)	PRC	Software and information technology service	28 December 2009	Revocation	Cessation of business	Director
Anji Zheda Young Professor Science and Technology Pioneer Park Co., Ltd. (安吉浙大青年教授科技创业园有限公司)	PRC	Professional technical service industry	13 December 2019	Deregistration	Cessation of business	Director
Anji Dongsheng Energy Technology Development Co., Ltd. (安吉东升能源科技发展有限公司)	PRC	Electrical machinery and equipment manufacturing	24 December 2010	Revocation	Cessation of business	Director
Weihai Haorun Display Material Co., Ltd. (威海昊润显示材料有限公司)	PRC	Electrical machinery and equipment manufacturing	18 November 2009 <sup>(1)</sup>	Deregistration	Cessation of business	Legal representative and chairman
Zhejiang Denashi Environmental Technology Co., Ltd. (浙江德纳希环保科技有限公司)	PRC	Software and information technology service	6 May 2014	Deregistration	Cessation of business	Vice chairman
Zhejiang University Science and Technology Park Construction Co., Ltd. (浙江大学科技园建设有限公司)	PRC	Property development	17 June 2011 <sup>(1)</sup>	Deregistration	Cessation of business	Chairman
Zhejiang Zheda Jinggong Science and Technology Park Co., Ltd. (浙江浙大精工科技园有限公司)	PRC	Business service	13 March 2005 <sup>(1)</sup>	Deregistration	Cessation of business	Chairman and legal representative
Hangzhou Jinya Art Planning Co., Ltd. (杭州金雅艺术策划有限公司)	PRC	Business service	6 September 2010 <sup>(1)</sup>	Deregistration	Cessation of business	Director
Hangzhou Sino Biomedical Engineering Laboratory Co., Ltd. (杭州赛诺生物医药工程实验室有限公司)	PRC	Pharmaceutical manufacturing	22 September 2009 <sup>(1)</sup>	Deregistration	Cessation of business	Director

*Note:*

(1) The dates are based on the best knowledge, information and belief of Professor HAN.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Professor HAN confirms that, to the best of his knowledge: (a) each of the dissolved companies was solvent and had no outstanding claims or liabilities immediately prior to its dissolution; (b) there was no wrongful act on his part leading to the dissolution of these companies; (c) he was not aware of any actual or potential claim that has been or will be made against him as a result of deregistration or strike off of these companies; and (d) these companies were not involved in any material non-compliance incidents, disputes or litigations during the time he was a director of these companies. Professor HAN did not hold any directorship in any listed companies during the last three years.

**Mr. LEUNG Kwai Wah Alex (梁貴華先生)**, aged 68, is an independent non-executive Director. Mr. LEUNG will provide independent advice and opinion on the Group's strategy, performance, resources and financial operations.

Mr. LEUNG has over 30 years of experience in banking and finance. Mr. LEUNG is a fellow member of Governance Institute of Australia, The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators), Hong Kong Institute of Directors and Hong Kong Securities and Investment Institute. Mr. LEUNG is also a full member of Hong Kong Treasury Markets Association.

Mr. LEUNG was working in various multinational banks. From March 1982 to May 1986, Mr. LEUNG worked in the Hong Kong branch of Manufacturers Hanover Trust Company with his last position as a manager. From June 1986 to July 1988, Mr. LEUNG was working as an assistant vice president in the Hong Kong branch of National Westminster Bank USA. Mr. LEUNG was a product manager at the headquarters of Canadian Imperial Bank of Commerce during March 1992 to January 1995 and as a relationship manager in Credit Suisse, Hong Kong branch, from September 2006 to January 2008. Mr. LEUNG has been an independent non-executive director of New City Development Group Limited, a company listed on the Stock Exchange, since June 2016 (stock code: 456).

Mr. LEUNG obtained a diploma in business management from Hong Kong Baptist College (currently known as Hong Kong Baptist University) in 1979 and a Master of Business Administration degree from Illinois State University, USA in 1981. Save as disclosed above, Mr. LEUNG has not acted as a director in other listed companies over the past three years.

We have entered into service contracts with each of our executive Directors and have issued letters of appointment to each of our non-executive Directors and independent non-executive Directors. Each of the service contracts and the letters of appointment is for an initial term of three years.

Save as disclosed in this section, no Directors held any directorship positions in any listed companies in Hong Kong and oversea within the three years immediately preceding the date of this prospectus.

Save as disclosed in this section, there are no other matters in respect of each of our Directors which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other material matter relating to our Directors that has to be brought to the attention of our Shareholders. Save as disclosed above, none of our Directors has been a director of any other listed companies during the three years immediately preceding the date of this prospectus.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Each of our independent non-executive Directors has confirmed that he satisfied the independence criteria as set forth in Rule 3.13 of the Listing Rules.

Save as disclosed in this section, no Directors held any directorship positions in any listed companies in Hong Kong and overseas within the three years immediately preceding the date of this prospectus.

### SENIOR MANAGEMENT

The following sets forth certain information in respect of our senior management team:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date of joining us</u>	<u>Roles and responsibilities</u>	<u>Relationship with our Directors or other senior management</u>
Mr. DONG Wenta (董文塔先生)	55	Deputy general manager	27 January 2013	Monitoring corporate finance matters of our Group	None
Professor FU Jiansheng (付建生教授)	67	Chief engineer	1 May 2015	Providing technical supervision to the research and development and production of our Group	None
Mr. WU Haihua (吴海华先生)	34	Chief financial officer	6 February 2018	Monitoring the financial operation of our Group	None

### Our senior management

**Mr. DONG Wenta (董文塔先生)**, aged 55, joined Chesir Pearl in January 2013 as a financial manager and was promoted as the Chief Financial Officer of Chesir Pearl in April 2016. In February 2018, Mr. DONG was further promoted as the Deputy General Manager of Chesir Pearl and was appointed as the Deputy General Manager of Chesir Pearl in February 2018. Mr. DONG is responsible for monitoring the corporate finance matters of our Group.

Mr. DONG has over 35 years of experience in accounting and financial management. Mr. DONG is a certified public accountant and an international registered internal auditor in the PRC. From August 1985 to July 2005, Mr. DONG worked for the local government of Zhejiang Province for 20 years with his last position as the financial manager of Pingyang Salt Management Bureau (浙江省平阳县盐务局). From August 2005 till joining our Group in January 2013, Mr. DONG served as a member of the senior management in companies across various industries including coal-mining, investments and financial services in the PRC.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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In December 1994, Mr. DONG obtained professional certificate in business management from Hangzhou University of Commerce (杭州商学院) (currently known as Zhejiang Gongshang University (浙江工商大学)), the PRC. Mr. DONG did not hold any directorship in any listed companies during the last three years.

**Professor FU Jiansheng** (付建生教授), aged 67, joined Chesir Pearl in May 2015 as Chief Engineer after his retirement as a professor from Hubei University of Technology (湖北工业大学). Professor FU is responsible for the supervision of the research and development and production activities of our Group. Professor FU was a professor of Hubei University of Technology (湖北工业大学) from 2010 to April 2015.

Professor FU has substantial experience in research and development of pearlescent pigment materials and is the inventor of 18 registered patents in the PRC and one registered patent in Japan.

Professor FU obtained a bachelor's degree in chemical engineering from Hubei Institute of Light Industry (湖北轻工业学院) (currently known as Hubei University of Technology (湖北工业大学)), the PRC in July 1982. Professor FU did not hold any directorship in any listed companies during the last three years.

**Mr. WU Haihua** (吴海华先生), aged 34, joined Chesir Pearl in February 2018 as Chief Financial Officer. Mr. WU is responsible for monitoring the financial matters of our Group.

From August 2009 to March 2011, Mr. WU was a financial accountant in a coal-mining company in the PRC. From March 2011 to March 2013, Mr. WU served as a project manager of a financial consulting firm in the PRC. During March 2013 to July 2015, Mr. WU worked as a financial manager in China Greenfresh Group Co., Ltd., a company listed on the Stock Exchange (stock code: 6183). During July 2015 to December 2017, Mr. WU served as an assistant to the chairman of the board as well as a deputy finance director of China Futex Holdings Limited, a company listed on GEM (stock code: 8506).

Mr. WU obtained a bachelor's degree in financial accounting from Minjiang University (闽江学院), the PRC in June 2009. Mr. WU did not hold any directorship in any listed companies during the last three years.

None of our senior management has been a director in listed companies in Hong Kong and overseas over the past three years.

### JOINT COMPANY SECRETARIES

Mr. ZHOU was appointed as one of our joint company secretaries on 22 December 2020. Mr. ZHOU is also an executive Director. See the paragraphs under "Directors — Our executive Directors" above for the biographical information of Mr. ZHOU.

**Mr. NG Cheuk Ming** (吳卓明先生) has been appointed as one of our joint company secretaries effective from 22 December 2020. Mr. NG is a manager of corporate services of Tricor Services Limited. Mr. NG has over six years of the corporate secretarial and compliance experience for Hong Kong listed companies and Hong Kong and offshore private companies. Mr. NG is an associate

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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member of both The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom. Mr. NG obtained a bachelor's degree in business administration from Hong Kong Shue Yan University in 2013 and a master's degree of science in professional accounting and corporate governance from City University of Hong Kong in 2016.

Our Company has been granted a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Mr. ZHOU may be appointed as a joint company secretary of our Company. However, the waiver can be revoked if there are material breaches of the Listing Rules by our Company. See the section headed "Waivers from Strict Compliance with the Listing Rules" for further information.

### COMMITTEES OF OUR BOARD

#### Audit Committee

The Audit Committee was established on 2 June 2021 in compliance with Rules 3.21 to 3.23 of the Listing Rules with terms of reference in compliance with the Code on Corporate Governance Practices set forth in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to reviewing, supervising and approving our financial reporting process and internal control system and providing advice and comments to our Board. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. MAK Hing Keung, Thomas, Professor HAN Gaorong and Mr. LEUNG Kwai Wah Alex. Mr. MAK Hing Keung, Thomas is the chairman of the Audit Committee.

#### Remuneration Committee

The Remuneration Committee was established on 2 June 2021 with terms of reference in compliance with Rule 3.25 of the Listing Rules and Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. The Remuneration Committee is responsible for considering and making recommendations to our Board on the remuneration and other benefits paid to our Directors and senior management. The remuneration of all our Directors and senior management is subject to regular monitoring by the Remuneration Committee to ensure that levels of their remuneration and compensation are appropriate. Members of the Remuneration Committee are Mr. LEUNG Kwai Wah Alex, Professor HAN Gaorong and Mr. ZHOU Fangchao. Mr. LEUNG Kwai Wah Alex is the chairman of the Remuneration Committee.

During the Track Record Period, our remuneration policy for our Directors and senior management members was based on their experience, level of responsibility and general market conditions. Any discretionary bonus and other merit payments are linked to the profit performance of our Group and the individual performance of our Directors and senior management members. We intend to adopt the same remuneration policy after the Listing, subject to review by and the recommendations of the Remuneration Committee.

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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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### Nomination Committee

The Nomination Committee was established on 2 June 2021 with terms of reference in compliance with Corporate Governance Code as set forth in Appendix 14 to the Listing Rules. The primary responsibilities of the Nomination Committee are considering and making recommendations to our Board suitable and qualified candidates of Directors and to review the structure, size and composition of our Board on a regular basis. Members of the Nomination Committee are Mr. SU Ertian, Professor HAN Gaorong and Mr. MAK Hing Keung, Thomas. Mr. SU Ertian is the chairman of the Nomination Committee.

### BOARD DIVERSITY POLICY

Our Board has adopted a diversity policy which sets forth the objective and the approach to achieve and maintain an appropriate balance of diversity of perspectives in our Board. Pursuant to the diversity policy, selection of Directors will be based on a number of factors, including but not limited to, gender, skills, age, professional experience, knowledge, cultural and educational background and length of service. The final decision of the appointment will be based on the merits and the contribution that the candidate may bring to our Board.

With different backgrounds and expertise, members of our Board have a balanced mix of knowledge and skills. Our Directors have obtained academic qualifications in different disciplines, including material science and engineering, computer and informational engineering, accounting and finance, economics and business management. We have three independent non-executive Directors with different academic backgrounds and expertise, who represent more than one-third of the total number of our Directors. Age of members of our Board is in the range between 37 and 67. We have also taken steps to promote the gender diversity at all levels of our Group, including members of our Board and our senior management and middle management teams. We will continue to apply the policy of “equal employment opportunities” based on work experience and qualifications based on our diversity policy.

Taking into consideration our existing business model as well as the different backgrounds of our Directors, our Directors consider that the composition of our Board satisfies our board diversity policy. Within one year from the Listing Date, a woman having the required skills, experience and knowledge will be nominated as a member of our Board.

In addition, we target to achieve within five years following the Listing a gender diversity in the composition of our Board by having female representation of not less than one-fifth of the members of our Board. These initiatives will form part of the discussion items of the Nomination Committee from time to time for the purpose of due implementation. We will also ensure that there is gender diversity when recruiting management staff at the senior and the middle levels and deploy more resources in training female staff.

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## **DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

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An effective implementation of the diversity also requires our Shareholders to determine how many members of our Board and whether the composition of our Board would need further rearrangements. Our Shareholders would also need to decide how long would the gender diversity be required to be implemented in light of our business operations. To this end, our Shareholders will be provided with additional information on each candidate for appointment or re-election to our Board before voting at the general meetings of our Company.

Our Nomination Committee is also responsible for ensuring the diversity of our Board members. After the Listing, our Nomination Committee will review the diversity policy from time to time to ensure its continued implementation and we will disclose in our corporate governance report of the implementation of the diversity policy on an annual basis.

### **CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE**

Under code provision A.2.1 of the Corporate Governance Code, the responsibilities between the Chairman and Chief Executive Officer should be separate and should not be performed by the same person. Mr. SU has been responsible for formulating our overall business development strategies and leading our overall operations and has been instrumental to our business growth. Our Board therefore considers that vesting the roles of both Chairman and the Chief Executive Officer in Mr. SU is beneficial to our business development by ensuring consistent leadership and enabling more effective and efficient overall strategic planning following the Listing. Our senior management team and our Board will provide check-and-balance of power and authority.

Having considered the corporate governance measures that we are going to implement upon Listing, our Directors consider that the balance of power and authority will not be impaired and this structure will enable us to make and implement decisions promptly and effectively. Accordingly, we have not segregated the roles of Chairman and Chief Executive Officer. Our Board will continue to review and consider the roles of Chairman of our Board and the Chief Executive Officer from time to time taking into consideration our business development as a whole.

Save as disclosed above, we are in compliance with all code provisions of the Corporate Governance Code as set forth in Appendix 14 to the Listing Rules.

### **COMPENSATION OF OUR DIRECTORS AND SENIOR MANAGEMENT**

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our business. We regularly review and determine the remuneration and compensation packages of our Directors and senior management.

The aggregate amount of remuneration paid by us to our Directors, who are also the five highest paid individuals in our Group, including fees, salaries, retirement scheme contributions, discretionary bonuses and other allowances and other benefits in kind, during the Track Record Period were RMB2.0 million, RMB2.3 million and RMB2.5 million, respectively.



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## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

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Our Board and the Remuneration Committee will review and determine the remuneration and compensation packages of our Directors and senior management and will take into account compensation packages offered by comparable companies, the performance of our Group and the experience, responsibilities and contribution of the relevant individual.

### POST-IPO SHARE OPTION SCHEME

We have adopted the Post-IPO Share Option Scheme on 2 June 2021. A summary of the principal terms of the Post-IPO Share Option Scheme is set forth in the paragraphs under “D. Post-IPO Share Option Scheme” in Appendix V to this prospectus.

### COMPLIANCE ADVISER

We have appointed Essence Corporate Finance (Hong Kong) Limited as our Compliance Adviser effective from the Listing Date in compliance with Rule 3A.19 of the Listing Rules under the following material terms:

- (a) the appointment is for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year after the Listing Date or until the agreement is otherwise terminated earlier; and
- (b) the Compliance Adviser shall provide us with advice in the following circumstances pursuant to Rule 3A.23 of the Listing Rules:
  - (i) before the publication of any regulatory announcement, circular or financial report;
  - (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
  - (iii) if we propose to use the proceeds from the Global Offering in a manner different from the disclosure in this prospectus or if our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
  - (iv) if the Stock Exchange makes any inquiry to us regarding unusual movements in the trading prices or trading volume of our Shares.

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## SHARE CAPITAL

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### SHARE CAPITAL

The authorised and issued share capital of our Company is as follows:

#### Authorised share capital

*HK\$*

<u>80,000,000,000</u>	Shares of par value HK\$0.1 each. . . . .	<u>8,000,000,000</u>
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Assuming the Over-allotment Option is not exercised and without taking into consideration any Shares which may be issued pursuant to the exercise of any option that may be granted under the Post-IPO Share Option Scheme, the issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue will be as follows:

#### Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering and Capitalisation Issue

*HK\$*

145,336,931	Shares in issue as of the date of this prospectus. . . . .	14,533,693.1
726,684,655	Shares to be issued under the Capitalisation Issue. . . . .	72,668,465.5
<u>290,674,000</u>	Shares to be issued under the Global Offering. . . . .	<u>29,067,400.0</u>
<u>1,162,695,586</u>	<b>Total</b>	<u>116,269,558.6</u>

Assuming the Over-allotment Option is exercised in full and without taking into consideration any Shares which may be issued pursuant to the exercise of any option that may be granted under the Post-IPO Share Option Scheme, the issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue will be as follows:

#### Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering, Capitalisation Issue and assuming the Over-allotment Option is fully exercised

*HK\$*

145,336,931	Shares in issue as of the date of this prospectus. . . . .	14,533,693.1
726,684,655	Shares to be issued under the Capitalisation Issue. . . . .	72,668,465.5
290,674,000	Shares to be issued under the Global Offering. . . . .	29,067,400.0
43,601,000	Shares to be issued upon exercise of Over-allotment Option in full. . . . .	4,360,100.0
<u>1,206,296,586</u>	<b>Total</b>	<u>120,629,658.6</u>

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## SHARE CAPITAL

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### MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1) of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of our issued share capital in the hands of the public (as defined in the Listing Rules).

### RANKING

Our Offer Shares and our Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme will rank equally in all respects with all other existing Shares in issue or to be issued as set forth in the above table, and will qualify for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of this prospectus except for the entitlement under the Capitalisation Issue.

### CAPITALISATION ISSUE

Pursuant to the written resolutions approved by our Shareholders on 2 June 2021 and the resolutions of our Directors passed on 2 June 2021, subject to the conditions set forth therein, our Directors are authorised to allot and issue a total of 726,684,655 Shares credited as fully paid at par to our Shareholders whose names appear on the register of members of our Company as of the date of the passing of the relevant resolution approving the Capitalisation Issue, on a pro rata basis, by way of capitalisation of the sum of HK\$72,668,465.5 standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to this resolution shall rank equally in all respects with the existing issued Shares.

### POST-IPO SHARE OPTION SCHEME

We have adopted the Post-IPO Share Option Scheme on 2 June 2021, pursuant to which we may grant option under the Post-IPO Share Option Scheme to eligible directors, officers and employees of our Group. A summary of the principal terms of the Post-IPO Share Option Scheme is set forth in the paragraphs under “D. Post-IPO Share Option Scheme” in Appendix V to this prospectus.

### GENERAL MANDATE

Conditional on the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, and issue and deal with our Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the total number of our Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Share which may fall to be issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme); and
- (b) the total number of our Shares bought back by our Company (if any) under the Buy-back Mandate.

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## SHARE CAPITAL

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The allotment and issue of our Shares under a rights issue or pursuant to the exercise of any subscription rights, warrants which may be issued by our Company from time to time, 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 our Shares in accordance with the Articles, or on the exercise of any option that may be granted under the Post-IPO Share Option Scheme do not generally require the approval of Shareholders any option that may be granted in general meeting and the aggregate nominal amount of our Shares which our Directors were authorised to allot and issue pursuant to this mandate will not be compromised by the allotment and issue of such Shares.

This mandate will expire:

- (a) at the conclusion of our Company's next annual general meeting; or
- (b) upon the expiration of the period within which our Company is required by any applicable law or the Articles to hold its next annual general meeting; or
- (c) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting,

whichever occurs first.

See the paragraphs under "A. Further information about our Group — 4. Written resolutions approved by our Shareholders on 2 June 2021" in Appendix V to this prospectus for further information on the General Mandate.

### **BUY-BACK MANDATE**

Conditional on the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all of the powers of our Company to buy-back Shares with a total number not exceeding 10% of the total number of our Shares in issue or to be issued immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme).

This mandate only relates to buy-back transactions made on the Stock Exchange, or any other approved stock exchange(s) on which the securities of our Company may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and requirements of the Listing Rules. A summary of the relevant Listing Rules is set forth in the section headed "A. Further information about our Group — 6. Buy-back of our Shares by our Company" in Appendix V to this prospectus.

This mandate will expire:

- (a) at the conclusion of our Company's next annual general meeting; or
- (b) upon the expiration of the period within which our Company is required by any applicable law or Articles to hold its next annual general meeting; or

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## SHARE CAPITAL

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- (c) when varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting,

whichever occurs first.

See the paragraphs under “A. Further Information about our Group — 4. Written resolutions approved by our Shareholders on 2 June 2021” in Appendix V to this prospectus for further information on the Buy-back Mandate.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING IS REQUIRED**

As a matter of the Cayman Companies Act, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the Articles. Accordingly, we will hold general meetings as prescribed for under our Articles and the Memorandum, a summary of which is set forth in Appendix IV to this prospectus.

## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

### OUR CONTROLLING SHAREHOLDERS

Immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme), our Controlling Shareholders will beneficially own an aggregate of 36.67% of our Shares in issue. The table below sets forth information on our Controlling Shareholders:

Names of our Controlling Shareholders	Nature of interest and capacity	Immediately upon completion of the Global Offering and the Capitalisation Issue <sup>(1)</sup>	
		Number of Shares	Shareholding percentage (%)
Hongzun International . . . . .	Beneficial owner	298,546,800	25.68
Ertian International . . . . .	Beneficial owner	44,958,828	3.87
Seven Color Pearl Investment . . . . .	Beneficial owner	27,041,172	2.33
Liuzhou Qise LP . . . . .	Beneficial owner	27,307,200	2.35
Liuzhou Lianrun LP . . . . .	Beneficial owner	1,368,000	0.12
Liuzhou Colorful LP . . . . .	Beneficial owner	26,988,948	2.32
Hongzun Investment . . . . .	Interest in controlled corporation <sup>(2)</sup>	298,546,800	25.68
Mr. SU . . . . .	Interest in controlled corporation <sup>(3)</sup>	298,546,800	25.68
	Interest in controlled corporation <sup>(4)</sup>	44,958,828	3.87
	Interest in controlled corporation <sup>(5)</sup>	27,041,172	2.33
	Interest in controlled corporation <sup>(6)</sup>	1,368,000	0.12
	Interest in controlled corporation <sup>(7)</sup>	27,307,200	2.35
	Interest in controlled corporation <sup>(8)</sup>	26,988,948	2.32
Mr. ZHENG . . . . .	Interest in controlled corporation <sup>(3)</sup>	298,546,800	25.68
Mr. JIN . . . . .	Interest in controlled corporation <sup>(7)</sup>	27,307,200	2.35
	Interest in controlled corporation <sup>(8)</sup>	26,988,948	2.32

*Notes:*

- (1) Assuming the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme are not exercised.
- (2) Hongzun International is wholly-owned by Hongzun Investment. Therefore, Hongzun Investment is deemed to be interested in all the Shares held by Hongzun International for the purpose of the SFO. Mr. SU is the sole director of Hongzun International.
- (3) Hongzun Investment is owned as to 51.0% and 49.0% by Mr. SU and Mr. ZHENG, respectively. Therefore, Mr. SU and Mr. ZHENG are deemed to be interested in all the Shares held by Hongzun Investment for the purpose of the SFO. Mr. SU and Mr. ZHENG are also chairman and vice chairman of Hongzun Investment, respectively.
- (4) Ertian International is wholly-owned by Mr. SU. Therefore, Mr. SU is deemed to be interested in all the Shares held by Ertian International for the purpose of the SFO. Mr. SU is the sole director of Ertian International.

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## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

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- (5) Seven Color Pearl Investment is wholly-owned by Mr. SU. Therefore, Mr. SU is deemed to be interested in all the Shares held by Seven Color Pearl Investment for the purpose of the SFO. Mr. SU is the sole director of Seven Color Pearl Investment.
- (6) The general partner of Liuzhou Lianrun LP is Mr. SU who owns 11,000 shares. The original 24 individual equity holders of Chesir Pearl, who are limited partners and Independent Third Parties, own 217,000 shares. Therefore, Mr. SU is deemed to be interested in all the Shares held by Liuzhou Lianrun LP for the purpose of the SFO. For the avoidance of doubt, there is no individual limited partner contributed more than one-third of the capital contribution of Liuzhou Lianrun LP.
- (7) The general partner of Liuzhou Qise LP is Mr. SU who owns 10,000 shares. Mr. JIN, being one of the limited partners, owns 1,565,200 shares and the original 18 individual equity holders of Chesir Pearl, who are limited partners and Independent Third Parties, own 2,976,000 shares. Therefore, Mr. SU and Mr. JIN are deemed to be interested in all the Shares held by Liuzhou Qise LP for the purpose of the SFO. For the avoidance of doubt, there is no individual limited partner (except Mr. JIN) contributed more than one-third of the capital contribution of Liuzhou Qise LP.
- (8) The general partner of Liuzhou Colorful LP is Mr. SU who owns 10,000 shares. Mr. JIN, being one of the limited partners, owns 1,500,000 shares and the original 18 individual equity holders of Chesir Pearl, who are limited partners and Independent Third Parties, own 2,988,158 shares. Therefore, Mr. SU and Mr. JIN are deemed to be interested in all the Shares held by Liuzhou Colorful LP for the purpose of the SFO. For the avoidance of doubt, there is no individual limited partner (except Mr. JIN) contributed more than one-third of the capital contribution of Liuzhou Colorful LP.

Mr. SU is our founder, the Chairman, the Chief Executive Officer and an executive Director. Immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme), Mr. SU is interested in 36.67% of the issued share capital of our Company through investment holding companies or limited partnerships controlled by him, namely Hongzun Investment, Hongzun International, Ertian International, Seven Color Pearl Investment, Liuzhou Qise LP, Liuzhou Lianrun LP and Liuzhou Colorful LP. Hence Mr. SU is one of our Controlling Shareholders within the meaning of the Listing Rules.

Mr. ZHENG is our founder and an executive Director. Immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme), Mr. ZHENG is interested in 25.68% of the issued share capital of our Company through investment holding companies controlled by him, namely Hongzun Investment and Hongzun International. Despite that Mr. ZHENG does not control more than 30% of voting rights of our Company, Mr. ZHENG is regarded as one of the Controlling Shareholders due to involvement in the business of the Group and the fact that he is an executive Director.

Mr. JIN is our executive Director. Immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme), Mr. JIN is interested in 4.67% of the issued share capital of our Company through limited partnerships controlled by Mr. JIN, namely Liuzhou Qise LP and Liuzhou Colorful LP. Despite that Mr. JIN does not control more than 30% of voting rights of our Company, Mr. JIN is regarded as one of the Controlling Shareholders due to involvement in the business of the Group and the fact that he is an executive Director.

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## **CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS**

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### **OUR SUBSTANTIAL SHAREHOLDERS**

Save as disclosed in this section, our Company will not have any other substantial shareholder (as such term is defined under the Listing Rules) without taking into consideration any Shares which may be taken up under the Global Offering or may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme.



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and Capitalisation Issue (without taking into consideration our Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme), Mr. SU, Mr. ZHENG and Mr. JIN will together form a group of controlling shareholders within the meaning of the Listing Rules and will be entitled to exercise voting rights of 36.67% of the total issued share capital of our Company immediately upon the Listing through investment holding companies or limited partnerships controlled by Mr. SU, Mr. ZHENG and Mr. JIN, namely Hongzun Investment, Hongzun International, Ertian International, Seven Color Pearl Investment, Liuzhou Qise LP, Liuzhou Colorful LP and Liuzhou Lianrun LP.

### NON-DISPOSAL UNDERTAKINGS BY OUR CONTROLLING SHAREHOLDERS

Each of our Controlling Shareholders has, jointly and severally, undertaken to the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) that none of them would dispose of their Shares held as of the Listing Date during the First Six-Month Period and the Second Six-Month Period, further information on which is set forth in the section headed “Underwriting — Underwriting arrangements and expenses — Undertakings given to the Hong Kong Underwriters — By our Controlling Shareholders ” in this prospectus. Similar non-disposal undertakings have also been provided to the Stock Exchange, further information on which is set forth in the section headed “Underwriting — Underwriting arrangements and expenses — Undertakings given to the Stock Exchange pursuant to the Listing Rules — by our Controlling Shareholders” in this prospectus.

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders are Mr. SU, Mr. ZHENG, Mr. JIN, Hongzun Investment, Hongzun International, Ertian International, Seven Color Pearl Investment, Liuzhou Qise LP, Liuzhou Colorful LP and Liuzhou Lianrun LP, all of which are investment holding companies or limited partnerships without engaging in any business activities. As of the Latest Practicable Date, Hongzun International, Ertian International, Seven Color Pearl Investment, Liuzhou Qise LP, Liuzhou Colorful LP and Liuzhou Lianrun LP did not hold investments other than our Shares. Mr. SU, Mr. ZHENG, Mr. JIN, our Directors and their respective close associates has confirmed that he/she/it is not interested in any other business activities that compete with our business.

#### Management independence

Although our Controlling Shareholders will retain controlling interest in our Group following the Listing, the day-to-day management and operation of our business will be the responsibility of our executive Directors and senior management. Our Board has nine Directors comprising four executive Directors, two non-executive Directors and three independent non-executive Directors. With three independent non-executive Directors out of a total of nine Directors in our Board, there will be sufficient independent voice and check-and-balance within our Board to safeguard the interests of our Shareholders other than our Controlling Shareholders.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he (a) acts for the benefit of and in the best interests of our Shareholders and our Company as a whole and (b) he does not allow any conflict between his duties as a Director and his personal interests. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) will abstain from voting at the relevant meetings of our Board in respect of such transaction and will not be counted towards the quorum.

Having considered the above factors, our Directors are satisfied that our Board as a whole, and together with our senior management, is capable of managing our business independently from our Controlling Shareholders.

### **Operational independence**

In addition to the management independence set forth above, we have independent access to our customers and suppliers which are Independent Third Parties. None of our Controlling Shareholders and their associates has any interest in any of our customers or suppliers. For procuring new customers, we have our own sales and marketing departments which are led by our senior management, and we have our own sourcing, marketing, production and distribution functions which are operated independently from our Controlling Shareholders. Accordingly we do not rely on our Controlling Shareholders or their associates for such crucial business functions.

### **Financial independence**

All the amounts due to or from our Controlling Shareholders and their associates were fully settled as of the Latest Practicable Date. During the Track Record Period, our bank loans and other borrowings were secured by our property, plant and equipment and right-of-use assets and also secured by the corporate guarantee from Hongzun Investment, together with personal guarantees of Mr. SU, Mr. JIN, Mr. ZHENG and their close family members, and pledged by equity interests of Chesir Pearl held by them. The guarantees and pledges given by Hongzun Investment and these persons will be released or replaced by corporate guarantees executed by our Company upon the Listing. Our Directors believe that we are capable of obtaining our source of funding from debt and equity financing without any reliance on our Controlling Shareholders.

### **DEED OF NON-COMPETITION**

Each of our Controlling Shareholders and executive Directors (collectively, the “Covenantors”) has entered into the Deed of Non-Competition in favour of our Company, pursuant to which each of the Covenantors has jointly and severally, irrevocably and unconditionally, undertaken with our Company (for itself and for the benefit of its subsidiaries) that with effect from the Listing Date and for so long as our Shares remain so listed on the Stock Exchange and the Covenantors, individually or collectively with their associates, are, directly or indirectly, interested in not less than 30% of our

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Shares in issue or otherwise regarded as controlling shareholders (as defined in the Listing Rules) of our Company, the Covenantors shall not, and shall procure that none of their associates (except any members of our Group) or affiliates (named in this prospectus) shall:

- (a) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of the Group or be in competition with any member of our Group in any business activities which any member of our Group may undertake in the future save for the holding of not more than five per cent shareholding interests (individually or any of the Covenantors with their associates collectively) in any listed company in Hong Kong; and
- (b) take any direct or indirect action which constitutes an interference with or a disruption to the business activities of any member of our Group including, but not limited to, solicitation of the customers, suppliers or personnel of any member of our Group.

In addition, each of the Covenantors hereby jointly and severally, irrevocably and unconditionally, has undertaken by way of deed to our Group that:

- (a) if any new business opportunity relating to any of the products and/or services of the Group (the “**Business Opportunity**”) is made available to any of the Covenantors or their respective associates (other than members of the Group), it shall direct or procure the relevant associate to direct such Business Opportunity to us with such required information to enable the Company to evaluate the merits of the Business Opportunity.
- (b) in connection with the Business Opportunity, the relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to us to enable us to secure the Business Opportunity.

For the avoidance of doubt, none of the Covenantors and their respective associates (other than members of our Group) shall not pursue the Business Opportunity even though we decide not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company shall have been approved by our independent non-executive Directors.

## CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to avoid any conflict of interests arising from competing business and to safeguard the interests of our Shareholders:

- (a) our independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by our Controlling Shareholders under the Deed of Non-competition;
- (b) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (c) our Company will disclose with basis decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition in the annual reports of our Company;
- (d) our Controlling Shareholders will make an annual confirmation on compliance with their undertaking under the Deed of Non-Competition in the annual report of our Company;
- (e) each of our Directors has attended a training session on fiduciary duty to the Company; and
- (f) our Company has appointed Essence Corporate Finance (Hong Kong) Limited as Compliance Adviser, which will provide advice and guidance to our Company in respect of compliance with applicable laws and the Listing Rules including various requirements relating to directors' duties and internal control.

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**The following discussions and analyses should be read in conjunction with the consolidated financial information together with the accompanying notes in the Accountants' Report. Our financial information and the consolidated financial statements of our Group have been prepared in accordance with the IFRS, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions. You should read the whole Accountants' Report and not rely merely on the information contained in this section. Unless the context otherwise requires, financial information in this section is described on a consolidated basis.**

**The discussions and analyses set forth in this section contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Our actual results may differ significantly from those projected. Factors that could cause or contribute to such differences include, without limitation, those discussed in the sections headed "Risk Factors" and "Business" and elsewhere in this prospectus.**

**Discrepancies between totals and sums of amounts listed in this section in any table or elsewhere in this prospectus may be due to rounding.**

### OVERVIEW

We are the largest pearlescent pigment producer in the PRC market as measured by revenue in 2020 with a market share of 11.0%, according to the Frost & Sullivan Report. In the global market, we are the fourth largest pearlescent pigment producer as measured by revenue in 2020 with a market share of 3.0%. Our principle products include natural mica-based and synthetic mica-based pearlescent pigment products. Pearlescent pigment products are generally used as colourants in a wide range of industrial and non-industrial applications. The synthetic mica-based pearlescent pigment market is in a state of rapid development and accounted for 15.8% of the PRC pearlescent pigment market of RMB4,843.9 million in 2020. The market size of the global pearlescent pigment market reached RMB18.9 billion in 2020, in which the synthetic mica-based pearlescent pigment market accounted for a market share of 11.7%.

Our business principally focuses on the production and sales of a comprehensive portfolio of pearlescent pigment products for use in diverse applications and industries, including industrial coatings, plastics, textiles and leather, cosmetics and automotive coatings. We are a midstream producer in the value chain of pearlescent pigment industry. Our pearlescent pigment products can be broadly divided into (a) natural mica-based pearlescent pigment products; (b) synthetic mica-based pearlescent pigment products; (c) glass flake-based pearlescent pigment products; and (d) silicon oxide-based pearlescent pigment products, which are sold to customers in the PRC and more than 30 countries and territories in Asia (excluding the PRC), Europe, Africa and South America under our brand of "Chesir Pearl"  CHESIR . In addition, we also produce and sell synthetic mica powder of different granule sizes which can be used for the production of different grades of pearlescent pigment products (including those used in cosmetics, ceramics and automotive applications) and also as raw materials for the production of functional fillers, insulating materials, refractory materials and nickel-hydrogen batteries.

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## FINANCIAL INFORMATION

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### **BASIS OF PRESENTATION OF OUR FINANCIAL INFORMATION**

See the section headed “History, Development and Reorganisation” in this prospectus for further information on the Reorganisation. The Reorganisation was completed in November 2020. Our Company was incorporated in the Cayman Islands with limited liability on 8 June 2018 and is an investment holding company. Our Company has become the holding company of the companies now comprising our Group since November 2020. As the Reorganisation involved only the inclusion of new holding companies, i.e. our Company, Generous Fortune and Global New Material (HK), on top of the existing members of our Group established in the PRC and France, which has not resulted in any change in the economic substance of our Group in terms of ultimate ownership and control, the financial information of our Group for the Track Record Period set forth in this prospectus has been prepared as a continuation of the existing group using the principles of merger accounting.

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 are prepared as if the current structure of our Group had been in existence throughout the Track Record Period. The consolidated statements of financial position as of 31 December 2018, 2019 and 2020 present the assets and liabilities of the companies now comprising our Group as if the current structure of our Group had been in existence as of those dates.

### **PRINCIPAL FACTORS AFFECTING OUR OPERATING RESULTS**

Our operating results have been and will continue to be affected, directly and indirectly, by a number of factors set forth below. The following factors are not exhaustive and our business and financial condition and operating results may also be affected by the risk factors set forth in the section headed “Risk Factors” in this prospectus. Our Directors believe that the major factors that affect our operating results include:

- Sales volume and product pricing
- Utilisation rates of our production facilities
- Product offerings and customer preference
- Cost of raw materials and inventory management
- Income tax

The following is a description of the each of these factors:

#### **Sales volume and product pricing**

Our operating results are principally driven by our sales volume and the selling prices of our pearlescent pigment products as well as our competitiveness. The sales volume of our pearlescent pigment products is depending on a number of factors that may or may not be within our control. If for whatever reason we encounter a substantial decrease in the market demand in the PRC or abroad, our sales will correspondingly decrease, which could have a significant impact on our profitability. We determine the selling prices of our pearlescent pigment products based on our costs and the demand/supply dynamics. Such pricing strategy is primarily due to our strong market position in the

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PRC market. This market position may change in the future, particularly with the increasing number of pigment producers in the PRC and substitute products. In any of these events, our pearlescent pigment products may lose their competitiveness, which could result in decrease in the sales volume and selling prices. Our profitability would then be affected.

### **Utilisation rates of our production facilities**

Our operating results also depend on the utilisation level of our production facilities. As set forth in the section headed “Business — Our production facilities”, our production activities at our Phase 1 Production Plant have already achieved high utilisation rates. Such high utilisation rates could reduce our fixed production costs, but at the same time increase the wear and tear of the related production facilities that could require a longer period of time for maintenance and higher maintenance costs. If our production facilities continue to operate in full capacity, our profitability may not continue to grow at the rates comparable to those during the Track Record Period. Any material breakdown of our production facilities or an overhaul could increase our production cost, reduce our production capacity and adversely affect our competitiveness if we could not deliver pursuant to our customers’ purchase orders as agreed.

### **Product offerings and consumer preference**

Changes in our product offerings of pearlescent pigment products will also affect our revenue. Our pearlescent pigment products can be broadly divided into (i) natural mica-based pearlescent pigment products; (ii) synthetic mica-based pearlescent pigment products; (iii) glass flake-based pearlescent pigment products; and (iv) silicon oxide-based pearlescent pigment products. Each category of our pearlescent pigment products consists of a number of series that can be used for different purposes. We aim to develop and produce more high-end pearlescent pigment products for industrial applications. We also aim to expand our product offerings. These strategies would affect our profitability if our products are not well received by our target customers or that our products fall short of the industry quality standards. A comprehensive portfolio of products does not necessarily guarantee high profit margin or increasing amount of operating profit. On the other hand, a carefully selected mix of products could achieve better results and maximise the use of our specialty and the profitability as well as the utilisation rates that could achieve higher production efficiency and competitiveness.

### **Cost of raw materials and inventory management**

Any significant increase in the cost of raw materials could also affect our profitability and cash flows as additional working capital would be tied up on inventory of raw materials. Because we are one of the largest pearlescent pigment producers in the PRC, we could be able to transfer to our customers the increase in the cost of raw materials to our customers generally. This is, however, not necessarily the case in the future.

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For the inventory of our raw materials, we place purchase orders with our raw material suppliers based on our expected level of production volume taking into consideration the sales orders on hand and the historical trends of sales as well as the number of new customers and the products that they would purchase within the next two to three months. If there is a likely shortage of a particular type of raw materials or if the market prices are increasing, we would also consider to increase our inventory level of raw materials.

The principal raw materials used by us are either sourced from overseas, i.e. India, or domestically in the PRC. Historically the prices of these raw materials have not fluctuated significantly, and we have been able to manage the costs against the selling prices so as to maintain a relatively stable profit margin. Any unexpected changes in the selling prices or the demand and supply dynamics of our principal raw materials could affect our profitability and business operations.

### **Income tax**

Our business operations are subject to income tax, VAT and other local taxes in the PRC. Chesir Pearl has been granted the high and new technology enterprise certificate and was entitled to a preferential tax rate of 15% during the Track Record Period. This preferential tax treatment will end on 10 September 2023 and Chesir Pearl will be subject to the normal rate of 25% of EIT thereafter. Without taking into account the tax effect on utilisation of tax losses not recognised for the year ended 31 December 2018, our effective tax rates were 13.1%, 14.3% and 14.0% for the Track Record Period, respectively. Our effective tax rates remained stable and close to the preferential tax rate of 15% throughout the Track Record Period in the absence of the tax effect on utilisation of tax losses not recognised. This would not be the case when the preferential tax treatment is ended.

During the Track Record Period, the effect of tax concession amounted to RMB6.4 million, RMB14.2 million and RMB21.9 million, respectively.

### **CRITICAL ACCOUNTING POLICIES**

The critical accounting policies applied by us in preparing the historical financial information are in accordance with the IFRS. The historical financial information has been prepared on a historical cost convention, except for certain financial instruments which are measured at fair value. The preparation of the historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires us to exercise judgement in applying our accounting policies.

### **Adoption of new and revised IFRS**

During the Track Record Period, we have adopted all the new and revised IFRSs that are relevant to our operations and effective for accounting periods beginning on or after 1 January 2020. IFRSs include IFRSs, International Accounting Standards and their respective interpretations.



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### **Basis of consolidation**

The financial information includes the financial statements of our Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which our Group has control. We control an entity when we are exposed, or have rights, to variable returns from our involvement with the entity and have the ability to affect those returns through our power over the entity. We have power over an entity when we have existing rights that give us the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, we consider our potential voting rights as well as the potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right. Subsidiaries are consolidated from the date on which control is transferred to us. They are de-consolidated from the date the control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of our Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance. Changes in our Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, i.e. transactions with owners in their capacity as owners. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of our Company.

In our statement of financial position, the investments in subsidiaries are stated at cost less impairment losses.

### **Revenue recognition**

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which we are expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discount.

Revenue from the sale of goods are recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by us when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost, i.e. gross carrying amount net of loss allowance, of the asset.

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### Government grants

A government grant is recognised when there is reasonable assurance that we will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to us with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

### Property, plant and equipment

Property, plant and equipment, including buildings, held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to us and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful annual lives are as follows:

Buildings . . . . .	20 years
Plant and machinery . . . . .	10 years
Motor vehicles . . . . .	Five years
Office equipment . . . . .	Three — five years
Leasehold improvement . . . . .	Three years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

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### Leases

At the inception of a contract, we will assess whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

Where the contract contains lease component(s) and non-lease component(s), we have elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, we recognise a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for we are primarily office equipment. When we enter into a lease in respect of a low-value asset, we will decide whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

Right-of-use assets in which we are reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in our estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether we

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will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract (“lease modification”) that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16. In such cases, the group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

We present right-of-use assets that do not meet the definition of investment properties and lease liabilities separately in the consolidated statement of financial position.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished products and work-in-progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### **Contract assets and contract liabilities**

Contract asset is recognised when we recognise revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (“ECL”) in accordance with our accounting policies and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before we recognise the related revenue. A contract liability would also be recognised if we have an unconditional right to receive consideration before we recognise the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

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### Financial assets

All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt investments held by us are classified into measured at amortised cost if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

### Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

### Impairment of financial assets and contract assets

We recognise a loss allowance for expected credit losses on trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

We always recognise lifetime expected credit loss (“ECL”) for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on our historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions 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, we recognise lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, we measure the loss allowance for that financial instrument at an amount equal to 12-month ECL.

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Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

### *Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, we compare the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, we consider 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 our debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to our core 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 for a particular financial instrument;
- 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, we presume 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 we have reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, we assume 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 debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

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We consider a financial asset to have low credit risk when the asset has external credit rating of “investment grade” in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of “performing”. Performing means that the counterparty has a strong financial position and there is no past due amounts.

We regularly monitor 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*

We consider 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 us, in full (without taking into account any collaterals held by us).

Irrespective of the above analysis, we consider that default has occurred when a financial asset is more than 90 days past due unless we have 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 counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty’s financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the counterparty 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*

We write off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings or when the amounts are over two years past due, whichever occurs sooner. Any recoveries made are recognised in profit or loss.

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### *Measurement and recognition of ECL*

The measurement of expected credit losses 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 the 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 guarantee contracts, the exposure includes the amount drawn down as of the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, our understanding of the specific future financing needs of the debtors, and other relevant forward-looking information. For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to us in accordance with the contract and all the cash flows that we expect to receive, discounted at the original effective interest rate.

If we have 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, we measure 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.

We recognise 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.

### **Financial liabilities and equity instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in our assets after deducting all of its liabilities.

### **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as our current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.



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### Convertible loans

Convertible loans which entitle the lender to convert the loans into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consisting of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; this amount is carried as a derivative liability that is subsequently measured at fair value through profit or loss until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and derivative components of the convertible loans based on the allocation of proceeds to the liability and derivative components on initial recognition. The portion related to the derivative component is expensed immediately.

### Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Our 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 differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such 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 arising on investments in subsidiaries, except where we are able to control the reversal of the temporary difference and it is probable that the temporary difference will not 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purpose of measuring deferred tax for leasing transactions in which we recognise the right-of-use assets and the related lease liabilities, we first determine 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, we apply IAS 12 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and we intend to settle our current tax assets and liabilities on a net basis.

### KEY ESTIMATES

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 causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### **Impairment of property, plant and equipment and right-of-use assets**

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, we have to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), we estimate the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

The carrying amounts of (a) the property, plant and equipment and (b) right-of-use assets as of 31 December 2018, 2019 and 2020 were (a) RMB304.7 million, RMB353.9 million and RMB486.2 million and (b) RMB17.9 million, RMB29.9 million and RMB68.2 million, respectively.

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## FINANCIAL INFORMATION

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### **Impairment loss of trade receivables**

We estimate the amount of impairment loss for ECL on trade receivables based on the credit risk of trade receivables. The amount of the impairment loss based on ECL model is measured as the difference between all contractual cash flows that are due to us in accordance with the contract and all the cash flows that we expect to receive, discounted at the effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As of 31 December 2018, 2019 and 2020, the carrying amount of trade receivables were RMB140.7 million (net of allowance for doubtful debts of RMB1.1 million), RMB119.9 million (net of allowance for doubtful debts of RMB0.9 million) and RMB192.0 million (net of allowance for doubtful debts of RMB4.9 million), respectively.

### **Allowance for slow-moving inventories and net realisable value of inventories**

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. Allowance for slow-moving inventories was made for the year ended 31 December 2018, 2019 and 2020 amounted to approximately RMB9,000, nil and nil, respectively.

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer's taste and competitor's actions in response to severe industry cycles. We will reassess the estimates by the end of each reporting period.

## FINANCIAL INFORMATION

### SELECTED FINANCIAL DATA

#### Consolidated statements of profit or loss and other comprehensive income

The table below sets forth our consolidated statements of profit or loss and other comprehensive income for the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue . . . . .	318,244	440,583	569,113
Cost of goods sold . . . . .	(166,917)	(218,222)	(280,046)
Sales related tax and auxiliary charges . . . . .	(4,380)	(4,084)	(5,002)
Gross profit . . . . .	146,947	218,277	284,065
Other income and other gains and losses . . . . .	4,971	5,295	14,778
Reversals of impairment losses on trade and other receivables/(Impairment losses for trade and other receivables) . . . . .	612	208	(4,118)
Selling expenses . . . . .	(13,347)	(23,292)	(24,607)
Administrative and other operating expenses . . . . .	(35,568)	(56,712)	(72,898)
<b>Profit from operations</b>	<b>103,615</b>	<b>143,776</b>	<b>197,220</b>
Finance costs . . . . .	(15,869)	(18,475)	(19,399)
<b>Profit before tax</b>	<b>87,746</b>	<b>125,301</b>	<b>177,821</b>
Income tax expense . . . . .	(6,382)	(17,968)	(24,960)
<b>Profit for the year</b>	<b>81,364</b>	<b>107,333</b>	<b>152,861</b>
Attributable to			
Owners of our Company . . . . .	77,400	102,806	148,172
Non-controlling interests . . . . .	3,964	4,527	4,689
	<u>81,364</u>	<u>107,333</u>	<u>152,861</u>
<b>Profit for the year</b>	<b>81,364</b>	<b>107,333</b>	<b>152,861</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translating foreign operations . . . . .	2	(2)	2
<b>Other comprehensive income for the year, net of tax</b>	<b>2</b>	<b>(2)</b>	<b>2</b>
<b>Total comprehensive income for the year</b>	<b>81,366</b>	<b>107,331</b>	<b>152,863</b>
Attributable to			
Owners of our Company . . . . .	77,402	102,804	148,174
Non-controlling interests . . . . .	3,964	4,527	4,689
	<u>81,366</u>	<u>107,331</u>	<u>152,863</u>

## FINANCIAL INFORMATION

### Consolidated statements of financial position

The table below sets forth our consolidated statements of financial position as of 31 December 2018, 2019 and 2020:

	As of 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment . . . . .	304,696	353,907	486,170
Right-of-use assets . . . . .	17,932	29,949	68,247
Deposits paid for acquisition of property, plant and equipment and right-of-use assets . . . . .	16,367	26,671	184
Deferred tax assets . . . . .	1,190	1,190	1,190
	<u>340,185</u>	<u>411,717</u>	<u>555,791</u>
<b>Current assets</b>			
Inventories . . . . .	74,420	80,134	75,371
Trade and bills receivables . . . . .	144,019	121,692	191,951
Deposits, prepayments and other receivables . . . . .	14,305	4,029	23,609
Amount due from a shareholder . . . . .	330	330	—
Bank and cash balances . . . . .	171,854	559,839	747,582
	<u>404,928</u>	<u>766,024</u>	<u>1,038,513</u>
	<u><u>745,113</u></u>	<u><u>1,177,741</u></u>	<u><u>1,594,304</u></u>
<b>EQUITY</b>			
<b>Equity attributable to owners of our Company</b>			
Share capital . . . . .	330	330	12,342
Reserves . . . . .	297,771	711,878	1,168,897
	298,101	712,208	1,181,239
Non-controlling interests . . . . .	156,858	161,385	166,074
	<u>454,959</u>	<u>873,593</u>	<u>1,347,313</u>

## FINANCIAL INFORMATION

	As of 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Bank loans and other borrowings.....	4,971	143,776	75,366
Convertible loans .....	—	69,106	—
Lease liabilities.....	191	2,615	2,044
Deferred revenue.....	10,179	7,487	5,351
	15,341	222,984	82,761
<b>Current liabilities</b>			
Bank loans and other borrowings.....	181,146	11,953	90,273
Convertible loans .....	29,921	—	—
Derivative component of convertible loans .....	—	1,642	—
Lease liabilities.....	85	543	577
Trade payables .....	23,839	29,941	21,891
Accruals and other payables .....	31,839	30,890	42,056
Amount due to a director.....	56	105	—
Contract liabilities .....	2,398	710	446
Deferred revenue.....	2,723	2,692	2,136
Current tax liabilities .....	2,806	2,688	6,851
	274,813	81,164	164,230
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>745,113</b>	<b>1,177,741</b>	<b>1,594,304</b>

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## FINANCIAL INFORMATION

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### COMPONENTS OF OUR CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

#### Revenue

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which we are expected to be entitled, excluding those amounts collected on behalf of third parties.

We are engaged in the business of the production and sales of pearlescent pigment products and synthetic mica powder in the PRC. Our assets are substantially located in the PRC. We operate one single reportable business segment which is regularly reviewed by our chief operating decision maker. This reportable business segment is a strategic business unit that offers two principle types of products, namely (a) pearlescent pigment products and (b) synthetic mica powder sold to our customers, and is centrally managed with the required technology and marketing strategies. The table below sets forth an analysis of our revenue by major products during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Pearlescent pigment products						
- Natural mica-based . . .	245,321	77.1	295,510	67.1	318,957	56.0
- Synthetic mica-based . .	68,280	21.5	124,705	28.3	197,141	34.6
- Glass flakes-based . . .	1,375	0.4	13,865	3.1	46,821	8.2
- Silicon oxide-based . . .	—	—	75	—*	2,869	0.5
	<u>314,976</u>	<u>99.0</u>	<u>434,155</u>	<u>98.5</u>	<u>565,788</u>	<u>99.3</u>
Synthetic mica powder <sup>(1)</sup> .	3,268	1.0	6,428	1.5	3,325	0.7
<b>Total</b>	<u><u>318,244</u></u>	<u><u>100.0</u></u>	<u><u>440,583</u></u>	<u><u>100.0</u></u>	<u><u>569,113</u></u>	<u><u>100.0</u></u>

\* Value insignificant

*Note:*

- (1) We produce synthetic mica powder (in wet state) for our own production of synthetic mica-based pearlescent pigment products. Synthetic mica powder will undergoes further grinding, milling and dehydration will form synthetic mica powder (in dry state) for sales to our customers. See the section headed “Business — Production process” in this prospectus for further information.

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## FINANCIAL INFORMATION

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Our revenue is recognised from the transfer of goods to our customers at a point in time.

We produce and sell pearlescent pigment products and synthetic mica powder. As of the Latest Practicable Date, our pearlescent pigment products comprised 476 natural mica-based pearlescent pigment products, 266 synthetic mica-based pearlescent pigment products, 30 glass flake-based pearlescent pigment products and five silicon oxide-based pearlescent pigment products.

### *Sales volume and average unit selling price*

Our revenue is affected by the sales volume and changes in the selling prices of our pearlescent pigment products. The table below sets forth the sales volume and the average unit selling price by products for the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price
	<i>(tonnes)</i>	<i>(RMB'000 per tonne)</i>	<i>(tonnes)</i>	<i>(RMB'000 per tonne)</i>	<i>(tonnes)</i>	<i>(RMB'000 per tonne)</i>
Pearlescent pigment products						
- Natural mica-based . . .	7,217.9	34.0	8,822.4	33.5	10,056.8	31.7
- Synthetic mica-based . .	1,228.8	55.6	2,231.8	55.9	3,943.5	50.0
- Glass flakes-based . . .	4.4	312.5	42.4	327.0	158.9	294.7
- Silicon oxide-based . . .	—	—	0.1	750.0	5.9	486.3
	<u>8,451.1</u>	<u>37.3</u>	<u>11,096.7</u>	<u>39.1</u>	<u>14,165.1</u>	<u>39.9</u>
Synthetic mica powder . .	<u>84.4</u>	<u>38.7</u>	<u>167.8</u>	<u>38.3</u>	<u>78.2</u>	<u>42.5</u>
<b>Total</b>	<u><u>8,535.5</u></u>		<u><u>11,264.5</u></u>		<u><u>14,243.3</u></u>	



## FINANCIAL INFORMATION

### Customers

Our customers may be broadly divided into trading company customers and end user customers. The former will re-sell our products to their own customers with whom we do not have direct contractual relationship and as such we do not have information on their purchase quantity. End user customers are customers using our pearlescent pigment products for their own use and production purpose. The table below sets forth an analysis of our revenue by the number and nature of business of our customers during the Track Record Period:

	Year ended 31 December								
	2018			2019			2020		
	Number	RMB'000	<i>% of total revenue</i>	Number	RMB'000	<i>% of total revenue</i>	Number	RMB'000	<i>% of total revenue</i>
Trading company customers									
- PRC . . . . .	190	241,028	75.7	185	325,628	73.9	206	441,662	77.6
- International . . . . .	22	16,579	5.2	28	20,981	4.8	29	21,821	3.8
	<u>212</u>	<u>257,607</u>	<u>80.9</u>	<u>213</u>	<u>346,610</u>	<u>78.7</u>	<u>235</u>	<u>463,483</u>	<u>81.4</u>
End user customers									
- PRC . . . . .	69	52,175	16.4	77	84,800	19.2	120	97,509	17.1
- International . . . . .	13	8,462	2.7	8	9,173	2.1	12	8,121	1.5
	<u>82</u>	<u>60,637</u>	<u>19.1</u>	<u>85</u>	<u>93,973</u>	<u>21.3</u>	<u>132</u>	<u>105,630</u>	<u>18.6</u>
<b>Total</b>		<u><u>318,244</u></u>	<u><u>100.0</u></u>		<u><u>440,583</u></u>	<u><u>100.0</u></u>		<u><u>569,113</u></u>	<u><u>100.0</u></u>

The table below sets forth an analysis of our sales to trading customers and end user customers by products during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Trading company customers						
- Pearlescent pigment products . . . . .	256,866	80.7	344,734	78.2	463,367	81.4
- Synthetic mica powder . . . . .	741	0.2	1,876	0.5	116	—*
	<u>257,607</u>	<u>80.9</u>	<u>346,610</u>	<u>78.7</u>	<u>463,483</u>	<u>81.4</u>
End user customers						
- Pearlescent pigment products . . . . .	58,111	18.3	89,421	20.3	102,421	18.0
- Synthetic mica powder . . . . .	2,526	0.8	4,552	1.0	3,209	0.6
	<u>60,637</u>	<u>19.1</u>	<u>93,973</u>	<u>21.3</u>	<u>105,630</u>	<u>18.6</u>
<b>Total</b>	<u><u>318,244</u></u>	<u><u>100.0</u></u>	<u><u>440,583</u></u>	<u><u>100.0</u></u>	<u><u>569,113</u></u>	<u><u>100.0</u></u>

\* Value insignificant.

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## FINANCIAL INFORMATION

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Pursuant to the Frost & Sullivan Report, it is an industry practice in the PRC and the global pearlescent pigment market that most end user companies may choose to source their raw materials through designated trading companies. There are benefits associated with this arrangement. The end user companies may leverage the sourcing capability of the designated trading companies to identify a stable source of supply of pearlescent pigment products from different suppliers. Through such business arrangement, the end user companies can also save time and costs and may engage different trading companies for the sourcing of different raw materials to reduce the concentration risk. From our perspective, sales to trading company customers enable us to reach a wider group of downstream customers and enlarge the sales network and possible business applications of our products without incurring substantial efforts on sales and marketing.

The table below sets forth an analysis of revenue by downstream industries of end user customers during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Industrial coatings . . . . .	41,178	67.9	58,261	62.0	60,204	57.0
Plastics . . . . .	12,031	19.8	16,918	18.0	20,716	19.6
Textiles and leather . . . . .	5,778	9.5	7,514	8.0	5,092	4.8
Cosmetics . . . . .	466	0.8	9,118	9.7	15,467	14.6
Ceramics . . . . .	682	1.1	1,212	1.3	2,082	2.0
Automotive coatings . . . . .	471	0.8	950	1.0	2,054	2.0
Others . . . . .	31	0.1	—	—	15	—*
<b>Total</b>	60,637	100.0	93,973	100.0	105,630	100.0

\* Value insignificant

We have no control over the business of the trading company customers, which are Independent Third Parties, and have no right to obtain any information from the trading company customers of the downstream industries in which their own customers are engaged.

## FINANCIAL INFORMATION

### *Geographical markets*

The table below sets forth an analysis of our revenue by location of our customers during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
PRC						
- Eastern region <sup>(1)</sup> . . . . .	239,526	75.2	332,282	75.4	436,527	76.7
- Western region <sup>(2)</sup> . . . . .	24,408	7.7	36,635	8.3	45,267	8.0
- Central region <sup>(3)</sup> . . . . .	29,269	9.2	41,511	9.4	57,378	10.1
	<u>293,203</u>	<u>92.0</u>	<u>410,428</u>	<u>93.1</u>	<u>539,172</u>	<u>94.8</u>
Asia <sup>(4)</sup> . . . . .	11,351	3.6	14,084	3.2	13,287	2.3
Europe <sup>(5)</sup> . . . . .	10,144	3.2	13,653	3.1	11,174	2.0
Africa <sup>(6)</sup> . . . . .	2,944	0.9	2,058	0.5	5,276	0.9
South America <sup>(7)</sup> . . . . .	602	0.2	360	0.1	205	—*
<b>Total</b>	<u><u>318,244</u></u>	<u><u>100.0</u></u>	<u><u>440,583</u></u>	<u><u>100.0</u></u>	<u><u>569,113</u></u>	<u><u>100.0</u></u>

\* Value insignificant

*Notes:*

- (1) Eastern region of the PRC refers to Beijing, Fujian, Guangdong, Hebei, Jiangsu, Liaoning, Shandong, Shanghai, Tianjin and Zhejiang.
- (2) Western region of the PRC refers to Guangxi, Guizhou, Shaanxi, Sichuan, Xinjiang, Yunnan and Chongqing.
- (3) Central region of the PRC refers to Anhui, Henan, Hubei, Hunan, Jiangxi and Shanxi.
- (4) Countries and territories in Asia refer to Pakistan, Hong Kong, Macau and Taiwan, Korea, Kuwait, Bangladesh, Japan, Saudi Arabia, Thailand, Turkey, Israel, India, Indonesia, Jordan and Vietnam.
- (5) European countries refer to Estonia, Belgium, Poland, Germany, Russia, Ukraine, Finland, Netherlands, Serbia, Greece, Italy and United Kingdom.
- (6) Countries in Africa refer to Algeria, Morocco, Tunisia and Egypt.
- (7) Countries in South America refer to Brazil and Chile.

## FINANCIAL INFORMATION

### Cost of goods sold

The cost of goods sold mainly included raw materials, direct labour and staff costs and utilities. The table below sets forth an analysis of the cost of goods sold during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Raw materials						
- Natural mica flakes . . .	27,837	16.7	37,161	17.0	41,785	14.9
- Other raw materials . . .	7,681	4.6	12,484	5.7	21,378	7.6
Chemical raw materials						
- Titanium tetrachloride . . .	47,747	28.6	64,169	29.4	76,861	27.4
- Other chemical raw materials . . . . .	14,415	8.6	20,850	9.6	32,231	11.5
- Packaging materials . . .	7,369	4.4	7,695	3.5	11,407	4.1
- Furnace materials and utensils . . . . .	920	0.6	1,733	0.8	3,660	1.3
	105,969	63.5	144,092	66.0	187,322	66.9
Utilities . . . . .	23,698	14.2	31,580	14.5	41,194	14.7
Direct labour . . . . .	15,141	9.1	15,764	7.2	17,368	6.2
Depreciation . . . . .	11,626	7.0	12,904	5.9	14,445	5.2
Staff costs . . . . .	8,147	4.9	7,615	3.5	8,999	3.2
Others . . . . .	2,336	1.3	6,267	2.9	10,718	3.8
<b>Total</b>	<b>166,917</b>	<b>100.0</b>	<b>218,222</b>	<b>100.0</b>	<b>280,046</b>	<b>100.0</b>

*Note:*

(1) Others include miscellaneous production-related utensils and repairs and maintenance costs.

The increases in the cost of goods sold during the Track Record Period were generally consistent with our business growth. The principal components of our cost of sales include:

*Raw materials* primarily consist of the cost of purchase of natural mica flakes and a wide range of chemicals, such as titanium tetrachloride, tin tetrachloride and ferric chloride. In addition to natural mica flakes and chemicals, we also source glass flakes and calcium carbonate as the raw materials for our production purpose. The total consumption volume of raw materials is dependent on our production volume and production efficiency.

*Packaging materials* include packaging cartons and bags used by us for the packaging of our pearlescent pigment products including plastic bags specially made for packaging of powder products.

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## FINANCIAL INFORMATION

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*Furnace materials and utensils* include the use of refractory fire bricks and graphite electrodes for the construction of furnaces for the production of synthetic mica flakes.

*Direct labour* include wages and fringe benefits (including medical and social insurance contributions) incurred by us for our workers. Our business is not labour intensive in nature, and our staff costs incurred for production workers generally do not increase at the same pace as our business growth.

*Staff costs* include wages and fringe benefits (including medical and social insurance contributions) incurred by us for the senior production management personnel.

*Utilities* include the electricity and water charges incurred by us for the operations of our production facilities.

The table below sets forth an analysis of the average cost of raw material during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Cost of raw materials ( <i>RMB'000</i> ) . . . . .	105,969	144,092	187,322
Sales volume of finished products ( <i>tonnes</i> ) . . . . .	8,535.6	11,264.5	14,243.4
Average cost of raw materials for each tonne of finished products ( <i>RMB'000 per tonne</i> ) . . . . .	12.4	12.8	13.2

See the section headed “Business — Our production facilities” in this prospectus for further information on our production activities as well as the utilisation rates of our production facilities. We normally proceed to the production of pearlescent pigment products upon receiving purchase orders from our customers.

We produce synthetic mica flakes which undergo pulping to form synthetic mica powder (in wet state) for our own production of synthetic mica-based pearlescent pigment products. Our production volume of synthetic mica powder depends on our demand for own production of synthetic mica-based pearlescent pigment products and the demand of our customers.

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### Sales related tax and auxiliary charges

Sales related tax and auxiliary charges represented property and land use-related tax and sales-related tax payable by us in relation to the revenue generated from the sales of our products. During the Track Record Period, we recorded sales related tax and auxiliary charges of RMB4.4 million, RMB4.1 million and RMB5.0 million, respectively. The table below sets forth further information on sales related tax and ancillary charges during the Track Record Period:

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Urban maintenance and construction tax . . . . .	1,226	1,109	1,453
Educational surcharge . . . . .	1,226	1,109	1,453
Property tax . . . . .	1,296	1,328	1,330
Land use tax . . . . .	274	265	397
Stamp duty . . . . .	234	216	251
Funds for Water Conservancy Construction . . . . .	74	—	—
Environmental tax . . . . .	50	57	118
<b>Total</b>	<b>4,380</b>	<b>4,084</b>	<b>5,002</b>

### Gross profit and gross profit margin

The amount of gross profit represents the difference between revenue and cost of goods sold and sales related tax and auxiliary charges during a particular year. The table below sets forth the amount of gross profit and gross profit margin for our major products during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Pearlescent pigment products						
- Natural mica-based . . . . .	105,203	42.9	123,765	41.9	129,192	40.5
- Synthetic mica-based . . . . .	38,526	56.4	78,189	62.7	109,123	55.4
- Glass flakes-based . . . . .	1,215	88.4	12,287	88.6	40,990	87.5
- Silicon oxide-based . . . . .	—	—	67	89.3	2,535	88.4
	144,944	46.0	214,308	49.4	281,840	49.8
Synthetic mica powder . . . . .	2,003	61.3	3,969	61.7	2,225	66.9
<b>Total</b>	<b>146,947</b>	<b>46.2</b>	<b>218,277</b>	<b>49.5</b>	<b>284,065</b>	<b>49.9</b>

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The gross profit margins for our sales to trading company customers and end user customers are different. The table below sets forth the amount of gross profit and gross profit margin by nature of our customers during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit
	margin	margin	margin	margin	margin	margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Trading company customers . . . . .	114,425	44.4	163,367	47.1	224,921	48.5
End user customers . . . . .	32,522	53.6	54,910	58.4	59,144	56.0
<b>Total</b>	<u>146,947</u>		<u>218,277</u>		<u>284,065</u>	

The gross profit margins generated from the sales to the end user customers are in general higher than the sales to trading company customers, primarily due to the facts that those trading companies would re-sell our products to their customers and would provide after-sales services to their customers. We have imposed no pricing restrictions on such re-sales transactions, but we may require the Authorised Resellers to follow our suggested prices under the relevant sales framework agreements entered into with them.

In addition, the continuous improvements in our gross profit margin during the Track Record Period was also due to the increases in the percentage of sales of synthetic mica-based pearlescent pigment products which had relatively higher average unit selling prices than those of natural mica-based pearlescent pigment products during the Track Record Period.

### Other income and other gains and losses

The table below sets forth the amount of other income and other gains and losses during the Track Record Period:

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on bank deposits . . . . .	697	1,683	2,106
Government grant . . . . .	4,285	3,616	13,229
Net foreign exchange (losses)/gains . . . . .	(580)	1,110	451
Fair value gain/(loss) on derivative component of convertible loans . . . . .	564	(1,120)	(1,998)
Sundry income . . . . .	5	6	990
<b>Total</b>	<u>4,971</u>	<u>5,295</u>	<u>14,778</u>

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The government grant was provided by the PRC Government to Chesir Pearl in relation to the research and development expenditures incurred by Chesir Pearl on (a) the use of advanced technology in our production process of synthetic mica; (b) the use of certain key technologies and commercialisation of various pearlescent pigment products, such as weather-resistant pearlescent pigment products for automobiles; (c) the commercialisation of cosmetic-grade synthetic mica; and (d) the achievement of a designated annual production capacity of our pearlescent pigment products. Such government grant was non-recurring in nature. During the Track Record Period, we satisfied all conditions, such as completion of the relevant assets or production facilities, on the government grant received and recognised by us. As of 31 December 2020, there was no unfulfilled condition or other contingency attached with the government grant received and recognised by us during the Track Record Period.

The fair value gain or loss on the derivative component of the convertible loans is determined with reference to the valuation of the derivative component of the 2017 Convertible Loan and the 2019 Convertible Bonds, both of which have been repaid in full or that the exercise rights attached therewith have been exercised in full (in the case of the 2019 Convertible Bonds). The fair value gain of the derivative component of 2017 Convertible Loan for the year ended 31 December 2018 arose as the estimated share value of Chesir Pearl as of 31 December 2018 below the minimum conversion price of Chesir Pearl, i.e. RMB10 per share times 110%, as stated in the agreement for the 2017 Convertible Loan which led to the fair value of the derivative component of 2017 Convertible Loan closed to zero as of 31 December 2018 and the fair value gain has been recognised accordingly.

There was no fair value movement from 1 January 2019 to 6 January 2019 (maturity date) as the remaining life of the 2017 Convertible Loan was six days as of 31 December 2018, which was, as mentioned above, due to the estimated share value of Chesir Pearl as of 31 December 2018 below the minimum conversion price of Chesir Pearl and the fair value of the derivative component of 2017 Convertible Loan being closed to zero as of 31 December 2018 which was also closed to the fair value of the derivative component of 2017 Convertible loan as of 6 January 2019.

During the year ended 31 December 2020, we recorded sundry income of RMB1.0 million arising from compensations received from insurance claims of RMB0.9 million in 2017 as a result of a fire accident occurred at our warehouse in November 2016. The fire accident was caused by an independent contractor during the maintenance of our warehouses. No casualties were caused by the fire accident. Our inventories with aggregate value of RMB1.0 million were damaged during the accident, which had been covered by the insurance policies of RMB0.9 million. Our Directors consider that the fire accident had not caused any material impact on our business.

### **Reversal of impairment losses on/(impairment losses for) trade receivables and other receivables**

Our accounting policy on the impairment provisions is set forth in the paragraphs under “Critical accounting policies — Impairment of financial assets and contract assets” above. Impairment losses are recognised in profit or loss within net impairment losses on financial assets. Receivables for which an impairment provision was recognised are written-off against the provision when there is no reasonable expectation of recovering additional cash. Indicators that there is no reasonable



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expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with us, and the failure to make contractual payments for a period of more than six months. The table below sets forth an analysis of the impairment loss during the Track Record Period:

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Reversals of impairment losses on trade receivables/(impairment losses for trade receivables) . . . .	624	202	(4,087)
(Impairment losses for other receivables)/reversals of impairment losses on other receivables . . . . .	(12)	6	(31)
<b>Total</b>	612	208	(4,118)

### Selling expenses

Selling expenses are recognised where they are incurred and are generally consistent with the movements in the amount of our revenue and our business growth during the Track Record Period. The table below sets forth an analysis of selling expenses during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Transportation and packaging . . . . .	7,132	53.4	9,102	39.1	10,119	41.1
Staff costs . . . . .	2,996	22.4	4,455	19.1	5,164	21.0
Travelling and business development . . . . .	861	6.5	1,259	5.4	3,140	12.8
Marketing expenses . . . . .	1,155	8.7	6,721	28.9	4,603	18.7
Rental expenses . . . . .	1,143	8.6	1,554	6.7	1,396	5.7
Depreciation . . . . .	60	0.4	201	0.8	185	0.7
<b>Total</b>	13,347	100.0	23,292	100.0	24,607	100.0

The principal components of selling expenses include the following:

*Transportation and packaging* include the transportation and packaging costs incurred by us for the delivery of our products to our customers including wrapping film and pallet used to palletise the goods for delivery. It is a practice in our industry that we need to bear the transportation cost for the delivery of our products to the warehouses of our customers.

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*Staff costs* include the wages and salaries and other fringe benefits paid and payable to our sales personnel.

*Marketing expenses* include the costs incurred by us for placing advertisements in industry journals and participating in various industrial exhibitions and promotional events.

*Rental expenses* represent the rental payments made to the Independent Third Parties for the lease of offices and warehouse in the PRC and an office in France.

*Depreciation* include the amount of depreciation incurred for office equipment and other non-production related facilities.

### Administrative and other operating expenses

Administrative and other operating expenses are recognised where they are incurred. During the Track Record Period, all our research and development expenditures, which included staff costs, materials and utensils used in the research and development activities and the related depreciation, were charged to our profit or loss. During the year ended 31 December 2020, we also incurred Listing expenses which were non-recurring in nature. The table below sets forth an analysis of administrative and other expenses during the Track Record Period:

	Year ended 31 December					
	2018		2019		2020	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Research and development expenditures . . . . .	10,745	30.2	23,247	41.0	29,284	40.2
Staff costs . . . . .	8,514	23.9	14,105	24.9	11,781	16.2
Listing expenses . . . . .	—	—	—	—	13,206	18.1
Depreciation and amortisation . . . . .	8,670	24.4	7,379	13.0	7,193	9.9
Travelling and business development . . . . .	2,425	6.8	4,683	8.3	4,769	6.5
Office expenses . . . . .	1,954	5.5	2,281	4.0	3,406	4.7
Professional fees . . . . .	2,602	7.3	3,133	5.5	1,652	2.3
Maintenance expenses . . . . .	604	1.7	1,579	2.8	1,400	1.9
Others <sup>(1)</sup> . . . . .	54	0.2	305	0.5	207	0.2
<b>Total</b>	<b>35,568</b>	<b>100.0</b>	<b>56,712</b>	<b>100.0</b>	<b>72,898</b>	<b>100.0</b>

*Note:*

(1) Others mainly include charitable donations and traffic penalties.

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We incurred professional fees of RMB3.1 million for the year ended 31 December 2019, which primarily include (a) professional fees of RMB0.5 million paid to our broker in relation to the follow-on share offering in June 2019 by Chesir Pearl and services provided to Chesir Pearl when its shares were listed and quoted on NEEQ and (b) legal, audit and other professional fees of RMB1.1 million incurred in relation to our listing status on the NEEQ. As the listing and quotation for trading of the shares of Chesir Pearl on NEEQ was withdrawn on 23 September 2019, our professional fees incurred for the year ended 31 December 2020 was decreased to RMB1.7 million.

### Finance costs

Finance costs represent the interest expense incurred by us for the banking facilities used by us, the 2017 Convertible Loan and the 2019 Convertible Bonds. The table below sets forth an analysis of finance costs during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans and other borrowings . . . . .	12,226	13,339	11,126
Interest expenses on lease liabilities . . . . .	40	184	162
Interest on convertible loans . . . . .	4,713	5,630	8,111
Total borrowing costs . . . . .	16,979	19,153	19,399
Amount capitalised . . . . .	(1,110)	(678)	—
<b>Total</b>	<b>15,869</b>	<b>18,475</b>	<b>19,399</b>

We recorded payment of interest on bank loans and other borrowings of RMB12.2 million, RMB13.3 million and RMB11.1 million, respectively, for the Track Record Period. As of 31 December 2018, 2019 and 2020, we had total outstanding bank loans and other borrowings (including current portion and non-current portion) of RMB186.1 million, RMB155.7 million and RMB165.6 million, respectively. The average interest rates of our bank borrowings were 6.49% as of 31 December 2018, 7.18% as of 31 December 2019 and 7.17% as of 31 December 2020, and the average interest rates for our other borrowings, i.e. such as finance lease and loan from non-financial institution, were 7.67% as of 31 December 2018, 8.72% as of 31 December 2019 and 8.80% for secured other borrowings and 2.00% for unsecured other borrowings as of 31 December 2020.

Out of the total amount of our total borrowing costs, an amount of RMB1.1 million, RMB0.7 million and nil was capitalised during the year as part of acquisition of non-current assets.

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### Profit before tax

The profit before tax is equal to our profit from operations less finance costs during a particular year. During the Track Record Period, our profit before tax amounted to RMB87.7 million, RMB125.3 million and RMB177.8 million, respectively. Our profit before tax continued to increase during the Track Record Period with the growth of our revenue. See the paragraphs under “Components of our consolidated statements of profit or loss — Revenue” above for further information.

### Income tax expenses

During the Track Record Period, we had income tax expenses amounted to RMB6.4 million, RMB18.0 million and RMB25.0 million, respectively. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had made all the required tax filings with the relevant tax authorities in the PRC. We are not aware of any outstanding or potential dispute with such tax authorities. The table below sets forth further information on income tax expenses during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current tax — PRC			
Provision for the year . . . . .	6,828	16,308	24,742
Under provision in prior year . . . . .	—	1,660	218
Deferred tax . . . . .	(446)	—	—
<b>Total</b>	<b>6,382</b>	<b>17,968</b>	<b>24,960</b>

PRC EIT has been provided at a rate of 25% for the Track Record Period.

Chesir France has no activity since its incorporation.

Our Company and those subsidiaries incorporated in the Cayman Islands and the British Virgin Islands are not subject to income tax.

Those subsidiaries incorporated in Hong Kong have had no assessable profit subject to Hong Kong profits tax during the Track Record Period, respectively.

The income tax expense for the Track Record Period represents the PRC EIT which is calculated at the prevailing tax rate on the taxable income of the group entities in the PRC.

Chesir Pearl has been granted the high and new technology enterprise certificate to entitle to a preferential tax rate of 15% during the Track Record Period, subject to annual review by the relevant authority. The preferential tax treatment currently enjoyed by Chesir Pearl will expire on 10 September 2023.

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A reconciliation of the income tax expenses applicable to profit before tax at the statutory rate for each jurisdiction in which our Company and our subsidiaries are domiciled to the tax expense at the statutory tax rate and a reconciliation of the applicable rate, i.e. the statutory tax rate, to the effective tax rate, during the Track Record Period is set forth in the table below as follows:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax . . . . .	87,746	125,301	177,821
Tax at the domestic income tax rate of 25% . . . . .	21,937	31,325	44,455
Tax effect of income that is not taxable. . . . .	(5,300)	(8,199)	(7,039)
Tax effect of expenses that are not deductible . . . . .	2,866	7,566	9,283
Tax effect of tax concession . . . . .	(6,434)	(14,166)	(21,862)
Tax effect on utilisation of tax losses not previously recognised . . . . .	(5,106)	—	—
Under provision in prior year . . . . .	—	1,660	218
(Under) provision in current year . . . . .	(1,581)	(218)	(95)
<b>Income tax expense</b>	<b>6,382</b>	<b>17,968</b>	<b>24,960</b>
<b>Effective tax rate</b>	<b>7.3%</b>	<b>14.3%</b>	<b>14.0</b>

For the year ended 31 December 2018, we recorded tax effect on utilisation of tax losses not previously recognised of RMB5.1 million. Such reversal was mainly due to the tax losses of Chesir Pearl brought forward from the previous years. See the paragraphs under “Summary of business development of Chesir Pearl prior to the Track Record Period” below. Therefore, we recorded a relative low income tax expense of RMB6.4 million for the year ended 31 December 2018 at the effective tax rate of 7.3%. Without taking into account the tax effect on utilisation of tax losses not recognised and reversed for the year ended 31 December 2018, our effective tax rates were 13.1% for the year ended 31 December 2018 and our Directors consider that our effective tax rates remained stable throughout the Track Record Period in the absence of the tax effect on utilisation of tax losses not previously recognised.

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### OUR OPERATING RESULTS

The following sets forth detailed discussions on the operating results of our Group during the Track Record Period.

#### **Year ended 31 December 2020 as compared to year ended 31 December 2019**

##### ***Revenue***

##### *Increasing demand for our pearlescent pigment products*

The revenue increased by 29.2% from RMB440.6 million during the year ended 31 December 2019 to RMB569.1 million during the year ended 31 December 2020. The revenue generated from our sales of pearlescent pigment products increased from RMB434.2 million for the year ended 31 December 2019 to RMB565.8 million for the year ended 31 December 2020, representing an increase of RMB131.6 million or 30.3%.

The revenue increase was primarily due to the increase in our sales of pearlescent pigment products by RMB131.6 million. Sales of natural mica-based pearlescent pigment increased by RMB23.4 million, or 7.9%, as compared to the same during the year ended 31 December 2019. We expanded our product offering of natural mica-based pearlescent pigment products from 141 during the year ended 31 December 2019 to 161 during the year ended 31 December 2020. Sales of synthetic mica-based pearlescent pigment increased by RMB72.4 million, or 58.1%, as compared to the same during the year ended 31 December 2019. We expanded our product offering of synthetic mica-based pearlescent pigment products from 143 during the year ended 31 December 2019 to 168 during the year ended 31 December 2020. Sales of glass flake-based pearlescent pigment also increased by RMB33.0 million, or 237.7%, as compared to the same during the year ended 31 December 2019. The increase in sales of glass flake-based pearlescent pigment products during the year ended 31 December 2020 was mainly due to our increased promotion of this kind of high-value pearlescent pigment products. We also sold silicon oxide-based pearlescent pigment products and contributed revenue of RMB2.9 million for the year ended 31 December 2020.

The increase in revenue generated from our sales of pearlescent pigment products was also attributable to the increasing demand for our pearlescent pigment products which is in line with the PRC and the global trend of pearlescent pigment market. Our sales volume of pearlescent pigment products increased by 27.7% from 11,096.7 tonnes for the year ended 31 December 2019 to 14,165.2 tonnes for the year ended 31 December 2020. The number of customers increased to 367 and there were 95 new customers purchased from us as a result of our marketing and promotional efforts. We provided technical trainings on the features of our products and the downstream applications to the trading company customers to assist them to expand their own sales network in the PRC and abroad. During the year ended 31 December 2020, our sales of pearlescent pigment products to 235 trading company customers amounted to RMB463.5 million, as compared with 213 trading company customers amounted to RMB346.6 million for the year ended 31 December 2019.

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### *Average unit selling prices*

The overall average unit selling price for each tonne of pearlescent pigment products slightly increased from RMB39,100 per tonne for the year ended 31 December 2019 to RMB39,900 per tonne for the year ended 31 December 2020. The average unit selling prices for both natural mica-based and synthetic-mica based pearlescent pigment products decreased by 5.4% and 10.6%, respectively. The decreases were primarily due to our initiative to reduce the selling prices of selected pearlescent pigment products in response to the pandemic and the global lockdown as a result of COVID-19. The average selling prices of glass flake-based pearlescent pigment decreased by 9.9% primarily due to our competitive pricing strategy to promote our sales to trading company customers. As a result, an increased percentage of our sales of glass flakes-based pearlescent pigment products were made to trading company customers. During the two years ended 31 December 2020, sales to trading company customers accounted for 71.5% and 89.8%, respectively, of the sales revenue of glass flakes-based pearlescent pigment products. The average unit selling prices for silicon oxide-based pearlescent pigment products decreased by 35.2% for the year ended 31 December 2020. Such decrease was primarily due to the increasing sales to trading company customers, which accounted for 99.0% of the total revenue generated from such sales for the year ended 31 December 2020, as compared to 40.0% for the year ended 31 December 2019.

The average unit selling prices of synthetic mica powder recorded a slight increase from RMB38,300 per tonne for the year ended 31 December 2019 to RMB42,500 per tonne for the year ended 31 December 2020.

### *Revenue from the sales of synthetic mica powder*

Synthetic mica powder produced by our Group was primarily used by us for the production of synthetic mica-based pearlescent pigment products. Our sales of synthetic mica powder decreased from RMB6.4 million for the year ended 31 December 2019 to RMB3.3 million for the year ended 31 December 2020. The decrease was due to the increasing demand for our synthetic mica-based pearlescent pigment products and the fact that we retained most of the synthetic mica flakes (being the semi-finished product of synthetic mica powder, which will undergo pulping to form synthetic mica in wet state) produced for our own production of synthetic mica-based pearlescent pigment products.

### *Cost of goods sold*

Our cost of goods sold increased by 28.3% from RMB218.2 million during the year ended 31 December 2019 to RMB280.0 million during the year ended 31 December 2020. The increase in cost of goods sold was mainly due to the increase in the sales volume of our pearlescent pigment products by 27.7% from 11,096.7 tonnes for the year ended 31 December 2019 to 14,165.2 tonnes for the year ended 31 December 2020 and the increase in the average unit cost of raw materials of 3.1% from RMB12,800 per tonne for the year ended 31 December 2019 to RMB13,200 per tonne for the year ended 31 December 2020 due to the use of raw materials of different types and combinations as a result of different product offerings of our pearlescent pigment products.

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### *Gross profit and gross profit margin*

The amount of our overall gross profit increased from RMB218.3 million during the year ended 31 December 2019 to RMB284.1 million during the year ended 31 December 2020, representing an increase of 30.1%.

The increase was mainly due to the increase in the sales volume of our pearlescent pigment products by 27.7% from 11,096.7 tonnes for the year ended 31 December 2019 to 14,165.2 tonnes for the year ended 31 December 2020. The gross profit margin during the year ended 31 December 2020 was 49.9% which was comparable to 49.5% for the year ended 31 December 2019.

The slight improvement in the gross profit margin was mainly attributable to the increase in the gross profit margin contributed by the trading company customers from 47.1% for the year ended 31 December 2019 to 48.5% for the year ended 31 December 2020 as a result of the increase in average selling price of our pearlescent pigment products as discussed in the paragraphs under “Our operating results — Year ended 31 December 2020 as compared to year ended 31 December 2019 — Revenue — Average unit selling prices” above.

Our gross profit generated from the sales of synthetic mica powder amounted to RMB4.0 million and RMB2.2 million and the gross profit margin was 61.7% and 66.9%, respectively, for the two years ended 31 December 2020. The decrease in the amount of gross profit was mainly due to the decrease in sales of synthetic mica powder as we retained most of the synthetic mica powder for our production of synthetic-mica based pearlescent pigment products. However, the gross profit margin of the sales of synthetic mica powder increased and such increase was mainly due to the increase in the average selling prices of synthetic mica powder from RMB38,300 per tonne for the year ended 31 December 2019 to RMB42,500 per tonne for the year ended 31 December 2020.

### *Other income and other gains and losses*

The amount of other income and other gains and losses during the year ended 31 December 2020 was RMB14.8 million, as compared to RMB5.3 million during the year ended 31 December 2019. The increase was primarily due to the increase in the government grants provided by the PRC Government for the research and development achievements accomplished by us by RMB9.7 million, which was, however, partially offset by the fair value loss on the derivative component of the 2019 Convertible Bonds. During the year ended 31 December 2020, we recorded sundry income of RMB1.0 million arising from the compensations received from insurance claims of RMB0.9 million in 2017 as a result of a fire accident occurred at our warehouse in November 2016.

### *Impairment losses for trade and other receivables*

The amount of impairment losses during the year ended 31 December 2020 was RMB4.1 million, while we recorded reversals of impairment losses for trade and other receivables of RMB0.2 million for the year ended 31 December 2019. The impairment losses were resulted from the increase in the balance of trade receivables as of 31 December 2020. See the paragraphs under “Components of our current assets and current liabilities — Trade and bill receivables — Impairment of trade receivables and loss allowances” below for the movements of the provision amounts involved in the period.



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### *Selling expenses*

Our selling expenses increased from RMB23.3 million during the year ended 31 December 2019 to RMB24.6 million during the year ended 31 December 2020, representing an increase of 5.6%. The increase in the amount of selling expenses was mainly due to the increase in transportation and packaging expenses of RMB1.0 million as a result of the increase in sales volume of our finished products and an increase in travelling and business development expenses of RMB1.9 million as a result of frequent customer visits in the PRC subsequent to the relax of COVID-19 lockdown measures within the PRC in order to maintain our relationship with customers. The increase was partially offset by the decrease in the number of exhibitions participated by us due to the COVID-19 pandemic in 2020, resulting in a significant decrease in marketing expenses.

### *Administrative and other operating expenses*

Our administrative and other expenses increased from RMB56.7 million during the year ended 31 December 2019 to RMB72.9 million during the year ended 31 December 2020, representing an increase of 28.5%. The increase was primarily due to the amount of the Listing expenses incurred by us and charged to profit or loss of RMB13.2 million during the year ended 31 December 2020.

According to our accounting policies, our expenses incurred on research and development activities were charged to our profit or loss as part of our administrative and other expenses. During the year ended 31 December 2020, we incurred RMB29.3 million for our research and development activities, as compared to RMB23.2 million during the year ended 31 December 2019. The percentage to sales remained stable at 5.3% and 5.1% for the two years ended 31 December 2020.

### *Finance costs*

Our finance costs primarily consisted of interest payments for bank loans and other borrowings used by us (amounting to RMB11.1 million) and the interest payment on the 2019 Convertible Bonds (amounting to RMB8.1 million). As compared to the year ended 31 December 2019, the interest incurred by the 2019 Convertible Bonds increased by RMB2.5 million because the 2019 Convertible Bonds were only issued in May 2019. There was no amount of borrowing costs capitalised during the year ended 31 December 2020.

### *Income tax expense*

Our income tax expense increased from RMB18.0 million during the year ended 31 December 2019 to RMB25.0 million during the year ended 31 December 2020. The increase was primarily due to the increase in the amount of profit before tax from RMB125.3 million for the year ended 31 December 2019 to RMB177.8 million for the year ended 31 December 2020 which was in turn due to the increase in the amount of our revenue. All income tax payable by us was EIT, and the effective tax rate during the year ended 31 December 2020 was 14.0%, as compared with 14.3% for the year ended 31 December 2019. There was no significant change in the effective tax rate during the two years ended 31 December 2020, which was very close to the preferential rate of 15.0% applicable to Chesir Pearl.

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### *Profit for the year*

As a result of the foregoing, our profit increased from RMB107.3 million for the year ended 31 December 2019 to RMB152.9 million for the year ended 31 December 2020. Our net profit margin increased slightly from 24.4% for the year ended 31 December 2019 to 26.9% for the year ended 31 December 2020.

### **Year ended 31 December 2019 as compared to year ended 31 December 2018**

#### *Revenue*

##### *Increasing demand for our pearlescent pigment products*

We enjoyed a significant increase in our revenue during the year ended 31 December 2019 as compared to the same for the year ended 31 December 2018. Our revenue increased by 38.5% from RMB318.2 million for the year ended 31 December 2018 to RMB440.6 million for the year ended 31 December 2019. Sales of pearlescent pigment products increased to RMB434.2 million, as compared to RMB315.0 million, representing an increase of 37.8%. Revenue generated from the sales of natural mica-based pearlescent pigment products increased by 20.5% and the sales of synthetic mica-based pearlescent pigment products increased by 82.6%. The increases were primarily due to the increase in the sales volume of natural mica-based pearlescent pigment to 8,822.4 tonnes and synthetic mica-based pearlescent pigment to 2,231.8 tonnes, as compared to 7,217.9 tonnes and 1,228.8 tonnes during the year ended 31 December 2018, respectively, which were primarily attributable to the combined effects of quality improvements, increases in our marketing efforts, increases in the number of pearlescent products offered to our customer and increasing demand from our existing customers. During the year ended 31 December 2019, we expanded our product offerings of natural mica-based pearlescent pigment products and synthetic mica-based pearlescent pigment products to 141 and 143, respectively, as compared to 114 and 112 offered during the year ended 31 December 2018.

We also enhanced our support to the trading company customers. We provided technical training and guidance on product technical specifications and downstream applications to the trading company customers to assist them to expand their sales network in the PRC and abroad. Our sales of pearlescent pigment products to 213 trading company customers amounted to RMB346.6 million for the year ended 31 December 2019, as compared to RMB257.6 million for year ended 31 December 2018.

We sold 42.4 tonnes of glass-flakes based pearlescent pigment products during the year ended 31 December 2019, as compared to 4.4 tonnes during the year ended 31 December 2018 as a result of the increase in number of glass flake-based pearlescent pigment products offered from 19 to 24 and our marketing efforts to promote the glass flake-based pearlescent pigment products. We could also command for a higher average unit selling price of RMB327,300 per tonne of glass flake-based pearlescent pigment products in 2019 as compared to RMB309,300 per tonne in 2018.

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We also started selling silicon oxide-based pearlescent pigment products and record sales of RMB75,000. Such new products represented one of the fast growing products in 2020 and beyond.

### *Average unit selling prices*

The overall average unit selling price for each tonne of pearlescent pigment products increased from RMB37,300 per tonne for the year ended 31 December 2018 to RMB39,100 per tonne for the year ended 31 December 2019. The slight increase of 4.8% was primarily attributable to the increase in the sales volume of glass flakes-based pearlescent pigment products at higher prices because of the increasing market demand. The average unit selling prices of our synthetic mica powder remained stable during the year ended 31 December 2019.

### *Revenue from the sales of synthetic mica powder*

The revenue generated from our sales of synthetic mica powder increased from RMB3.3 million for the year ended 31 December 2018 to RMB6.4 million for the year ended 31 December 2019, representing an increase of RMB3.1 million or 93.9%. Despite the fact that we used most of the synthetic mica flakes (being semi-finished product of synthetic mica powder, which will undergo pulping to form synthetic mica in wet state) produced for our production of synthetic mica-based pearlescent pigment products, we were able to increase the sales volume because of the increase in the production volume as a result of the increase in the production capacity of our production facilities.

### *Cost of goods sold*

Our cost of goods sold increased by 30.7% from RMB166.9 million during the year ended 31 December 2018 to RMB218.2 million during the year ended 31 December 2019. The increase was mainly due to the increase in the sales volume of our pearlescent pigment products by 31.3% from 8,451.2 tonnes for the year ended 31 December 2018 to 11,096.7 tonnes for the year ended 31 December 2019 and the increase in the average unit cost of raw materials of 3.2% from RMB12,400 per tonne for the year ended 31 December 2018 to RMB12,800 per tonne for the year ended 31 December 2019 due to the use of raw materials of different types and combinations as a result of different product offerings of our pearlescent pigment products.

### *Gross profit and gross profit margin*

The amount of our overall gross profit increased significantly from RMB146.9 million during the year ended 31 December 2018 to RMB218.3 million during the year ended 31 December 2019, representing an increase of 48.5%. The increase was mainly due to the increase in the sales volume of our pearlescent pigment products by 31.3% from 8,451.2 tonnes for the year ended 31 December 2018 to 11,096.7 tonnes for the year ended 31 December 2019. The gross profit margin increased from 46.2% in 2018 to 49.5% in 2019 was mainly due to (a) the increase in average selling prices of our pearlescent pigment products as discussed in the in the paragraphs under “Our operating results — Year ended 31 December 2019 as compared to year ended 31 December 2018 — Revenue — Average

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unit selling prices” above and (b) the increase in the sales to end user customers from 19.1% of the total revenue for the year ended 31 December 2018 to 21.3% of the total revenue for the year ended 31 December 2019 as a result of our targeted marketing strategy to explore the sales to end user customers at higher average unit selling prices.

The gross profit generated from the sales of pearlescent pigment products increased from RMB144.9 million for the year ended 31 December 2018 to RMB214.3 million for the year ended 31 December 2019, representing an increase of RMB69.4 million or 47.9%. The gross profit margin of the sales of pearlescent pigment products increased from 46.0% for the year ended 31 December 2018 to 49.4% for the year ended 31 December 2019. The increase in gross profit and gross profit margin was mainly attributable to the increase in the sales of synthetic mica-based pearlescent pigment products from RMB68.3 million for the year ended 31 December 2018 to RMB124.7 million for the year ended 31 December 2019 which had higher average unit selling prices than natural mica-based pearlescent pigment products.

The gross profit generated from the sales of synthetic mica powder increased from RMB2.0 million for the year ended 31 December 2018 to RMB4.0 million for the year ended 31 December 2019, representing an increase of RMB2.0 million or 98.2%. Such increase was mainly due to the increase in revenue from the sales of synthetic mica powder. The gross profit margin of the sales of synthetic mica powder remained stable at 61.3% and 61.7% for the two years ended 31 December 2019.

### *Other income and other gains and losses*

The amount of other income and other gains and losses increased from RMB5.0 million for the year ended 31 December 2018 to RMB5.3 million for the year ended 31 December 2019. Chesir Pearl recorded government grants from the PRC Government of RMB3.6 million in 2019, which was lower than RMB4.3 million in 2018, on the research and development achievements accomplished by us. We also received bank interest income of RMB1.7 million during the year ended 31 December 2019, as compared to RMB0.7 million during the year ended 31 December 2018, because of the fund received from the follow-on offering of Chesir Pearl prior to the NEEQ Listing Withdrawal.

### *Reversals of impairment losses for trade and other receivables*

The amount of reversals of impairment losses during the year ended 31 December 2019 was RMB0.2 million which was less than the reversals of impairment losses during the year ended 31 December 2018 of RMB0.6 million. The reason for the decrease in the amount of reversal of impairment losses was primarily due to the decrease in the balance of trade receivables as a result of stringent control of the balance of trade receivables. See the paragraphs under “Components of our current assets and current liabilities — Trade and bill receivables — Impairment of trade receivables and loss allowances” below for the movements of the provision amounts involved in the year.

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### *Selling expenses*

Our selling expenses increased from RMB13.3 million during the year ended 31 December 2018 to RMB23.3 million during the year ended 31 December 2019, representing an increase of 74.5%. The increase was primarily due to the increase in marketing expenses during the year ended 31 December 2019 by 481.9% to RMB6.7 million from RMB1.2 million during the year ended 31 December 2018 as a result of the increases in advertisements placed by us and the number of overseas exhibitions participated by us.

### *Administrative and other operating expenses*

Our administrative and other expenses increased from RMB35.6 million during the year ended 31 December 2018 to RMB56.7 million during the year ended 31 December 2019, representing an increase of 59.5%. The increase was primarily due to the increase in the number of administrative staff (which resulted in the increase in staff costs) and the related travelling and business development expenses. According to our accounting policies, our expenses incurred on research and development activities were charged to our profit or loss as part of our administrative and other expenses. During the year ended 31 December 2019, we incurred RMB23.2 million for our research and development activities, as compared to RMB10.7 million during the year ended 31 December 2018. The percentage to sales was 5.3% for the year ended 31 December 2019, as compared to 3.4% for the year ended 31 December 2018, because of our extra research and development efforts in 2019. We had commenced three new major research and development projects, namely “Prussian blue electrophoresis pigments for cosmetics”, “Hydrolysis process improvement” and “Pearlescent pigment with high temperature resistance”.

### *Finance costs*

Our finance costs for the year ended 31 December 2019 amounted to RMB18.5 million, which consisted of interest payments for our bank loans and other borrowings (amounting to RMB13.3 million) and the interest for the 2017 Convertible Loan and 2019 Convertible Bonds of RMB5.6 million. The increase in the finance costs was primarily due to the increased amount of interest payment on bank borrowings and interest expenses on lease liabilities arising from lease liabilities of RMB184,000 early adopted throughout the Track Record Period and adopted from 1 January 2019. The amount capitalised during the year ended 31 December 2019 amounted to RMB678,000, as compared to RMB1.1 million, because of the repayment of bank borrowings of RMB8.0 million in October 2019.

### *Income tax expense*

Our income tax expense increased from RMB6.4 million during the year ended 31 December 2018 to RMB18.0 million during the year ended 31 December 2019. The increase was primarily due to the increase in the amount of profit before tax from RMB87.7 million for the year ended 31 December 2018 to RMB125.3 million during the year ended 31 December 2019, representing an increase of 44.3%. All income tax payable by us are EIT, and the effective tax rate during the year ended 31 December 2019 was 14.3%, as compared with 7.3% for the year ended 31 December 2018. The increase in the effective tax rate was due to no utilisation of tax losses not recognised as tax losses in previous years has been utilised during the year ended 31 December 2018.

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### *Profit for the year*

As a result of the foregoing, our profit increased from RMB81.4 million for the year ended 31 December 2018 to RMB107.3 million for the year ended 31 December 2019. Our net profit margin decreased slightly from 25.6% for the year ended 31 December 2018 to 24.4% for the year ended 31 December 2019.

### **SUMMARY OF BUSINESS DEVELOPMENT OF CHESIR PEARL PRIOR TO THE TRACK RECORD PERIOD**

The following sets forth a summary of the business development of Chesir Pearl since its establishment and up to the commencement of the Trade Record Period.

#### **Overall development**

Chesir Pearl was established in March 2011 with the business development strategy to focus on “Four Pioneers” in terms of technology, operation scale, management and corporate culture, and the establishment of production facilities with initial designed annual production capacity of (a) 10,000 tonnes of pearlescent pigment products and (b) 5,000 tonnes of synthetic mica powder products. The following sets forth the key business development phases of Chesir Pearl:

- (1) *From March 2011 to December 2012, being the initial investment phase:* Chesir Pearl was established in the PRC with the initial equity investment of RMB2.0 million by two investors, including Hongzun Investment. Such initial equity investment was used for preliminary preparation, such as obtaining the approvals for the construction of factory and ancillary buildings and related facilities comprising our Phase 1 Production Plant.
- (2) *From December 2012 to June 2014, being the construction phase:* Chesir Pearl completed the construction of the factory and ancillary buildings’ production facilities, staff quarters and environmental protection facilities. The then designed annual production capacity was 4,200 tonnes of pearlescent pigment products as of June 2014.
- (3) *From June 2014 to June 2015, being the trial production phase:* Chesir Pearl commenced its trial production for the purpose of determining the parameters involved in the production process. Chesir Pearl also started various marketing and promotional activities of its products in different regions in the PRC. During the year ended 31 December 2015, Chesir Pearl recorded significant amounts of operating expenses and expenses which had been incurred on product research and development activities. The then production capacity increased to 5,800 tonnes of pearlescent pigment products as of 31 December 2015.
- (4) *From July 2015 to December 2017, being the ramp up phase in sales and production:* Chesir Pearl continued to develop and promote its new products, improve and fine-tune its production facilities, and increase the automation level, adjust the production line management systems and expand the sales coverage to different PRC regions. The year of 2016 was the first year that Chesir Pearl recorded profit from its operation. The then production capacity was increased to 7,392 tonnes of pearlescent pigment products as of 31 December 2016 and further increased to 7,968 tonnes of pearlescent pigment products as of 31 December 2017.

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### Number of pearlescent pigment products sold by Chesir Pearl

The table below sets forth the number of products offered by Chesir Pearl during the four years ended 31 December 2017:

	Year ended 31 December			
	2014	2015	2016	2017
Natural mica-based pearlescent pigment products . . . . .	31	99	103	107
Synthetic mica-based pearlescent pigment products . . . . .	—	17	78	97
Glass flake-based pearlescent pigment products . . . . .	—	20	23	16
<b>Total</b>	31	136	204	220

The year of 2016 was important to Chesir Pearl, as it was the first year that Chesir Pearl had recorded profit.

- (1) Since its establishment in 2011, Chesir Pearl had experienced a one-year preparation period, three-year construction period and two-year capacity ramp-up period. In 2016, the strategic planning objectives on Phase 1 Production Plant were completed. The automation level and quality control systems of the production facilities have been enhanced, thereby reducing the production costs. In addition, due to the launch of new products of synthetic-mica based pearlescent pigment products, sales of high-profit margin products started to increase.
  
- (2) Chesir Pearl devoted additional resources on the research and development of synthetic mica-based pearlescent pigment products, weather-resistant series of pearlescent pigment products, high-end cosmetic pearlescent pigment products and various pearlescent pigment products with special features. By the end of 2017, there were 107 natural mica pearlescent pigment products, 97 synthetic mica-based pearlescent pigment products and 16 glass flake-based pearlescent pigment products sold to its customers by Chesir Pearl.
  
- (3) Chesir Pearl completed the expansion of the finished product warehouse. Such expansion not only increased the storage capacity, but also improved the logistics and reduced the logistics costs.
  
- (4) Following years of research and development, the research and development results reached its harvest period. Chesir Pearl had applied for five invention patents and subsequently obtained three invention patents in the PRC. Among the new patents, “Magnetic Pearlescent Pigment with 3D effect and its preparation method” 《一種具有3D效果的磁性珠光顏料及其製備方法》 was awarded the 6th Guangxi Innovation Creation Exhibition and Trade Fair Participating Project Silver Award (第六屆廣西發明創造成果展覽交易會參展項目銀獎).

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### SENSITIVITY AND BREAKEVEN ANALYSES

We set forth below sensitivity analyses on the fluctuations in the average unit selling prices of natural mica-based pearlescent pigment products and synthetic mica-based pearlescent pigment products and cost of raw materials. The analyses illustrate the hypothetical impact on our net profit before tax with 5%, 10% and 15% increase or decrease in the respective items. We also set forth below a breakeven analysis based on the same variables. Due to the number of assumptions applied and involved in the calculation, the sensitivity and the breakeven analyses below are for illustration purpose only, and the actual results may differ from the illustrations below.

#### Sensitivity analyses - average unit selling prices

##### *Natural mica-based pearlescent pigment products*

	Change in net profit for change in the average unit selling prices		
	+/-5%	+/-10%	+/-15%
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2018 .....	±12,266	±24,532	±36,798
Year ended 31 December 2019 .....	±14,775	±29,551	±44,326
Year ended 31 December 2020 .....	±15,948	±31,896	±47,844

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Increase in the average unit selling price			
Adjustment to the average unit selling prices .. < -----105% ----->			
Change in net profit .....	12,266	14,775	15,948
Adjustment to the average unit selling prices .. < -----110% ----->			
Change in net profit .....	24,532	29,551	31,896
Adjustment to the average unit selling prices .. < -----115% ----->			
Change in net profit .....	36,798	44,326	47,844

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Decrease in the average unit selling price			
Adjustment to the average unit selling prices .. < -----95% ----->			
Change in net profit .....	(12,266)	(14,775)	(15,948)
Adjustment to the average unit selling prices .. < -----90% ----->			
Change in net profit .....	(24,532)	(29,551)	(31,896)
Adjustment to the average unit selling prices .. < -----85% ----->			
Change in net profit .....	(36,798)	(44,326)	(47,844)



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### *Synthetic mica-based pearlescent pigment products*

	<b>Change in net profit for change in the average unit selling prices</b>		
	<b>+/-5%</b>	<b>+/-10%</b>	<b>+/-15%</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2018 .....	±3,577	±7,155	±10,732
Year ended 31 December 2019 .....	±6,557	±13,113	±19,670
Year ended 31 December 2020 .....	±10,023	±20,047	±30,070

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Increase in the average unit selling price			
Adjustment to the average unit selling prices .. < -----105% ----->			
Change in net profit .....	3,577	6,557	10,023
Adjustment to the average unit selling prices .. < -----110% ----->			
Change in net profit .....	7,155	13,113	20,047
Adjustment to the average unit selling prices .. < -----115% ----->			
Change in net profit .....	10,732	19,670	30,070

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Decrease in the average unit selling price			
Adjustment to the average unit selling prices .. < -----95% ----->			
Change in net profit .....	(3,577)	(6,557)	(10,023)
Adjustment to the average unit selling prices .. < -----90% ----->			
Change in net profit .....	(7,155)	(13,113)	(20,047)
Adjustment to the average unit selling prices .. < -----85% ----->			
Change in net profit .....	(10,732)	(19,670)	(30,070)

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### Sensitivity analysis — cost of raw materials

	Change in net profit for change in cost of raw materials		
	+/-5%	+/-10%	+/-15%
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2018 .....	±5,298	±10,597	±15,895
Year ended 31 December 2019 .....	±7,205	±14,409	±21,614
Year ended 31 December 2020 .....	±9,366	±18,732	±28,098

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Increase in cost of raw materials			
Adjustment to the cost of raw materials .....	< -----105% ----->		
Change in net profit .....	(5,298)	(7,205)	(9,366)
Adjustment to the cost of raw materials .....	< -----110% ----->		
Change in net profit .....	(10,597)	(14,409)	(18,732)
Adjustment to the cost of raw materials .....	< -----115% ----->		
Change in net profit .....	(15,895)	(21,614)	(28,098)

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Decrease in cost of raw materials			
Adjustment to the cost of raw materials .....	< -----95% ----->		
Change in net profit .....	5,298	7,205	9,366
Adjustment to the cost of raw materials .....	< -----90% ----->		
Change in net profit .....	10,597	14,409	18,732
Adjustment to the cost of raw materials .....	< -----85% ----->		
Change in net profit .....	15,895	21,614	28,098

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### Breakeven analysis

The table below sets forth a breakeven analysis which illustrates the extent of increases/decreases in the average unit selling prices of natural mica and synthetic mica-based pearlescent pigment products or cost of raw materials that would result in breakeven in the amount of gross profit during the Track Record Period (excluding the expenses for Listing):

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	%	%	%
Decrease in the average unit selling price of our natural mica-based pearlescent pigment products . . . . .	35.8	42.4	55.8
Decrease in the average unit selling price of our synthetic mica-based pearlescent pigments products . . . . .	122.6	93.6	88.7
Increase in the cost of raw materials . . . . .	82.8	87.0	94.9

### LIQUIDITY AND FINANCIAL RESOURCES

#### Overview

Our liquidity requirements primarily relate to working capital needs, expansion and construction of the production facilities and repayment of bank loans and other borrowings. Our principal sources of liquidity are cash inflows from our operations, bank loans and other borrowings and equity fund raising when Chesir Pearl was listed and quoted for trading on NEEQ. In May 2015, Chesir Pearl raised RMB144.0 million when it was listed and quoted for trading on NEEQ. In June 2019, shortly before the NEEQ Listing Withdrawal, Chesir Pearl completed a follow-on offering and raised RMB304.1 million. Following the NEEQ Listing Withdrawal, Chesir Pearl issued the 2019 Convertible Bonds for the principal amount of RMB72,240,000. As of 31 December 2018, 2019 and 2020, we had bank and cash balances of RMB171.9 million, RMB559.8 million and RMB747.6 million.

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The table below sets forth the consolidated statement of cash flows during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flow before movements in working capital .	120,019	164,591	222,962
Changes in working capital . . . . .	(74,263)	30,399	(85,727)
Interest paid and/or tax paid . . . . .	(19,737)	(31,446)	(40,664)
Net cash generated from operating activities . . . . .	26,019	163,544	96,571
Net cash used in investing activities . . . . .	(72,386)	(90,071)	(166,386)
Net cash generated from financing activities . . . . .	151,563	314,514	257,556
Net increase in cash and cash equivalents . . . . .	105,196	387,987	187,741
Cash and cash equivalents at beginning of year . . . . .	66,656	171,854	559,839
Effect of foreign exchange rate changes . . . . .	2	(2)	2
<b>Cash and cash equivalents at end of year</b>	<u>171,854</u>	<u>559,839</u>	<u>747,582</u>

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### Cash flows generated from operating activities

The table below sets forth further information on cash flows generated from operating activities during the Track Record Period:

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax . . . . .	87,746	125,301	177,821
Adjustments for:			
Finance costs . . . . .	15,869	18,475	19,399
Interest income . . . . .	(697)	(1,683)	(2,106)
Depreciation of property, plant and equipment . . . . .	20,760	23,153	22,867
Amortisation of deferred revenue . . . . .	(3,200)	(2,723)	(2,692)
Depreciation of right-of-use assets . . . . .	717	1,156	1,557
(Reversals of impairment losses on trade and other receivables)/impairment losses for trade and other receivables . . . . .	(612)	(208)	4,118
Fair value (gain)/loss on derivative component of convertible loans . . . . .	(564)	1,120	1,998
<b>Operating profit before working capital changes . . . . .</b>	<b>120,019</b>	<b>164,591</b>	<b>222,962</b>
(Increase)/decrease in inventories . . . . .	(19,518)	(5,714)	4,763
(Increase)/decrease in trade and bills receivables . . . . .	(64,238)	22,546	(74,346)
(Increase)/decrease in deposits, prepayments and other receivables . . . . .	(6,695)	10,265	(19,611)
Increase/(decrease) in trade payables . . . . .	6,624	6,102	(8,050)
Increase/(decrease) in accruals and other payables . . . . .	7,582	(1,112)	11,781
Increase/(decrease) in contract liabilities . . . . .	1,982	(1,688)	(264)
<b>Cash generated from operations . . . . .</b>	<b>45,756</b>	<b>194,990</b>	<b>137,235</b>
Income tax paid . . . . .	(4,022)	(18,086)	(20,797)
Interest on lease liabilities . . . . .	(40)	(184)	(162)
Interest paid . . . . .	(15,675)	(13,176)	(19,705)
<b>Net cash generated from operating activities</b>	<b>26,019</b>	<b>163,544</b>	<b>96,571</b>

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Our cash from operations was mainly generated from the receipts of payments for the sales of our products, i.e. pearlescent pigment products and synthetic mica powder. Our cash used in operations mainly included payments for the purchase of raw materials, staff costs, EIT and other operating expenses.

Our operating cash flow has been maintaining at positive during the Track Record Period primarily due to the continuous increases in our profitability. During the year ended 31 December 2020, the amount of net cash generated from operating activities was RMB96.6 million, which was mainly attributable to the amount of cash generated from operations of RMB137.2 million, partially offset by income tax paid of RMB20.8 million and interest paid of RMB19.7 million. It was mainly due to the increase in trade and bills receivables of RMB74.3 million as of 31 December 2020 as a result of temporary extension of the credit period provided to our customers in response to the COVID-19 pandemic on a case-by-case basis. Our operating cash flows before working capital changes was RMB223.0 million which was primarily attributable to our profit before tax of RMB177.8 million which subject to adjustments for non-cash or non-operating activities related items, which principally included (a) finance cost of RMB19.4 million, (b) depreciation of property, plant and equipment of RMB22.9 million, (c) impairment losses during the year of RMB4.1 million and (d) the fair value loss on derivative component of convertible loans of RMB2.0 million.

Our changes in working capital was attributable to a cash outflow of RMB85.7 million during the year ended 31 December 2020 and was primarily due to (a) decrease in inventories of RMB4.8 million, (b) increase in trade and bills receivables of RMB74.3 million, (c) increase in deposits, prepayments and other receivables of RMB19.6 million, (d) decrease in trade payables of RMB8.1 million, (e) increase in the accruals and other payables of RMB11.8 million and (f) decrease in contract liabilities of RMB0.3 million.

During the year ended 31 December 2019, net cash generated from our operating activities amounted to RMB163.5 million, which was mainly attributable to the amount of cash generated from operations of RMB195.0 million, partially offset by income tax paid of RMB18.1 million and interest paid of RMB13.2 million. Our operating cash flows before working capital changes was RMB164.6 million which was primarily attributable to our profit before tax of RMB125.3 million which subject to adjustments for non-cash or non-operating activities related items, which principally included (a) finance cost of RMB18.5 million; (b) depreciation of properties, plant and equipment of RMB23.2 million; and (c) amortisation of deferred income of RMB2.7 million.

Our changes in working capital was attributable to a cash inflow of RMB30.4 million during the year ended 31 December 2019 and was primarily due to (a) increase in inventories of RMB5.7 million, (b) decrease in trade and bills receivables of RMB22.5 million, (c) decrease in deposits, prepayments and other receivables of RMB10.3 million, (d) increase in trade payables of RMB6.1 million, (e) decrease in the accruals and other payables of RMB1.1 million and (f) decrease in contract liabilities of RMB1.7 million.

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During the year ended 31 December 2018, net cash generated from our operating activities amounted to RMB26.0 million, which was mainly attributable to the amount of cash generated from operations of RMB45.8 million, partially offset by interest paid of RMB15.7 million. Our operating cash flows before working capital changes was RMB120.0 million which was primarily attributable to our profit before tax of RMB87.7 million which subject to adjustments for non-cash or non-operating activities related items, which principally included (a) finance cost of RMB15.9 million; (b) depreciation of properties, plant and equipment of RMB20.8 million; and (c) amortisation of deferred income of RMB3.2 million.

Our changes in working capital was attributable to a cash outflow of RMB74.3 million during the year ended 31 December 2018 and was primarily due to (a) increase in inventories of RMB19.5 million, (b) increase in trade and bills receivables of RMB64.2 million, (c) increase in deposits, prepayments and other receivables of RMB6.7 million, (d) increase in trade payables of RMB6.6 million, (e) increases in accruals and other payables of RMB7.6 million and (f) increase in contract liabilities of RMB2.0 million.

### Cash flows used in investing activities

The table below sets forth further information on cash flows used in investing activities during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Purchase of property, plant and equipment . . . . .	(5,817)	(55,503)	(155,130)
Payments for right-of-use assets . . . . .	—	(9,764)	(13,362)
Deposits paid for acquisition of property, plant and equipment and right-of-use assets . . . . .	(71,186)	(26,487)	—
Government grant received . . . . .	3,920	—	—
Interest received . . . . .	697	1,683	2,106
<b>Net cash (used in) investing activities</b>	<u>(72,386)</u>	<u>(90,071)</u>	<u>(166,386)</u>

During the Track Record Period, our cash used in investing activities was mainly attributable to purchase of property, plant and equipment, payments for right-of-use assets and deposits paid for acquisition of property, plant and equipment and right-of-use assets.

During the year ended 31 December 2020, the amount of our cash used in investing activities was RMB166.4 million, which was mainly due to (a) purchase of property, plant and equipment of RMB155.1 million and (b) payment for the right-of-use assets of RMB13.4 million.

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During the year ended 31 December 2019, the amount of our cash used in investing activities was RMB90.1 million, which was mainly due to (a) purchase of property, plant and equipment of RMB55.5 million; (b) payment for right-of-use assets of RMB9.8 million; and (c) deposits paid for acquisition of property, plant and equipment and right-of-use assets of RMB26.5 million.

During the year ended 31 December 2018, the amount of our cash used in investing activities was RMB72.4 million, which was mainly due to (a) purchase of property, plant and equipment of RMB5.8 million and (b) deposits paid for acquisition of property, plant and equipment and right-of-use assets of RMB71.2 million. We also received a government grant of RMB3.9 million for innovative grants from Department of Science and Technology of Guangxi Zhuang Autonomous Region and project grants from Department of Finance of Luzhai County.

### Cash flows generated from financing activities

The table below sets forth further information on cash flows generated from financing activities during the Track Record Period:

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans and other borrowings raised . . . . .	32,628	151,740	21,718
Repayment of bank loans and other borrowings . . . . .	(30,845)	(182,128)	(11,808)
Repayment of convertible loans . . . . .	—	(30,000)	—
Proceeds from issue of convertible loans . . . . .	—	72,240	—
Principal elements of lease payments . . . . .	(276)	(527)	(539)
Capital contribution from non-controlling interests . . . . .	150,000	—	—
Increase/(decrease) in amount due to a director . . . . .	56	49	(105)
Repayment in amount due from a shareholder . . . . .	—	—	330
Proceeds from issue of share capital of Chesir Pearl . . . . .	—	303,140	247,960
<b>Net cash generated from financing activities</b>	<b>151,563</b>	<b>314,514</b>	<b>257,556</b>

During the Track Record Period, our cash inflow generated from financing activities was primarily attributable to the proceeds from bank loans, the 2019 Convertible Bonds and the capital contributions from new equity investors. Our cash outflow from financing activities was mainly attributable to the repayments of bank loans and repayment of the 2017 Convertible Loan.

During the year ended 31 December 2020, our net cash generated from financing activities amounted to RMB257.6 million. Such amount was primarily due to the proceeds from bank loans of RMB21.7 million and the proceeds received from the Pre-IPO Investments by GX Land Sea and Mr. SU of RMB248.0 million, which was partially offset by the repayment of bank loans of RMB11.8 million.



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During the year ended 31 December 2019, our net cash generated from financing activities amounted to RMB314.5 million. Such amount was primarily due to the proceeds from the follow-on offering completed in June 2019 by Chesir Pearl of RMB303.1 million, proceeds from the issue of 2019 Convertible Bonds of RMB72.2 million, and proceeds from bank loans and other borrowings of RMB151.7 million, which was partially offset by repayment of bank loans and 2017 Convertible Loan and other borrowings of RMB182.1 million and RMB30.0 million, respectively.

During the year ended 31 December 2018, our net cash generated from financing activities amounted to RMB151.6 million. Such amount was mainly derived from the capital contribution of RMB150 million in Chesir Luzhai by Liuzhou Industrial Investment pursuant to the Luzhai Capital Contribution Agreement and proceeds from bank loans and other borrowings of RMB32.6 million which was partially offset by repayment of bank loans and other borrowings of RMB30.8 million.

### WORKING CAPITAL

We believe that we will be able to settle our commitments and repay our borrowings by using funds from a combination of sources, including internally generated operating cash flows (being revenue generated from the sales of our products), net proceeds from the Global Offering, and available banking facilities.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any undue difficulty in obtaining banking facilities or withdrawal of banking facilities from banks or any default in payment of bank loans or other borrowings or breach of any covenants.

Taking into consideration the estimated amount of net proceeds from the Global Offering (after making the Downward Offer Price Adjustment of 10% below HK\$3.52, being the indicative range of the Offer Price), the available banking facilities, cash inflows generated from our operating activities, our Directors are of the opinion that we have sufficient working capital for our present requirement and for the next 12 months from the date of this prospectus. Based on the financial resources available to us, the Sole Sponsor concurs with the view of our Directors.

## FINANCIAL INFORMATION

### COMPONENTS OF OUR CURRENT ASSETS AND CURRENT LIABILITIES

Our net current assets represent the differences between our current assets and our current liabilities. As of 31 December 2018, 2019 and 2020 we had net current assets of RMB130.1 million, RMB684.9 million and RMB874.3 million, respectively. As of 30 April 2021, we had net current assets of RMB929.6 million (unaudited). The table below sets forth the composition of our current assets and current liabilities as of 31 December 2018, 2019 and 2020 and 30 April 2021:

	As of 31 December			As of 30 April
	2018	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (Unaudited)
<b>Current assets</b>				
Inventories . . . . .	74,420	80,134	75,371	89,605
Trade and bills receivables . . . . .	144,019	121,692	191,951	171,136
Deposits, prepayments and other receivables . . . . .	14,305	4,029	23,609	45,742
Amount due from a shareholder . . . . .	330	330	—	—
Bank and cash balances . . . . .	171,854	559,839	747,582	791,104
	<u>404,928</u>	<u>766,024</u>	<u>1,038,513</u>	<u>1,097,587</u>
<b>Current liabilities</b>				
Bank loans and other borrowings . . . . .	181,146	11,953	90,273	81,353
Convertible loans . . . . .	29,921	—	—	—
Derivative component of convertible loans . . . . .	—	1,642	—	—
Lease liabilities . . . . .	85	543	577	598
Trade payables . . . . .	23,839	29,941	21,891	47,562
Accruals and other payables . . . . .	31,839	30,890	42,056	33,185
Amount due to a director . . . . .	56	105	—	—
Contract liabilities . . . . .	2,398	710	446	363
Deferred revenue . . . . .	2,723	2,692	2,136	1,736
Current tax liabilities . . . . .	2,806	2,688	6,851	3,184
	<u>274,813</u>	<u>81,164</u>	<u>164,230</u>	<u>167,981</u>
<b>Net current assets</b>	<u>130,115</u>	<u>684,860</u>	<u>874,283</u>	<u>929,606</u>

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## FINANCIAL INFORMATION

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### Inventories

Our inventories consist of raw materials, work-in-progress and finished products. The table below sets forth an analysis of the balance of our inventories as of 31 December 2018, 2019 and 2020:

	<b>As of 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Work-in-progress . . . . .	35,904	36,863	45,126
Finished products . . . . .	25,764	39,340	23,739
Raw materials . . . . .	12,752	3,931	6,506
<b>Total</b>	<b>74,420</b>	<b>80,134</b>	<b>75,371</b>

The costs of individual items of inventories are determined using the weighted average costs at each month end.

Our inventories of raw materials included natural mica flakes and chemical raw materials used in the production of pearlescent pigment products, synthetic mica flakes and synthetic mica powder used by us for our own production purpose. Our inventories of work-in-progress included the semi-finished products produced during the production of pearlescent pigment products. Our inventories of finished products included pearlescent pigment products and synthetic mica powder produced by us for sales to our customers.

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## FINANCIAL INFORMATION

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### *Movements of our inventories*

The table below sets forth the movements of our inventory of principal raw materials for production and research and development for the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>
<b>Balance brought forward on 1 January</b>			
Natural mica flakes . . . . .	232	1,698	240
Titanium tetrachloride . . . . .	7	112	1
Calcium carbonate . . . . .	193	288	36
Other raw materials . . . . .	668	1,019	696
	<u>1,099</u>	<u>3,117</u>	<u>973</u>
Purchase of raw materials during the year . . . . .	31,989	39,874	51,996
	33,089	42,991	52,969
Less: Inventory of raw materials used for production . . . . .	(29,553)	(40,625)	(49,910)
Less: Inventory of raw materials used for research and development . . . . .	(420)	(1,394)	(1,257)
<b>Balance carried forward on 31 December</b>	<u>3,117</u>	<u>973</u>	<u>1,802</u>
Represented by the inventory of			
Natural mica flakes . . . . .	1,698	240	1,063
Titanium tetrachloride . . . . .	112	1	1
Calcium carbonate . . . . .	288	36	141
Other raw materials . . . . .	1,019	696	597
	<u>3,117</u>	<u>973</u>	<u>1,802</u>

During the Track Record Period, the level of our inventory of raw materials were in the range between 973 tonnes and 3,117 tonnes. The movements in the levels of our inventory of principal raw materials were primarily due to the time of delivery of the regular purchases of raw materials. During the Track Record Period, we did not purchase any raw materials because of price fluctuations.

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The table below sets forth the movements of our inventory of finished products for the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>(tonnes)</i>	<i>(tonnes)</i>	<i>(tonnes)</i>
<b>Balance brought forward on 1 January</b>			
Pearlescent pigment products . . . . .	1,269	1,620	1,867
Synthetic mica powder . . . . .	18	20	16
	<u>1,287</u>	<u>1,640</u>	<u>1,883</u>
<b>Addition of finished products during the years</b>			
— Pearlescent pigment products . . . . .	8,809	11,348	13,503
— Synthetic mica powder . . . . .	86	164	62
	<u>10,183</u>	<u>13,152</u>	<u>15,448</u>
<b>Less: Sales of finished products . . . . .</b>	(8,536)	(11,265)	(14,240)
<b>Less: Use of finished products other than sales purpose<sup>(1)</sup> . .</b>	(7)	(4)	(33)
	<u>1,640</u>	<u>1,883</u>	<u>1,175</u>
<b>Balance carried forward on 31 December</b>			
<b>Represented by the inventory of</b>			
Pearlescent pigment products . . . . .	1,620	1,867	1,175
Synthetic mica powder . . . . .	20	16	—
	<u>1,640</u>	<u>1,883</u>	<u>1,175</u>

*Note:*

(1) Other decrease were related to the use of finished products for marketing and promotion.

During the Track Record Period, the level of our inventory of finished products were in the range between 1,175 tonnes and 1,883 tonnes. The fluctuations of our inventory levels of finished products were primarily due to the increase in our production capacity and the increase in our sales volume.

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## FINANCIAL INFORMATION

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### *Aging analysis*

The table below sets forth an aging analysis of inventories as of 31 December 2018, 2019 and 2020:

	<b>As of 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Up to 30 days .....	37,824	37,572	54,369
31 to 90 days .....	24,455	29,707	11,545
91 to 180 days .....	4,384	8,707	6,538
180 days to 360 days.....	4,576	4,012	1,546
Over one year .....	3,181	136	1,373
<b>Total</b>	<b>74,420</b>	<b>80,134</b>	<b>75,371</b>

Our inventory provision was made on specific basis by comparing the costs and the net realisable values of the inventories. Allowance for slow-moving inventories was made for the Track Record Period, which amounted to approximately RMB9,000, nil and nil, respectively. The inventories that are aged over one year were mainly unpacked work-in-progress products of synthetic mica powder which are normally with long quality guarantee period. For other raw material inventories, they were within the quality guarantee period. Hence, no provision has been made for inventories of raw materials. Regarding the inventory of our finished products, our Directors confirm that the net realisable values were higher than the costs and hence, no provision has been made throughout the Track Record Period.

### *Turnover days and subsequent usage*

The table below sets forth our inventory turnover days during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Inventory turnover days <sup>(1)</sup> .....	141.4	129.3	101.6

*Note:*

- (1) The inventory turnover days are derived by dividing the average of the beginning and ending inventory by cost of goods sold for that year and multiplied by 365 days for 2018 and 2019 and 366 days for 2020.

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Our inventory turnover days decreased from 141.4 days in 2018 to 129.3 days in 2019 and further decrease to 101.6 days in 2020, which was primarily due to the decrease in the level of inventory of raw materials from RMB12.8 million in 2018 to RMB6.5 million in 2020 due to the increase in market demand for our products resulting in an increase in production and the consumption level of raw materials. The level of inventory of work-in-progress during the Track Record Period increased from RMB35.9 million in 2018 to RMB45.1 million in 2020 due to the increase in our production activities. The change in the level of inventory of finished products throughout the Track Record Period was primarily due to the continuous growth in market demand resulting in an increase in the production of our products and subject to delivery and acceptance of finished products as of the date. Our inventory turnover days further decreased to 101.6 days for the year ended 31 December 2020 because of the continuous growth in sales and our strengthened control/reduction of the production lead time of our finished products.

As of 30 April 2021, RMB74.1 million, or 98.3%, of inventory comprising raw materials, work-in-progress and finished products as of 31 December 2020, was used and consumed for our production requirement or sold to our customers.

### Trade and bill receivables

The table below sets forth an analysis of trade and bills receivables as of 31 December 2018, 2019 and 2020:

	<b>As of 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables . . . . .	141,763	120,714	196,889
Allowance for doubtful debts . . . . .	(1,053)	(851)	(4,938)
	140,710	119,863	191,951
Bills receivables . . . . .	3,309	1,829	—
<b>Total</b>	<b>144,019</b>	<b>121,692</b>	<b>191,951</b>

We generally allow a credit period from 90 to 180 days for our customers. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. We seek to maintain strict control over the outstanding receivables. Overdue balances are reviewed regularly by our Directors.

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### *Impairment of trade receivables and loss allowances*

Customer credit risk is managed by each business unit subject to our established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90-180 days from the date of billing. Debtors with balances that are more than six months past due are requested to settle all outstanding balances before any further credit is granted. Normally, we do not obtain collateral from customers.

We measure loss allowances for trade receivables at an amount equal to lifetime expected credit losses, which is calculated using a provision matrix. As our historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between our different customer bases.

The table below provides information about our exposure to credit risk and expected credit losses for trade receivables as of 31 December 2018, 2019 and 2020:

	<b>As of 31 December 2020</b>		
	<b>Expected loss rate</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>
	<i>%</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current (not past due) . . . . .	1.7%	194,949	3,402
1-90 days past due . . . . .	32.1%	206	66
91-365 days past due . . . . .	69.1%	855	591
Over one year past due . . . . .	100.0%	879	879
<b>Total</b>		196,889	4,938

	<b>As of 31 December 2019</b>		
	<b>Expected loss rate</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>
	<i>%</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current (not past due) . . . . .	0.1%	119,079	151
1-90 days past due . . . . .	10.0%	711	71
91-365 days past due . . . . .	38.7%	481	186
Over one year past due . . . . .	100.0%	443	443
<b>Total</b>		120,714	851



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	As of 31 December 2018		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	<i>RMB'000</i>	<i>RMB'000</i>
Current (not past due) . . . . .	0.3%	111,399	323
1-90 days past due . . . . .	0.3%	27,656	82
91-365 days past due . . . . .	6.7%	2,208	148
Over one year past due . . . . .	100.0%	500	500
<b>Total</b>		141,763	1,053

Expected credit loss rates are based on actual credit loss experience over the past one year. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and our view of economic conditions over the expected lives of the receivables.

The table below sets forth the movements in the loss allowance for trade receivables as of 31 December 2018, 2019 and 2020:

	As of 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As of 1 January . . . . .	1,677	1,053	851
Impairment loss recognised for the year . . . . .	—	—	4,087
Reversal of impairment loss for the year . . . . .	(624)	(202)	—
As of the end of year . . . . .	1,053	851	4,938

During the Track Record Period, in determining whether an impairment loss is required to be made, we would consider, in addition to the number of days overdue, other factors, such as settlement history and operating results of the debtors. On this basis, we did not experience any material amount of reversal of impairment loss during the period. In order to minimise our credit risk exposure, we have formulated credit management policy with steps and measures stipulated to closely monitor and manage the collection of outstanding trade receivables. Our finance and accounting department carries out monthly reconciliation exercise of all outstanding accounts receivables and produces receivables reconciliation reports monthly. Our credit control department will send payment reminders to our customers. The overdue balances are reviewed regularly by our senior management and our credit control department while our sales and marketing staff will closely follow up with our customers on the payment status. Our sales and marketing department will make collection calls to customers whose bills have been overdue for more than one month. For customers whose bills have been overdue for more than nine months, our sales and marketing staff will pay visits to the customers to speed up the

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collection of the overdue balances. Our senior management will also follow up and make collection calls with the relevant customers directly. Our management team monitors our receivable balances on an ongoing basis and considers whether bad or doubtful debt provisions are necessary. We may consider taking legal actions for invoices which have been outstanding for one year.

The origination of new trade receivables net of those settled resulted in an increase in loss allowance of RMB4.1 million represented the significant changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during the year ended 31 December 2020.

### *Carrying amount in different currencies*

The table below sets forth the carrying amounts of our trade receivables in different currencies as of 31 December 2018, 2019 and 2020:

	<b>As of 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB .....	136,669	113,010	185,823
US\$ .....	3,512	6,853	6,128
GBP .....	529	—	—
<b>Total</b>	<b>140,710</b>	<b>119,863</b>	<b>191,951</b>

### *Turnover days and settlement*

The table below sets forth our trade receivable turnover days during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Trade receivable turnover days <sup>(1)</sup> .....	125.7	107.9	100.3

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*Note:*

- (1) The trade receivable turnover days are derived by dividing the average of the beginning and ending trade receivable balance by revenue for that year and multiplied by 365 days for 2018 and 2019 and 366 days for 2020.

Our trade receivables turnover days decreased from 125.7 days in 2018 to 107.9 days in 2019 and further to 100.3 days in 2020 primarily due to our efforts in monitoring and controlling the amounts due from our customers even though the amount of our trade receivables continue to increase during the Track Record Period.

## FINANCIAL INFORMATION

As of 30 April 2021, RMB194.7 million, or 98.9%, of our trade receivables as of 31 December 2020 had been subsequently settled.

### *Aging analysis*

The table below sets forth an aging analysis of trade and bills receivables as of 31 December 2018, 2019 and 2020:

	<b>As of 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days . . . . .	89,263	118,457	168,476
91 to 180 days . . . . .	48,084	550	23,161
181 to 365 days . . . . .	3,075	856	290
Over 365 days . . . . .	288	—	24
<b>Total</b>	<u>140,710</u>	<u>119,863</u>	<u>191,951</u>

### **Deposits, prepayments and other receivables**

The table below sets forth an analysis of deposits, prepayments and other receivables as of 31 December 2018, 2019 and 2020:

	<b>As of 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposits . . . . .	2,168	2,067	2,997
Prepayments . . . . .	11,263	1,199	16,465
VAT recoverable . . . . .	160	272	3,776
Other receivables . . . . .	714	491	371
<b>Total</b>	<u>14,305</u>	<u>4,029</u>	<u>23,609</u>

Prepayments mainly represented the prepayment to our suppliers and contractors of our Phase 1 Production Plant. Our prepayment amounted to RMB11.3 million as of 31 December 2018 was mainly due to our prepayments to three suppliers of natural mica flakes amounted to RMB6.9 million and one supplier of titanium tetrachloride of RMB1.4 million. Prepayments amounted to RMB16.5 million as of 31 December 2020, the principal components of which included (i) prepayments for the Listing expenses of RMB4.2 million; (ii) prepayments to two suppliers of natural mica flakes, which are Independent Third Parties, of RMB8.0 million; and (iii) prepayments to two suppliers of titanium tetrachloride, which are Independent Third Parties, of RMB3.5 million. The prepayments to suppliers were made for the purpose of the securing continuous supply of the principal raw materials.

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Deposits mainly represented deposits for utilities, leased properties and finance leases.

VAT recoverable mainly represented the VAT that could be recovered of RMB 3.8 million as of 31 December 2020 for the capital expenditure incurred for the construction of our Phase 2 Production Plant.

### Bank and cash balances

As of 31 December 2018, 2019 and 2020, the balance of bank and cash balances amounted to RMB171.9 million, RMB559.8 million and RMB747.6 million, respectively. Our Directors confirm that our bank and cash balances were maintained at a prudent level for the purpose of satisfying the requirements for our daily business operations. The significant increase in our bank and cash balances as of 31 December 2019 was mainly generated from our operating activities and the proceeds received from the follow-on offering completed in June 2019 by Chesir Pearl and the issuance of the 2019 Convertible Bonds. The increase in our bank and cash balances as of 31 December 2020 was mainly due to the proceeds received from the Pre-IPO Investments by GX Land & Sea and Mr. SU. The table below sets forth an analysis of bank and cash balances as of the date indicated:

	As of 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB .....	169,395	555,581	743,520
US\$ .....	2,316	4,192	3,895
EUR .....	143	66	89
HK\$ .....	—	—	78
<b>Total</b>	171,854	559,839	747,582

### Bank loans and other borrowings

The table below sets forth an analysis of bank loans and borrowings as of the date indicated:

	As of 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank loans .....	175,500	137,740	137,340
Other borrowings			
- Secured .....	10,617	17,989	18,581
- Unsecured .....	—	—	9,718
<b>Total</b>	186,117	155,729	165,639

## FINANCIAL INFORMATION

The bank loans and other borrowings are repayable as follows:

	As of 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year . . . . .	181,146	11,953	90,273
More than one year, but not exceeding two years . . . . .	2,757	68,410	75,366
More than two years, but not more than five years . . . . .	2,214	75,366	—
	<u>186,117</u>	<u>155,729</u>	<u>165,639</u>
Represented by:			
Current portion of bank loans and other borrowings . . . . .	181,146	11,953	90,273
Non-current portion of bank loans and other borrowings . . . . .	4,971	143,776	75,366
<b>Total</b>	<u>186,117</u>	<u>155,729</u>	<u>165,639</u>

The carrying amounts of our bank loans and other borrowings are denominated in the following currencies:

	As of 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB . . . . .	186,117	155,729	155,921
HK\$ . . . . .	—	—	9,718
<b>Total</b>	<u>186,117</u>	<u>155,729</u>	<u>165,639</u>

The average interest rates as of 31 December were as follows:

	As of 31 December		
	2018	2019	2020
Secured bank loans . . . . .	6.49% per annum	7.18% per annum	7.17% per annum
Other borrowings			
- Secured . . . . .	7.67% per annum	8.72% per annum	8.80% per annum
- Unsecured . . . . .	—	—	2.00% per annum

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## FINANCIAL INFORMATION

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Bank loans and other borrowings of RMB31.7 million, RMB142.2 million and RMB148.9 million as of 31 December 2018, 2019 and 2020, respectively, are arranged at fixed interest rates and expose us to fair value interest rate risk. The remaining balances of bank loans and other borrowings are arranged at floating rates, thus exposing us to cash flow interest rate risk.

Our bank secured loans are secured by our property, plant and equipment and right-of-use assets and also secured by corporate guarantees from related parties, together with personal guarantees of a Director and close family members of a Director and pledged by non-controlling equity interests of the Group held by related parties.

Our secured other borrowings are secured by our property, plant and equipment and also secured by the corporate guarantees from related parties, together with personal guarantees of a Director and close family members of a Director.

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### Lease liabilities

Our lease liabilities represented the amount due for lease payments to Independent Third Parties. During the Track Record Period, we leased offices and warehouses in the PRC and an office in France. Lease contracts were entered into for fixed term of six months to 108 months. Lease terms were negotiated on an arm's length basis. The increase in the amount of lease liabilities to RMB2.6 million as of 31 December 2019 was mainly due to the amount payable under a long-term lease entered into in January 2019 for our office and warehouse in Shanghai. The table below sets forth an analysis of lease liabilities as of 31 December 2018, 2019 and 2020:

	Minimum lease payments				Present value of minimum lease payments					
	As of 31 December 2019		2020		2018		2019		2020	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within one year . . . . .	102	705	707	85	543	577				
In the second to fifth years, inclusive . . . . .	168	2,889	2,222	121	2,586	2,044				
After five years . . . . .	78	33	—	70	29	—				
	348	3,627	2,929	276	3,158	2,621				
Less: Future finance charges . . . . .	(72)	(469)	(308)	N/A	N/A	N/A				
Present value of lease obligations . . . . .	276	3,158	2,621							
Less: Amount due for settlement within 12 months (shown under current liabilities) . . . . .				(85)	(543)	(577)				
Amount due for settlement after 12 months . . . . .				191	2,615	2,044				

The carrying amounts of our lease payables are denominated in RMB and EUR.

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## FINANCIAL INFORMATION

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### Deferred revenue

Our deferred revenue represented the government grant received by us in relation to the research and development activities carried out by us. The table below sets forth an analysis of deferred revenue as of 31 December 2018, 2019 and 2020:

	As of 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grant .....	12,902	10,179	7,487

	As of 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Represented by:			
Current portion .....	2,723	2,692	2,136
Non-current portion .....	10,179	7,487	5,351
<b>Total</b>	<b>12,902</b>	<b>10,179</b>	<b>7,487</b>

### Trade payables

Our trade and other payables primarily consist of the amount due to our suppliers for our purchase of raw materials. As of 31 December 2018, 2018 and 2020, our trade payables amounted to RMB23.8 million, RMB29.9 million and RMB21.9 million, respectively. The payment arrangements with our suppliers are either cash payment upon delivery or we are granted a credit term of up to 90 days from the invoice date by our suppliers.



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## FINANCIAL INFORMATION

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### *Carrying amount in different currencies*

The table below sets forth the carrying amount of our trade payables as of 31 December 2018, 2019 and 2020:

	<b>As of 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB .....	23,765	28,773	19,426
US\$ .....	74	1,168	2,465
<b>Total</b>	<b>23,839</b>	<b>29,941</b>	<b>21,891</b>

### *Turnover days and settlement*

The table below sets forth our trade payable turnover days during the Track Record Period:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Trade payable turnover days <sup>(1)</sup> .....	44.9	45.0	33.9

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*Note:*

- (1) The trade payable turnover days are derived by dividing the average of the beginning and ending trade payable balance by cost of goods sold for that year and multiplied by 365 days for 2018 and 2019 and 366 days for 2020.

Our trade payables turnover days remained stable at 44.9 days in 2018 and 45.0 days in 2019 and decreased to 33.9 days in 2020. The decrease in the turnover days was primarily due to our prompt settlement to our creditors for the purpose of securing constant supply from our suppliers. Whilst we believe that we have maintained a proper settlement practice for the amount due from us in the ordinary course of business, the length of the trade payable turnover days is significantly less than that of the trade receivable turnover days even though the amounts involved was also less than that of trade receivables.

As of 30 April 2021, RMB21.0 million, or 95.8%, of our trade payable as of 31 December 2020 had been subsequently settled.

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## FINANCIAL INFORMATION

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### *Aging analysis*

The table below sets forth further information on our trade payables as of 31 December 2018, 2019 and 2020:

	<b>As of 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days . . . . .	21,328	24,439	21,507
91 to 180 days . . . . .	2,511	5,486	—
181 to 365 days . . . . .	—	16	263
Over 365 days . . . . .	—	—	121
<b>Total</b>	<b>23,839</b>	<b>29,941</b>	<b>21,891</b>

### **Accruals and other payables**

	<b>As of 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accruals . . . . .	12,309	20,470	25,322
Other payables . . . . .	19,530	10,420	16,734
<b>Total</b>	<b>31,839</b>	<b>30,890</b>	<b>42,056</b>

Accruals mainly consisted of accrued staff costs and provision for employees' benefits. Our accruals increased from RMB12.3 million as of 31 December 2018 to RMB20.5 million as of 31 December 2019 and further increased to RMB25.3 million as of 31 December 2020. Such increase was primarily due to the increase in accrued staff costs arising from the bonus provided to our staff and the adjustment to the underpayment of social insurance contributions during the two years ended 31 December 2020.

Other payables mainly consisted of other payables for construction works. We recorded other payables of RMB19.5 million as of 31 December 2018 which primarily represented the value of certain improvements and construction-in-progress for our Phase 1 Production Plant.

## FINANCIAL INFORMATION

### Contract liabilities

The table below sets forth the contract liabilities as of 31 December 2018, 2019 and 2020:

	As of 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposit received in advance . . . . .	2,398	710	446

The table below set forth further information on the contract liabilities as of 31 December 2018, 2019 and 2020:

	As of 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance as of 1 January . . . . .	416	2,398	710
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the year . . . . .	(416)	(2,398)	(710)
Increase in contract liabilities as a result of deposit received in advance . . . . .	2,398	710	446
Balance as of 31 December . . . . .	2,398	710	446

### Current tax liabilities

The table below sets forth the calculation of the amount of the current tax liabilities as of 31 December 2018, 2019 and 2020:

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Current tax — PRC</b>			
Provision for the year . . . . .	6,828	16,308	24,742
Under provision in prior year . . . . .	—	1,660	218
	6,828	17,968	24,960
PRC income tax paid . . . . .	(4,022)	(18,086)	(20,797)
	2,806	(118)	4,163
Balance bought forward as of 1 January . . . . .	—	2,806	2,688
Balance carried forward as of 31 December . . . . .	2,806	2,688	6,851

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## FINANCIAL INFORMATION

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### Amounts due from/(to) a Shareholder/a Director

The amount due from a Shareholder and the amount due to a Director, which are both non-trade in nature, have been settled in full in December 2020.

### COMPONENTS OF OUR NON-CURRENT ASSETS AND NON-CURRENT LIABILITIES

	As of 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment . . . . .	304,696	353,907	486,170
Right-of-use assets . . . . .	17,932	29,949	68,247
Deposits paid for acquisition of property, plant and equipment and right-of-use assets. . . . .	16,367	26,671	184
Deferred tax assets . . . . .	1,190	1,190	1,190
<b>Total</b>	<b>340,185</b>	<b>411,717</b>	<b>555,791</b>
<b>Non-current liabilities</b>			
Bank loans and other borrowings. . . . .	4,971	143,776	75,366
Convertible loans . . . . .	—	69,106	—
Lease liabilities . . . . .	191	2,615	2,044
Deferred revenue . . . . .	10,179	7,487	5,351
<b>Total</b>	<b>15,341</b>	<b>222,984</b>	<b>82,761</b>

## FINANCIAL INFORMATION

### Property, plant and equipment

The table below sets forth the movements of property, plant and equipment during the Track Record Period:

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Motor vehicles</b>	<b>Office equipment</b>	<b>Construction in progress</b>	<b>Leasehold improvement</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>COST</b>							
<b>At 1 January 2018</b>	198,150	62,808	2,207	9,527	41,234	1,059	314,985
Additions . . . . .	32	1,200	16	105	61,317	—	62,670
Disposals . . . . .	—	—	—	—	—	(1,059)	(1,059)
Transfer . . . . .	50,361	3,297	—	—	(62,192)	8,534	—
<b>At 31 December 2018 and 1 January 2019</b>	248,543	67,305	2,223	9,632	40,359	8,534	376,596
Additions . . . . .	531	10	356	99	71,368	—	72,364
Transfer . . . . .	6,961	86	—	—	(7,047)	—	—
<b>At 31 December 2019 and 1 January 2020</b>	256,035	67,401	2,579	9,731	104,680	8,534	448,960
Additions . . . . .	19	6,521	54	281	148,255	—	155,130
Disposals . . . . .	—	—	—	(17)	—	—	(17)
Transfer . . . . .	—	838	—	—	(838)	—	—
<b>At 31 December 2020</b>	256,054	74,760	2,633	9,995	252,097	8,534	604,073
<b>ACCUMULATED DEPRECIATION</b>							
<b>At 1 January 2018</b>	27,829	15,620	1,553	6,138	—	1,059	52,199
Charge for the year . . . . .	10,671	6,849	321	1,777	—	1,142	20,760
Disposals . . . . .	—	—	—	—	—	(1,059)	(1,059)
<b>At 31 December 2018 and 1 January 2019</b>	38,500	22,469	1,874	7,915	—	1,142	71,900
Charge for the year . . . . .	12,565	6,543	159	959	—	2,927	23,153
<b>At 31 December 2019 and 1 January 2020</b>	51,065	29,012	2,033	8,874	—	4,069	95,053
Charge for the year . . . . .	12,807	6,902	122	191	—	2,845	22,867
Disposals . . . . .	—	—	—	(17)	—	—	(17)
<b>At 31 December 2020</b>	63,872	35,914	2,155	9,048	—	6,914	117,903
<b>CARRYING AMOUNT</b>							
<b>At 31 December 2020</b>	192,182	38,846	478	947	252,097	1,620	486,170
<b>At 31 December 2019</b>	204,970	38,389	546	857	104,680	4,465	353,907
<b>At 31 December 2018</b>	210,043	44,836	349	1,717	40,359	7,392	304,696

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As of 31 December 2018, 2019 and 2020, the carrying amounts of property, plant and equipment pledged as security for bank loans and other borrowings amounted to RMB139.9 million, RMB125.5 million and RMB118.3 million, respectively.

### Right-of-use assets

Our right-of-use assets comprise the leasehold lands in the PRC and leased properties in the PRC and France. During the Track Record Period, we leased various offices and warehouses for our operations. Lease contracts were entered into for fixed term of six months to 108 months. Lease terms were negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, we applied the definition of a contract and determines the period for which the contract is enforceable. The carrying amount of our right-of-use assets includes leasehold lands in the PRC and leased properties in the PRC and France. The table below sets forth the movements of our right-of-use assets during the Track Record Period:

	<b>As of 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As of 1 January . . . . .	18,726	17,932	29,949
Additions. . . . .	—	13,177	39,849
Depreciation . . . . .	(717)	(1,156)	(1,557)
Written-off . . . . .	(79)	—	—
Exchange differences. . . . .	2	(4)	6
<b>Total</b>	<u>17,932</u>	<u>29,949</u>	<u>68,247</u>

The table below sets forth our expenses incurred for the right-of-use assets during the Track Record Period:

	<b>As of 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation expenses on right-of-use assets . . . . .	717	1,156	1,557
Interest expense on lease liabilities (included in finance cost). . . . .	<u>40</u>	<u>184</u>	<u>162</u>

As of 31 December 2018, 2019 and 2020, the carrying amount of right-of-use assets pledged as security for bank loans amounted to RMB17.7 million, RMB17.3 million and RMB16.9 million, respectively.

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## FINANCIAL INFORMATION

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### Deferred tax assets

The table below sets forth the information on the deferred tax assets as of 31 December 2018, 2019 and 2020:

	<b>Doubtful debts</b>
	<i>RMB</i>
As of 1 January 2018 . . . . .	744
Credit to profit or loss for the year . . . . .	<u>446</u>
As of 31 December 2018 and 1 January 2019 . . . . .	1,190
Credit to profit or loss for the year . . . . .	<u>—</u>
As of 31 December 2019 and 1 January 2020 . . . . .	1,190
Credit to profit or loss for the year . . . . .	<u>—</u>
As of 31 December 2020 . . . . .	<u><u>1,190</u></u>

### Convertible loans

#### *2017 Convertible Loan*

The 2017 Convertible Loan is an unlisted, guaranteed and secured convertible loan issued by Chesir Pearl on 6 January 2017 with a nominal value of RMB30,000,000. We repaid the 2017 Convertible Loan in full in January 2019 and no part of the 2017 Convertible Loan has been converted into any ordinary share of Chesir Pearl during the loan period and up to the Latest Practicable Date.

If the 2017 Convertible Loan is not converted, it will be redeemed at par on 6 January 2019. It has coupon rate of 11% per annum on the principal amount outstanding and interest will be paid quarterly in arrears until the settlement date.

If the lender of the 2017 Convertible Loan requests a share conversion within one year from the date of issue of the 2017 Convertible Loan, the conversion price shall be the lower of the latest non-public offering of equity financing of Chesir Pearl after the date of issue of the 2017 Convertible Loan or RMB10 per share.

If the lender of the 2017 Convertible Loan requests a share conversion after one year from the date of issue of the 2017 Convertible Loan but before the settlement date on 6 January 2019, the conversion price is the latest non-public offering of equity financing of Chesir Pearl after the date of issue of the 2017 Convertible Loan and RMB10 per share, whichever is lower, times 110%.

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## FINANCIAL INFORMATION

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If certain conditions as stipulated in the agreement of the 2017 Convertible Loan (“**Early Repayment Conditions**”) occurs during the loan period of the 2017 Convertible Loan, the lender of the 2017 Convertible Loan has the right to require Chesir Pearl to repay the 2017 Convertible Loan in advance, or if the lender of the 2017 Convertible Loan has converted shares in accordance with the contract of the 2017 Convertible Loan, the lender of the 2017 Convertible Loan has the right to require Chesir Pearl’s prevailing controlling shareholder to repurchase all or some of the converted shares.

Prior to the issue of the 2017 Convertible Loan, our Directors have assessed that the probability of the occurrence of the Early Repayment Conditions was remote and the Early Repayment Conditions had not occurred eventually. Our Directors have also assessed that the fair value of the derivative component of the early repayment option of the 2017 Convertible Loan is immaterial at the date of issue of the 2017 Convertible Loan and at the end of each subsequent reporting period during the loan period, and thus the liability of the derivative component of the early repayment option of the 2017 Convertible Loan has not been recognised during the Track Record Period.

The 2017 Convertible Loan was guaranteed by the then prevailing controlling shareholder of Chesir Pearl and Mr. SU and secured by pledge of certain equity interest in Chesir Pearl held by the then prevailing controlling shareholder of Chesir Pearl.

The net proceeds received from the issue of the 2017 Convertible Loan has been split between the liability element and the derivative component, as follows:

	<i>RMB'000</i>
Liability component as of 1 January 2018 . . . . .	28,700
Interest charged . . . . .	4,713
Interest paid . . . . .	<u>(3,492)</u>
Liability component as of 31 December 2018 and 1 January 2019 . . . . .	29,921
Interest charged . . . . .	79
Repayment of the liability component . . . . .	<u>(30,000)</u>
Liability component as of 31 December 2019 . . . . .	<u>—</u>
Derivative component as of 1 January 2018 . . . . .	564
Fair value gain for the year as of 31 December 2018 and 1 January 2019 . . . . .	<u>(564)</u>
Derivative component as of 31 December 2019 . . . . .	<u>—</u>

The interest charged is calculated by applying an effective interest rate of 17.16% to the liability component for the 24 month period since the 2017 Convertible Loan was issued.

Our Directors estimate the fair value of the liability component of the 2017 Convertible Loan as of 31 December 2018 to be RMB29,921,000. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).



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## FINANCIAL INFORMATION

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The derivative component of the 2017 Convertible Loan is measured at its fair value at the date of issue of the 2017 Convertible Loan and at the end of each reporting period. The fair values are estimated using binomial option pricing model (level 3 fair value measurements). The key assumptions used are as follows:

	<u>Date of issue</u>	<u>As of 31 December 2018</u>
Weighted average share price of Chesir Pearl . . . . .	RMB10.50	RMB7.38
Weighted average exercise price of Chesir Pearl . . . . .	RMB10	RMB11
Expected volatility . . . . .	57.28%	36.05%
Expected life . . . . .	2.00 years	0.02 year
Risk free rate . . . . .	2.86%	2.45%
Expected dividend yield . . . . .	14.57%	15.21%

Information about level 3 fair value measurements

	<u>Valuation techniques</u>	<u>Significant unobservable input</u>	<u>Range</u>	<u>Effect on fair value for increase of inputs</u>
Derivative component of the 2017 Convertible Loan . . . . .	Binomial option pricing model	Expected volatility	2018: 39.38% to 36.05%	N/A

The fair value of derivative component of the 2017 Convertible Loan is determined using binomial option pricing model and the significant unobservable input in the fair value measurement is expected volatility. As of 31 December 2018, the fair value of derivative component of 2017 Convertible Loan was insensitive to the change in expected volatility.

According to the terms of the 2017 Convertible Loan, the holder of the 2017 Convertible Loans is entitled to convert the loan into shares of Chesir Pearl, other than into a fixed number of equity instruments at a fixed conversion price. The 2017 Convertible Loan is therefore regarded as a combined instrument consisting of a liability and a derivative component.

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### *2019 Convertible Bonds*

The 2019 Convertible Bonds are the unlisted, guaranteed and unsecured convertible loans issued by our Group on 31 May 2019 with a nominal value of RMB72,240,000. The 2019 Convertible Bonds is convertible at 8,000,000 shares of Chesir Pearl per RMB9.03 of each share. On 19 October 2020, Chesir Pearl and Guidong Electric entered into the Convertible Bond Conversion Agreement for the purpose of converting the 2019 Convertible Bonds into 8,000,000 shares of Chesir Pearl at the conversion price of RMB9.03 each. These shares were issued to Guidong Electric on the same date.

If the 2019 Convertible Bonds is not converted, it will be redeemed at par on or before 24 months from the date of loans advanced (around 31 May 2021). It has coupon rate of 8% per annum on the principal amount outstanding and interest will be paid annually in arrears until the settlement date.

If Chesir Pearl fails to complete or meet the qualifications for a qualified listing before 31 December 2019, and the holder of the 2019 Convertible Bonds has not exercised the debt-to-equity swap option, the holder of the 2019 Convertible Bonds has the right (but not the obligation) to choose to extend the loan period of the 2019 Convertible Bonds to 31 December 2021, and the coupon rate of the 2019 Convertible Bonds during the extension period shall remain at 8% per annum.

During the loan period and extension period, when one of the following situations occurs, the holder of the 2019 Convertible Bonds has the right (but not the obligation) to choose to convert the 2019 Convertible Bonds into ordinary share of Chesir Pearl. Holder of the 2019 Convertible Bonds also has the right to convert its 2019 Convertible Bonds into ordinary share of Chesir Pearl after 31 December 2019 regardless of the occurrence of the following situations:

- Chesir Pearl meets the qualifications for a qualified listing; or
- The loan period expires and Chesir Pearl does not have any breach of the 2019 Convertible Bonds contract. “Qualified listing” refers to the Chesir Pearl’s initial public offering of shares and listing and trading of its shares on the Shanghai Stock Exchange, the Shenzhen Stock Exchange or other overseas stock exchanges (such as the Hong Kong Stock Exchange and the Singapore Stock Exchange, etc.) recognised by the holders of the 2019 Convertible Bonds.

The 2019 Convertible Bonds was guaranteed by the then prevailing controlling shareholder of Chesir Pearl and Mr. SU.

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The net proceeds received from the issue of the 2019 Convertible Bonds has been split between the liability element, the derivative component of extension option and the equity component, as follows:

	<i>RMB'000</i>
Nominal value of the 2019 Convertible Bonds . . . . .	72,240
Derivative component of extension option . . . . .	(522)
Equity component . . . . .	<u>(8,163)</u>
Liability component as of date of issue . . . . .	63,555
Interest charged . . . . .	<u>5,551</u>
Liability component at of 31 December 2019 and 1 January 2020 . . . . .	69,106
Interest charged . . . . .	8,111
Interest paid . . . . .	(7,964)
Converted during the year . . . . .	<u>(69,253)</u>
Liability component as of 31 December 2020 . . . . .	<u>—</u>
Derivative component of extension option at date of issue . . . . .	522
Fair value loss for the year . . . . .	<u>1,120</u>
Derivative component of extension option as of 31 December 2019 and 1 January 2020 . . . . .	1,642
Fair value loss for the year . . . . .	1,998
Converted during the year . . . . .	<u>(3,640)</u>
Derivative component of extension option as of 31 December 2020 . . . . .	<u>—</u>

The interest charged is calculated by applying an effective interest rate of 15.44% to the liability component for the 24 month period since the 2019 Convertible Bonds was issued.

Our Directors estimate that the fair value of the liability component of the 2019 Convertible Bonds as of 31 December 2019 to be RMB69.1 million. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

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The derivative component of extension option of the 2019 Convertible Bonds is measured at its fair value at the date of issue of the 2019 Convertible Bonds and at the end of each reporting period. The fair values are estimated using binomial option pricing model (level 3 fair value measurements). The key assumptions used are as follows:

	<u>Date of issue</u>	<u>As of 31 December 2019</u>
Weighted average share price of Chesir Pearl . . . . .	RMB9.41	N/A
Weighted average exercise price of Chesir Pearl . . . . .	RMB9.03	RMB9.03
Expected volatility . . . . .	44.24%	45.60%
Expected life . . . . .	2.0 years	1.4 years
Risk free rate . . . . .	2.81%	2.43%
Expected dividend yield . . . . .	15.44%	15.08%

Information about level 3 fair value measurements

	<u>Valuation techniques</u>	<u>Significant unobservable input</u>	<u>Range</u>	<u>Effect on fair value for increase of inputs</u>
Derivative component of extension option of the 2019 Convertible Bonds . . . . .	Binomial option pricing model	Expected volatility	31 December 2019: 44.24% to 45.60%	2019: Increase

The fair value of derivative component of extension option of the 2019 Convertible Bonds is determined using binomial option pricing model and the significant unobservable input in the fair value measurement is expected volatility. As of 31 December 2019, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 10% would have decreased/increased our profit by RMB230,000 and RMB737,000, respectively.

According to the terms of the 2019 Convertible Bonds, the holder of the 2019 Convertible Bonds is entitled to convert the amount due into a fixed number of equity instruments at a fixed conversion price. The 2019 Convertible Bonds are regarded as compound instruments consisting of a liability and an equity component.

### *Directors' and Sponsor's views on the fair value of the derivative component of the 2017 Convertible Loan and the 2019 Convertible Bonds*

The 2017 Convertible Loan and the 2019 Convertible Bonds are classified as combined instrument and compound instrument consisting of a liability component and a derivative component and a liability and an equity component with derivative component of extension option, respectively. The fair value of the derivative component is estimated with reference to the prevailing market

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interest rates for similar non-convertible debts as of the date of issue and as of the end of each subsequent reporting year, which is stated at fair value until full repayment or conversion. See the paragraphs under “Critical accounting policies — Convertible loans” above for further information. The fair value of the derivative component of the 2017 Convertible Loan as of 31 December 2018 was RMB0.6 million. The fair value of the derivative component of the 2019 Convertible Bonds as of 31 December 2018, 2019 and 2020 was nil, RMB1.6 million and nil, respectively.

Information on the fair value measurement of the 2017 Convertible Loan and the 2019 Convertible Bonds, particularly the fair value hierarchy, the techniques employed and the reconciliation of level 3 measurements are set forth above as well as in note 27 to the Accountants’ Report in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Report on Historical Financial Information in Investment Circulars” issued by HKICPA.

We use valuation methodology and techniques which are appropriate in the circumstances. Taking into consideration:

- (a) the estimation of the fair value of the derivative component of the 2017 Convertible Loan and the 2019 Convertible Bonds was performed by an independent external valuer with reference to the prevailing market interest rates for similar non-convertible debts, expected volatility, risk free rate, expected dividend yield and etc., which are the most relevant publicly available information for the purpose of the valuation;
- (b) the calculation methodology and techniques used by the independent external valuer in the estimation of the fair value;
- (c) the discussions with the Reporting Accountants on the key bases and assumptions of the valuation analysis and the fair value estimation for the 2017 Convertible Loan and the 2019 Convertible Bonds;
- (d) the relevant valuation models and approaches used in the valuation analysis and the fair value estimation for the 2017 Convertible Loan and the 2019 Convertible Bonds;
- (e) the relevant notes in the Accountants’ Report; and
- (f) the requirements under the “Guidance note on directors’ duties in the valuations in corporate transactions” issued by SFC in May 2017,

our Directors are satisfied that the valuation analysis and the fair value estimation performed by the independent external valuer during the Track Record Period is fair and reasonable.

The Reporting Accountants’ opinion on our financial information during the Track Record Period is set forth in Appendix I to this prospectus.

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In this regard, the Sole Sponsor has conducted relevant due diligence work, including (a) reviewing relevant notes in the Accountants' Report, (b) discussing with our Company to understand the relevant valuation methodology and techniques and (c) discussing with the Reporting Accountants to understand the work they have performed. Having considered the above and having taken into account of the Directors' views and the Reporting Accountants' opinion, the Sole Sponsor concurs that the valuation analysis and the fair value estimation included in the Accountants' Report is fair and reasonable.

### CAPITAL COMMITMENTS

The table below sets forth the capital commitments contracted for during the Track Record Period but not yet incurred:

	As of 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment . . . . .	<u>11,873</u>	<u>589,952</u>	<u>568,332</u>

Capital commitments represent capital expenditure contracted for as of a particular date but not yet incurred. As of 31 December 2018, 2019 and 2020, our capital commitments amounted to RMB11.9 million, RMB590.0 million and RMB568.3 million, respectively, which represent our commitments to purchase property, plant and equipment which include modifications and expansions of our Phase 1 Production Plant and the construction of our Phase 2 Production Plant and the acquisition of the related production facilities.

On 25 August 2019, we entered into a construction agreement with an Independent Third Party, which is a construction contractor, for the construction of our Phase 2 Production Plant for RMB600.0 million. As a result, our capital commitments increased significantly from RMB11.9 million as of 31 December 2018 to RMB590.0 million as of 31 December 2019. The payments under the construction agreement would be settled from time to time according to the construction work progress.

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The original contract period of the construction agreement commenced from 1 September 2019 and will end on 31 August 2021. The construction progress has been delayed. On 21 December 2020, we entered into a supplemental construction agreement for the purpose of extending the contract period to 30 June 2023. The scope of work under the construction agreement includes the construction of an industrial complex which will include (a) four factory buildings for the production of pearlescent pigment product with an aggregate designed annual production capacity of 30,000 tonnes; (b) supply of electricity facilities; (c) ancillary facilities and warehouses; (d) staff quarters; and (e) administrative buildings. Out of the contract sum of RMB600.0 million, we have settled RMB185.9 million as of 31 December 2020. The remaining balance will be settled partially out of the net proceeds from the Global Offering according to the construction progress. See the section headed “Future Plans and Proposed Use of the Net Proceeds from the Global Offering — Construction of our Phase 2 Production Plant” in this prospectus for further information.

### INDEBTEDNESS

The table below sets forth the total amount of our indebtedness as of 31 December 2018, 2019, 2020 and 30 April 2021:

	As of 31 December			As of
	2018	2019	2020	30 April 2021
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
				(Unaudited)
<b>Non-current portion</b>				
Bank loans and other borrowings . . . . .	4,971	143,776	75,366	73,740
Convertible loans . . . . .	—	69,106	—	—
Lease liabilities . . . . .	191	2,615	2,044	1,713
	<u>5,162</u>	<u>215,497</u>	<u>77,410</u>	<u>75,453</u>
<b>Current portion</b>				
Bank loans and other borrowings . . . . .	181,146	11,953	90,273	81,353
Convertible loans . . . . .	29,921	—	—	—
Derivative component of convertible loans . .	—	1,642	—	—
Lease liabilities . . . . .	85	543	577	598
Amount due to a director . . . . .	56	105	—	—
	<u>211,208</u>	<u>14,243</u>	<u>90,850</u>	<u>81,951</u>
<b>Total</b>	<u>216,370</u>	<u>229,740</u>	<u>168,260</u>	<u>157,404</u>

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Our bank loans and other borrowings during the Track Record Period were denominated in RMB and HK\$. As of 31 December 2018, 2019 and 2020, the outstanding bank loans and other borrowings amounted to RMB186.1 million, RMB155.7 million and RMB165.6 million, respectively. Our bank loans and other borrowings decreased from RMB186.1 million as of 31 December 2018 to RMB155.7 million as of 31 December 2019 mainly due to the repayment of bank loans of RMB171.5 million and finance lease of RMB10.6 million during the year ended 31 December 2019, which partially offset the bank loans of RMB133.7 million in aggregate entered between August to November 2019. Our bank loans and other borrowings increased from RMB155.7 million as of 31 December 2019 to RMB165.6 million as of 31 December 2020 mainly due to the entering of the finance lease in April 2020 of RMB12.0 million and other borrowings of RMB5.5 million, which was partially offset by the repayment of then existing finance lease of RMB7.9 million. As of the Latest Practicable Date, we do not have any unutilised banking facilities.

See the paragraphs under “Components of our current assets and current liabilities — Bank loans and other borrowings” above for further information of the maturity profile and average interest rates of our bank loans and other borrowings during the Track Record Period. During the Track Record Period, our bank loans and other borrowings were secured by our property, plant and equipment and right-of-use assets and also secured by the corporate guarantee from Hongzun Investment, together with personal guarantees of Mr. SU, Mr. JIN, Mr. ZHENG and their close family members, and pledged by equity interests of Chesir Pearl held by them. The guarantees and pledges given by Hongzun Investment and these persons will be released or replaced by corporate guarantees executed by our Company upon the Listing.

The conversion rights of the 2019 Convertible Bonds have been exercised in full on 19 October 2020 and as a result the 2019 Convertible Bonds have been settled in full.

As of 30 April 2021, save as disclosed in this paragraph, our Directors confirm that we did not have any debt securities issued and outstanding or agreed to be issued, term loans, borrowings or other similar indebtedness, liabilities under acceptances, acceptance credits, debentures, mortgages, charges, finance leases, or hire purchase commitments, other material contingent liabilities or guarantees. Our Directors further confirm that we had not experienced any difficulties in obtaining or repaying our bank loans or other borrowings during the Track Record Period. As of the Latest Practicable Date, there were no material covenants related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing. Our Directors further confirm that there has been no material change in our indebtedness or contingent liabilities since 30 April 2021 and up to the Latest Practicable Date. Our Directors further confirm that as of the Latest Practicable Date, we did not have any immediate plan for additional and material external debt financing.



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### CONTINGENT LIABILITIES

Except as disclosed above and other than intra-group liabilities disclosed in this prospectus, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, debentures, mortgage, charges, finance leases, liabilities under acceptance credits (other than normal trade-related bills), hire purchase commitment, guarantees or other material contingent liabilities as of the Latest Practicable Date. As of the same date, we had not guaranteed the indebtedness or any Independent Third Parties.

### PROPERTY VALUATION

Pursuant to Rule 5.01A(2) of the Listing Rules, we are required to perform valuation on property interest that formed part of our non-property activities had a carrying amount of 15% or more of our consolidated total assets as of 31 December 2020. Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has valued our property interests as of 30 April 2021 and is of the opinion that the aggregate value of our property interests as of such date was RMB582.3 million. The full text of the letter and the valuation certificates issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited is set forth in Appendix III to this prospectus.

A reconciliation of the net book value of our properties as of 31 December 2020 as set forth in Accountants' Report in Appendix I to their market value as of 30 April 2021 as stated in the property valuation report in Appendix III is set forth below:

	<u>Amount</u>
	<i>RMB'000</i>
<b>Net book value of our property interests as of 31 December 2020</b>	
Buildings and construction-in-progress of buildings included in property, plant and equipment . . . . .	440,409
Land use rights . . . . .	65,685
<b>Additions for four months ended 30 April 2021</b>	
Building and construction-in-progress of buildings included in property, plant and equipment . . . . .	9,146
Land use rights . . . . .	—
Less: Depreciation and amortisation for four months ended 30 April 2021 . . . . .	<u>(4,818)</u>
	510,422
Valuation surplus . . . . .	<u>71,878</u>
<b>Valuation as of 30 April 2021 as set forth in Appendix III to this prospectus</b>	<u><u>582,300</u></u>

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### OFF-BALANCE SHEET ARRANGEMENTS

As of the Latest Practicable Date, we did not have any material off-balance sheet arrangements or contingencies except as disclosed in the paragraphs under “Capital commitments” and “Indebtedness” above.

### KEY FINANCIAL RATIOS

	Numerator	Denominator	Year-to-Year comparison	
			(2019/2018)	(2020/2019)
Revenue growth <sup>(1)</sup>	(%)		38.5%	29.2%
Net profit growth <sup>(2)</sup>	(%)		31.9%	42.4%

				Year ended 31 December		
				2018	2019	2020
Gross profit margin <sup>(3)</sup>	(%)			46.2%	49.5%	49.9%
Net profit margin <sup>(4)</sup>	(%)			25.6%	24.4%	26.9%
Return on equity <sup>(5)</sup>	(%)	Profit for the year	Equity	17.9%	12.3%	11.3%
Return on total assets <sup>(6)</sup>	(%)	Profit for the year	Total assets	10.9%	9.1%	9.6%
Gearing ratio <sup>(7)</sup>	(%)	Total liabilities	Equity	63.8%	34.8%	18.3%
Current ratio <sup>(8)</sup>	Times	Current assets	Current liabilities	1.47	9.44	6.32
Quick ratio <sup>(9)</sup>	Times	Current assets-Inventories	Current liabilities	1.20	8.45	5.86
Net debt to equity ratio <sup>(10)</sup>	(%)	Bank loans and other borrowings net of bank and cash balances	Equity	3.1%	Net Cash	Net Cash

#### Notes:

- (1) Revenue growth is calculated based on the difference in our revenue of each reporting year from our revenue of the previous reporting year divided by our revenue of previous year and multiplied by 100%.
- (2) Net profit growth is calculated based on the difference in our net profit of each reporting year from the net profit of the previous reporting year divided by the profit of previous year and multiplied by 100%.
- (3) Gross profit margin is calculated based on the gross profit for each reporting year divided by total revenue for each reporting year and multiplied by 100%.
- (4) Net profit margin is calculated based on the net profit for each reporting year divided by the total revenue for each reporting year and multiplied by 100%.
- (5) Return on equity is calculated based on our net profit for each reporting year divided by the total equity as of the end of each reporting year and multiplied by 100%.
- (6) Return on total assets is calculated based on our net profit for each reporting year divided by total assets of each reporting year and multiplied by 100%.
- (7) Gearing ratio is calculated based on our total liability divided by our total equity as of the end of each reporting year and multiplied by 100%.
- (8) Current ratio is calculated based on total current assets divided by the total current liabilities as of the end of each reporting year.

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- (9) Quick ratio is calculated based on our total current assets excluding inventories divided by the total current liabilities as of the end of each reporting year.
- (10) Net debt to equity ratio is calculated by dividing our net debt, being our total bank loans and other borrowings net of bank and cash balances, by total equity as of the end of each reporting year and multiplied by 100%.

See the paragraphs under “Our operating results” above for further information on our revenue growth, net profit growth, gross profit margin, net profit margin during the Track Record Period.

### **Return on equity**

Our return on equity for the Track Record Period was 17.9%, 12.3% and 11.3%, respectively. Our return on equity decreased throughout the Track Record Period mainly due to the increase in the amount of our equity financing.

### **Return on total assets**

The return on total assets for the Track Record Period was 10.9%, 9.1% and 9.6%, respectively. Our return on total assets decreased during the two years ended 31 December 2019 mainly due to the increase in bank and cash balances as of 31 December 2019 as a result of completion of the follow-on share offering in June 2019 by Chesir Pearl before the NEEQ Listing Withdrawal. Our return on total assets increased during the year ended 31 December 2020 mainly due to the increase in our profit for the year from RMB107.3 million in 2019 to RMB152.9 million in 2020.

### **Gearing ratio**

As of 31 December 2018, 2019 and 2020, our gearing ratio was 63.8%, 34.8% and 18.3%, respectively. The decrease in our gearing ratio during the two years ended 31 December 2019 was mainly due to the increase in equity of Chesir Luzhai during the two years ended 31 December 2019 and completion of the follow-on share offering in June 2019 by Chesir Pearl before the NEEQ Listing Withdrawal. The gearing ratio decreased to 18.3% as of 31 December 2020 mainly due to our equity financing pursuant to the Pre-IPO Investments.

### **Current ratio**

As of 31 December 2018, 2019 and 2020, the current ratio was 1.47, 9.44 and 6.32, respectively. The significant increase of current ratio as of 31 December 2019 was mainly due to the increase in cash and bank balances as of 31 December 2019 as a result of completion of the follow-on share offering in June 2019 by Chesir Pearl before the NEEQ Listing Withdrawal. The decrease of current ratio as of 31 December 2020 was mainly due to the increase in current portion of bank loans and other borrowings which was reclassified from non-current portion.

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### Quick ratio

As of 31 December 2018, 2019 and 2020, the quick ratio was 1.20, 8.45 and 5.86, respectively. The significant increase of quick ratio as of 31 December 2019 was mainly due to the increase in cash and bank balances as of 31 December 2019 as a result of completion of the follow-on share offering in June 2019 by Chesir Pearl before the NEEQ Listing Withdrawal. The decrease of the quick ratio as of 31 December 2020 was mainly due to the increase in current portion of bank loans and other borrowings which was reclassified from non-current portion.

### Net debt to equity ratio

As of 31 December 2018, the net debt to equity ratio was 3.1%. The decrease in the net debt to equity ratio as of 31 December 2018 was mainly due to the increase in equity of Chesir Luzhai during the year ended 31 December 2019 and completion of the follow-on share offering in June 2019 by Chesir Pearl before the NEEQ Listing Withdrawal.

## QUANTITATIVE AND QUALITATIVE ANALYSIS OF MARKET RISKS

We are exposed to market risks from changes in market rates and prices, such as interest rates, credit and liquidity. See note 5 to the Accountants' Report of "Financial risk management" for further information.

### LISTING EXPENSES

Assuming the Offer Price of HK\$3.87, being the mid-point of the indicative range of the Offer Price, the total amount of Listing expenses (including the underwriting fees and commissions in connection with the Global Offering) is estimated to be RMB60.6 million, representing 6.4% of the gross proceeds from the Global Offering of HK\$1,124.9 million. Out of this amount, RMB39.7 million will be accounted for as a deduction from equity upon the Listing. Listing expenses of RMB13.2 million were charged to the profit or loss during the year ended 31 December 2020. We expect that an additional amount of Listing expenses of RMB7.7 million would be charged to the profit or loss for the year ending 31 December 2021. Listing expenses are non-recurring in nature, and the amount stated above is only the best estimate of our Directors as of the Latest Practicable Date and for reference only. The actual amount of Listing expenses may differ from the above estimated amount. We do not expect Listing expenses to have a material impact on our operating results for the year ending 31 December 2021.

### DIVIDENDS

During the Track Record Period, we did not declare and pay any dividend to our Shareholders. Following the Listing, dividends may be paid out by way of cash or by such other means as we consider appropriate. Declaration and payment of any dividends would require the recommendation of our Directors and will be at their discretion. In addition, any final dividend for a financial year will be subject to the approval of our Shareholders. A decision to declare or pay any dividend in the future, and the amount of any of such dividends, depends on a number of factors, including our results of

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operations, financial condition, amount of capital expenditures, payment by our subsidiaries of cash dividends to us and other factors our Directors may deem relevant. There can be no assurance that our Company will be able to declare or distribute any dividend in the future. Our Company currently does not have any fixed dividend pay-out ratio.

### **DISTRIBUTABLE RESERVE**

Our Company's reserves available for distribution to Shareholders consist of share premium and retained earnings. Under the Cayman Companies Act and subject to compliance with the Articles, the share premium account may be applied by our Company for paying distributions of dividends to our Shareholders if immediately following the date on which the distribution or dividend is proposed to be paid, we will be able to pay off our debts as they fall due in the ordinary course of business. As of 31 December 2020, our Company did not have distributable reserves.

### **ACCUMULATED LOSS PRIOR TO THE TRACK RECORD PERIOD**

Chesir Pearl had accumulated loss of RMB23.3 million brought forward as of 1 January 2018. Such amount was primarily due to the fact that Chesir Pearl had only commenced commercial operation during the year ended 31 December 2015, whilst it had made substantial amount of investments in the production facilities and the product development since its establishment in March 2011. Such amount of accumulated loss could not be offset by the operating profit of Chesir Pearl during the two years ended 31 December 2017. See the section headed "Financial Information — Summary of business development of Chesir Pearl prior to the Track Record Period — Overall development" in this prospectus for further information.

Since the beginning of 2017, Chesir Pearl managed to develop and produce more high-end pearlescent pigment products for industrial applications and expand the product offerings, which increased the amount of revenue. During the Track Record Period, Chesir Pearl launched 15, 56 and 42 new products, respectively, and the average unit selling prices of pearlescent pigment products continued to increase throughout the Track Record Period. In addition, our Group has achieved significant revenue growth due to the increase in the production and sales volume of our core products and the number of our customers. As a result, our Company's retained earnings have been improved to RMB33.9 million as of 31 December 2018, RMB126.7 million as of 31 December 2019 and RMB259.5 million as of 31 December 2020.

### **RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE**

#### **Our performance during the three months ended 31 March 2021**

Our business continues to grow during the three months ended 31 March 2021. Based on the unaudited financial information, our revenue during the three months ended 31 March 2021 increased by 20.5% as compared to the corresponding period in 2020. Our gross profit margin increased during the three months ended 31 March 2021, as compared to the three months ended 31 March 2020, primarily due to the increase in sales of synthetic mica-based and glass flakes-based pearlescent pigment products which had higher gross profit margin than natural mica-based pearlescent pigment products.

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During the three months ended 31 March 2021, the production volume and sales volume of pearlescent pigment products increased by 47.8% and 21.7%, respectively, as compared to the corresponding period in 2020. The utilisation rate of our production facilities for the production of pearlescent pigment products increased from 74.1% for the three months ended 31 March 2020 to 85.3% for the three months ended 31 March 2021. We recorded a lower utilisation rate of our production facilities during the first quarter of 2020 due to the extension of the Chinese New Year holiday as a result of the COVID-19 pandemic.

### **Listing expenses**

Our operating results during the year ended 31 December 2020 were affected by the Listing expenses charged to the profit or loss. The Listing expenses in the total amount of RMB13.2 million were charged to the profit or loss during the year ended 31 December 2020. We expect that an additional amount of Listing expenses of RMB7.7 million would be charged to the profit or loss for the year ending 31 December 2021.

There was no interruption to our business that has or may have a significant effect on our financial position in the last 12 months. Except to the extent disclosed in this prospectus and the Listing expenses in connection with the Global Offering, our Directors confirm that there has been no material adverse change in our financial, operational or trading position since 31 December 2020 (being the date as of which our latest audited consolidated financial statements were prepared as set forth in the Accountants' Report) and up to the date of this prospectus.

### **IMPACT OF THE COVID-19 PANDEMIC**

#### **Overall business environment**

Since early 2020, the COVID-19 pandemic has materially and adversely affected the global economy as well as the economy in the PRC. The PRC Government and other governments around the world have implemented strict measures to contain the pandemic. Our pearlescent pigment products are generally used as colourant in different downstream applications, such as automotive coatings, cosmetics, industrial coatings, plastics, printing, textile and leather and ceramics, and on this basis, we are not particularly affected by the COVID-19 pandemic as all such end products will require colourant to complete the production process. The cost of colourant only represents a small percentage of the cost of production of the end products. Our Director therefore consider that we are not in the industries which are severely affected by the COVID-19. According to the Frost & Sullivan Report, with gradual recovery from the COVID-19 pandemic, the pearlescent pigment market in the PRC is expected to continue to maintain its growth momentum.

#### **Our performance**

In around February 2020, our business was slightly affected by the lockdown imposed by the PRC Government in Hubei Province in response to the COVID-19 pandemic. We were not able to deliver our products to our customers and our production activities were suspended during the period from 1 February 2020 to 10 February 2020. As a result, our operating results during the first quarter of 2020 were adversely affected due to the combined impact of the extension of the Chinese New Year holiday and the measures implemented by the PRC Government to contain the pandemic. With the

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decrease in the number of confirmed cases of COVID-19 in the PRC and the effective quarantine measures, the PRC economy was stabilised during the second and the third quarters of 2020. Our revenue during the year ended 31 December 2020 bounced back with increases in our sales to customers in the PRC and other countries, and as a result our profitability had also improved, as compared to the amounts of revenue and profit during the year ended 31 December 2019. In addition, despite the short suspension of our production during the first quarter of 2020, there had not been any significant impact on the utilisation rate of our production facilities in 2020, which had increased to 98.3% as compared to 87.4% during the year ended 31 December 2019. With the decrease in the number of confirmed cases of COVID-19 in the PRC and the general recovery of the economic and the social activities, our Directors consider that it would be unlikely that our production activities would be suspended again due to the COVID-19 pandemic.

Our Directors accept that the COVID-19 pandemic has a profound impact on the global business and economic outlook at large. Some of our customers, particularly those engaged in international trade, were affected in various ways and to different extent. In response to the current situation, we have slightly reduced the average unit selling prices during the year ended 31 December 2020 and have extended the credit period provided to our customers on a case-by-case basis. These measures have resulted in an increase in the balance of trade and other receivables as of 31 December 2020, but with no significant increase in the impairment loss as of 31 December 2020. Our travelling and business development expenses had also increased during the same period due to more frequent customer visits made by our sales personnel after the lifting of the lockdown measures in the PRC.

Our performance for the year ended 31 December 2020 was significantly better than that for the year ended 31 December 2019. Our revenue and profit during the year ended 31 December 2020 had bounced back with increase in our sales to customers in the PRC, as compared to the revenue and profit for the year ended 31 December 2019.

Our sales in the PRC during the year ended 31 December 2020 grew by 31.4% as compared to our sales in the PRC during the year ended 31 December 2019, with insignificant impact on our sales in the PRC market caused by COVID-19 pandemic. Our Directors believe that this was primarily due to the fact that we had continued our efforts to promote our products during the pandemic and the fact that our business is not in the industries which are severely hit by the pandemic.

Our sales to overseas customers during the year ended 31 December 2020 recorded a slight decline of 0.7% as compared to our overseas sales during the year ended 31 December 2019. Sales to almost all international markets (other than Africa) had slightly decreased primarily due to the impact of COVID-19 pandemic. Nevertheless, with gradual recovery of global economic activities, our Directors have not noticed that the COVID-19 pandemic has created any imminent and adverse impact on our sales to the international markets.

As of the Latest Practicable Date, there was no COVID-19 case confirmed amongst our employees. We have adopted a series of precautionary steps to prevent the spread of the COVID-19 within our production facilities and offices, and such measures include, disinfecting our production facilities and offices on a regular basis, measuring body temperature of all employees and visitors entering our production facilities and offices, maintaining detailed business travel history of our employees and providing face masks and disinfectant to our employees.

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## FINANCIAL INFORMATION

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As of the Latest Practicable Date, we have not received from our customers any notification of cancellation or postponement of delivery of all or part of their purchase orders due to the COVID-19 pandemic. Our Directors also confirm that up to the Latest Practicable Date, we have not encountered or do not expect to encounter any material disruption to our supply chain because of the COVID-19 pandemic. Our Directors do not consider that there would be disruption to the continuous supply of natural mica flakes from India as such supply was not interrupted during the outbreak of COVID-19 in 2020 and the first quarter of 2021. Moreover, we also sourced natural mica flakes from other countries, such as Madagascar, Brazil, Nigeria and Pakistan. Our Directors believe that we would not encounter any interruption to the supply of natural mica flakes in the near future based on the publicly available information.

Currently, our Directors believe that our expansion plans as disclosed in the section headed “Business — Our strategies” in this prospectus are feasible and appropriate. Based on the information publicly available to them, our Directors do not envisage any change in the proposed use of the net proceeds from the Global Offering as a result of the COVID-19 pandemic.

### **Hypothetical scenario of suspension of a substantial part of our business operations due to the COVID-19 pandemic**

If we were required to reduce or suspend a substantial part of our business operations due to the COVID-19 pandemic in the PRC and other countries with which we have business relationship, our Directors believe that our Group would continue to have sufficient liquidity and financial resources and would remain financially sound and viable for at least 15 months from May 2021. This estimation is based on the following assumptions:

- (a) we would be required to suspend all of our business operations from May 2021 and the corresponding level of our production activities has also been suspended;
- (b) we would not incur any variable production costs, sales and marketing costs and research and development costs other than staff wages and salaries;
- (c) we would not be required to repay our payables and borrowings prior to the agreed repayment dates;
- (d) we would not encounter any significant difficulty in collecting our trade receivables, which would be collected from our customers based on the historical settlement patterns and the turnover days;
- (e) our inventories would not be used by us given that all business operations and production activities have been suspended since May 2021;
- (f) we would not need to rely on any external debt or equity financing; and
- (g) the outstanding capital expenditure in respect of the proposed use of the net proceeds from the Global Offering would continue as planned.



## FINANCIAL INFORMATION

The above analysis is for illustrative purpose only and our Directors are of the view that our business would not encounter such extreme and hypothetical situation, given the fact that the PRC government has implemented stringent measures to control the spread of the COVID-19 pandemic and has successfully implemented various policies to promote economic growth.

### UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purpose only and is set forth below to illustrate the effect of the Global Offering on the consolidated net tangible assets of our Group attributable to the equity holders of our Company as of 31 December 2020 as if the Global Offering had taken place on 31 December 2020.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group had the Global Offering been completed as of 31 December 2020 or at any future dates.

	<b>Audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as of 31 December 2020<sup>(1)</sup></b>	<b>Estimated net proceeds from the Global Offering<sup>(2)</sup></b>	<b>Unaudited pro forma adjusted net tangible assets of our Group attributable to the equity holders of our Company</b>	<b>Unaudited pro forma adjusted net tangible assets per Share <sup>(3), (4), (5)</sup></b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
Based on an Offer Price of HK\$3.17 per Offer Share, after the Downward Offer Price Adjustment of 10% . . .	1,181,239	731,366	1,912,605	1.64	1.96
Based on an Offer Price of HK\$3.52 per Share. . .	1,181,239	813,762	1,995,001	1.72	2.04
Based on an Offer Price of HK\$4.22 per Share . . .	1,181,239	978,555	2,159,794	1.86	2.21

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## FINANCIAL INFORMATION

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*Notes:*

- (1) The audited consolidated net tangible assets of our Group attributable to the equity holders of our Company as of 31 December 2020 is arrived at after deducting the non-controlling interests of RMB166,074,000 from the audited consolidated net tangible assets of RMB1,347,313,000 as of 31 December 2020, as shown in the Accountants' Report.
- (2) The adjustment to the pro forma statement of net tangible assets reflects the estimated proceeds from the Global Offering to be received by our Company. The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$3.52 and HK\$4.22, respectively, being the low-end and high-end of the indicative range of the Offer Price, respectively, and also based on the Offer Price of HK\$3.17 per Offer Share, after making the Downward Offer Price Adjustment of 10%, and 290,674,000 Shares, net of estimated underwriting fees and other related expenses.
- (3) The number of Shares is based on a total of 1,162,695,586 Shares issued, adjusted as if the Global Offering had occurred on 31 December 2020. Our property interests as of 30 April 2021 have been valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix III to this prospectus. The above adjustment does not take into account the surplus arising from the revaluation of our property interests amounting to RMB71.9 million. The revaluation surplus was not incorporated in our financial statements for the year ended 31 December 2020. If the valuation surplus was recorded in our financial statements, an additional annual depreciation expenses of property, plant and equipment and amortisation charges of right-of-use assets would be increased by RMB1,837,000.
- (4) The unaudited pro forma adjusted net tangible assets attributable to owners of our Company and the amounts per Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,162,695,586 Shares are expected to be in issue following the Global Offering (including 290,674,000 Shares newly issued upon the Global Offering) and the Offer Price of HK\$3.52 and HK\$4.22, respectively, being the low-end and high-end of the indicative range of the Offer Price, respectively, and also based on the Offer Price of HK\$3.17 per Offer Share, after making the Downward Offer Price Adjustment of 10%.
- (5) The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted net tangible assets attributable to owners of the Company per Share are converted from or into Hong Kong dollars at an exchange rate of RMB0.8393 to HK\$1.00, the prevailing rate of Hong Kong Association of Banks on 31 December 2020. No representation is made that the HK\$ amounts have been, could have been or may be converted into RMB, or vice versa, at that rate.
- (6) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 31 December 2020.

### **NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES**

Our Directors confirm that, as of the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had our Shares been listed on the Stock Exchange on that date.

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## **FUTURE PLANS AND PROPOSED USE OF THE NET PROCEEDS FROM THE GLOBAL OFFERING**

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### **FUTURE PLANS**

See the section headed “Business — Our strategies” in this prospectus.

### **REASONS FOR THE LISTING**

We believe the listed company status is important to us. In March 2015, trading of the shares of Chesir Pearl commenced on NEEQ. However, the trading volume of the shares of Chesir Pearl was low primarily due to the fact that NEEQ targets qualified investors using a market maker approach. We believe a listing on an internationally recognised stock market is more advantageous to our future business development. On 23 September 2019, listing and quotation for trading of the shares of Chesir Pearl on NEEQ was withdrawn. In October 2019, we started exploring the possibility of restructuring and listing on the Stock Exchange.

### **CONSTRUCTION OF OUR PHASE 2 PRODUCTION PLANT**

#### **Background information**

Our plan for the construction of our Phase 2 Production Plant has been originated since May 2018. Our Directors believe that there is a pressing need for us to increase our production capacity of pearlescent pigment products because of the following reasons:

- (1) as set forth in the Frost & Sullivan Report, the market size by revenue for pearlescent pigment products in the PRC and international markets are expected to continue to grow at a CAGR of 30.8% and 23.9%, respectively, from 2021 to 2025, the market trend of which is consistent with the increasing demand from our customers and prospective customers;
- (2) in response to the growth in the market size, we plan to increase our production capacity for the production of pearlescent pigment products and in particular, high-end pearlescent pigment products, such as different grades of pearlescent pigment products (including those used in cosmetics, ceramics and automotive applications), and this business initiative necessitates the installation of advanced production facilities with high degree of automation and accuracy;
- (3) the current production facilities for the production of pearlescent pigment products at our Phase 1 Production Plant have been operated almost at full capacity and the utilisation rate has been close to 100% throughout the year, giving rise to the need for the construction of new production facilities and also to maintain our production efficiency, improve the product quality and reduce the production lead time; and
- (4) the increased production capacity would enhance our competitiveness and increase our market share in the PRC and the international markets.

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## FUTURE PLANS AND PROPOSED USE OF THE NET PROCEEDS FROM THE GLOBAL OFFERING

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In light of the above, we have started the technical designs of our Phase 2 Production Plant since September 2019. The total investment amount for our Phase 2 Production Plant is expected to be RMB1,337.9 million. As of the Latest Practicable Date, we have paid RMB304.6 million, among which, RMB37.4 million was used to acquire five parcels of land for our Phase 2 Production Plant. The five parcels of land are situated on the northwestern side of Xinliu Avenue (Duling Road Section), Luzhai County, Liuzhou City, Guangxi Zhuang Autonomous Region, the PRC with an aggregate site area of 148,713.7 sq.m.

We have obtained the construction works planning permit, construction works commencement permit and the requisite permits, and approvals in respect of environmental impact assessment before commencing such initial construction.

### Information on our Phase 2 Production Plant

Our Phase 2 Production Plant will be an industrial complex, with a total gross floor area of 145,180.3 sq.m., which will include:

- (a) four factory buildings with an aggregate designed annual production capacity of 30,000 tonnes of pearlescent pigment products;
- (b) supply of electricity facilities;
- (c) ancillary facilities and warehouses;
- (d) staff quarters;
- (e) administrative buildings; and
- (f) sewage treatment facilities.

### Expected total investment amount of our Phase 2 Production Plant

We plan to use RMB493.7 million (equivalent to HK\$586.4 million) out of the net proceeds from the Global Offering to partially finance the investment cost of our Phase 2 Production Plant, and the remaining balance of the investment cost of RMB600.8 million will be funded by our internal and/or external financial resources, including our cash and bank balance and bank borrowings. The table below sets forth the funding arrangement for the construction of our Phase 2 Production Plant:

	<i>RMB' million</i>
Total amount of investment for our Phase 2 Production Plant . . . . .	1,337.9
Less: Amount used by us for the preparation of the construction works . . . . .	<u>304.6</u>
Outstanding amount of investment . . . . .	<u><u>1,033.3</u></u>
Outstanding amount of investment to be funded by:	
(a) Net proceeds from the Global Offering . . . . .	493.7
(b) Our internal and/or external financial resources . . . . .	<u>539.6</u>
<b>Total</b>	<u><u>1,033.3</u></u>

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## FUTURE PLANS AND PROPOSED USE OF THE NET PROCEEDS FROM THE GLOBAL OFFERING

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### CONSTRUCTION OF OUR LUZHAI SYNTHETIC MICA PLANT

#### Background information

Our plan for the construction of Luzhai Synthetic Mica Plant has been originated since June 2019. Our Directors believe that there is a pressing need for us to increase our production capacity of synthetic mica flakes because of the following reasons:

- (1) as set forth in the Frost & Sullivan Report, the market size by revenue for synthetic mica in the PRC and the international markets is expected to continue to increase at a CAGR of 39.7% and 16.0%, respectively, from 2021 to 2025, the market trend of which is consistent with the increasing demand from our customers and prospective customers;
- (2) in response to the growth in the market size, we plan to increase our production capacity for the production of synthetic mica flakes and powder, and this business initiative necessitates the installation of advanced production facilities with high degree of automation and accuracy;
- (3) we also need increasing amount of synthetic mica powder to produce our synthetic mica-based pearlescent pigment products, otherwise it would create a bottleneck in the production process;
- (4) the current production facilities for the production of synthetic mica powder at our Phase 1 Production Plant have been operated almost at full capacity and the utilisation rate for the production of synthetic mica flakes has been 94.2% for the year ended 31 December 2020, giving rise to the need for the construction of new production facilities in the medium term; and
- (5) the increased production capacity would enhance our competitiveness and increase our market share in the PRC and the international markets.

In light of the above, we have started the technical designs of our Luzhai Synthetic Mica Plant since September 2019. The total investment amount for our Luzhai Synthetic Mica Plant is expected to be RMB471.1 million. As of the Latest Practicable Date, we have paid RMB29.4 million, among which, RMB10.4 million was used to acquire a parcel of land for our Luzhai Synthetic Mica Plant. The land parcel is situated on the southeastern side of National Highway G322 and the southwestern side of Mountain Guniang Luzhai County, Liuzhou City, Guangxi Zhuang Autonomous Region, the PRC with a site area of 42,467.2 sq.m.

#### Information on our Luzhai Synthetic Mica Plant

Our Luzhai Synthetic Mica Plant will have a total site area of 42,467.2 sq.m., which will include:

- (a) three factory buildings with an aggregate designed annual production capacity of 30,000 tonnes of synthetic mica flakes;
- (b) supply of electricity facilities;
- (c) ancillary facilities and warehouses;
- (d) staff quarters;
- (e) administrative buildings; and
- (f) sewage treatment facilities.

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**FUTURE PLANS AND PROPOSED USE OF  
THE NET PROCEEDS FROM THE GLOBAL OFFERING**

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**Expected total investment amount of our Luzhai Synthetic Mica Plant**

We plan to use RMB302.2 million (equivalent to HK\$358.9 million) out of the net proceeds from the Global Offering to partially finance the investment cost of our Luzhai Synthetic Mica Plant, and the remaining balance of the investment cost of RMB139.5 million will be funded by our internal and/or external financial resources including our cash and bank balances and bank borrowings. The table below sets forth the funding arrangement for the construction of Luzhai Synthetic Mica Plant:

	<i>RMB' million</i>
Total amount of investment for our Luzhai Synthetic Mica Plant . . . . .	471.1
Less: Amount used by us for the preparation works . . . . .	<u>29.4</u>
Outstanding amount of investment . . . . .	<u><u>441.7</u></u>
Outstanding amount of investment to be funded by:	
(a) Net proceeds from the Global Offering . . . . .	302.2
(b) Our internal or external financial resources . . . . .	<u>139.5</u>
<b>Total</b>	<u><u>441.7</u></u>

**PROPOSED USE OF THE NET PROCEEDS FROM THE GLOBAL OFFERING**

The table below sets forth the estimate of net proceeds from the Global Offering which we will receive after deduction of underwriting fees and commissions and estimated expenses in connection with the Listing and the Global Offering:

	<b>Assuming the Over-allotment Option is not exercised</b>	<b>Assuming the Over-allotment Option is exercised in full</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Assuming that the Offer Price is HK\$3.17 (after the Downward Offer Price Adjustment of 10%) . . . . .	HK\$ 856.6	HK\$ 989.9
Assuming that the Offer Price is HK\$3.52 (being the low-end of the indicative range of the Offer Price) . . . . .	HK\$ 954.7	HK\$1,102.8
Assuming that the Offer Price is HK\$3.87 (being the mid-point of the indicative range of the Offer Price) . . . . .	HK\$1,052.9	HK\$1,215.7
Assuming that the Offer Price is HK\$4.22 (being the high-end of the indicative range of the Offer Price) . . . . .	HK\$1,151.1	HK\$1,328.6

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## FUTURE PLANS AND PROPOSED USE OF THE NET PROCEEDS FROM THE GLOBAL OFFERING

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Assuming that the Offer Price would be HK\$3.87, being the mid-point of the indicative range of the Offer Price, we intend to use the net proceeds from the Global Offering for the following purposes:

- (1) 55.6% of the net proceeds from the Global Offering, or HK\$586.4 million (equivalent to RMB493.7 million), will be used for partial financing of the construction of our Phase 2 Production Plant. The following sets forth further information on each usage;
  - (a) *Payment of construction cost:* 27.8% of the net proceeds from the Global Offering, or HK\$293.2 million (equivalent to RMB246.9 million), will be used for partial payment of construction cost of factory buildings, staff quarters, sewage treatment facilities, electricity supply station and ancillary facilities and warehouses; and
  - (b) *Purchase of production machinery and equipment and facilities installation:* 27.8% of the net proceeds from the Global Offering, or HK\$293.2 million (equivalent to RMB246.8 million), will be used for the purchase and installation of production plant and machinery and installation of an intelligent control system, equipment installation, testing and commissioning.

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**FUTURE PLANS AND PROPOSED USE OF  
THE NET PROCEEDS FROM THE GLOBAL OFFERING**

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The table below sets forth detailed information on the intended applications of the net proceeds from the Global Offering and the implementation plan for the construction of our Phase 2 Production Plant:

<b>Intended use of the net proceeds from the Global Offering</b>	<b>Particulars</b>	<b>Total gross floor area (sq.m.)</b>	<b>Estimated total investment (RMB'million)</b>	<b>Amount of investment expected to be settled using the net proceeds from the Global Offering (RMB'million)</b>	<b>Expected completion dates</b>	
<b>Construction costs . . . . .</b>	Plant No. 1	20,909.0	51.2	15.9	Fourth quarter of 2021	
	Plant No. 2	28,113.4	75.8	22.5	Fourth quarter of 2021	
	Storage tank for raw materials	430.0	3.9	1.8	Fourth quarter of 2021	
	Ancillary Workshop No. 1	268.0	1.5	0.9	Fourth quarter of 2021	
	Ancillary Workshop No. 2	163.6	0.9	0.6	Fourth quarter of 2021	
	Warehouse No. 1	15,138.0	45.2	17.9	Fourth quarter of 2021	
	Warehouse No. 2	1,160.3	4.6	2.3	Fourth quarter of 2021	
	Warehouse No. 3	553.0	2.4	0.9	Fourth quarter of 2021	
	Repairs and maintenance workshop	2,880.0	9.4	5.6	Fourth quarter of 2021	
	Production Complex	8,151.8	32.0	19.0	Fourth quarter of 2021	
	Staff quarter	8,491.1	29.2	12.6	Fourth quarter of 2021	
	Plant No. 3	23,718.5	51.0	30.4	First quarter of 2023	
	Plant No. 4	11,754.5	35.4	21.1	First quarter of 2023	
	Technology Complex	15,276.1	33.9	20.2	First quarter of 2023	
	Outdoor area	Not applicable		63.0	12.6	First quarter of 2023
	Other facilities and foundation works	5,165.0		160.6	62.6	First quarter of 2023
<b>Total</b>			<u>600.0</u>	<u>246.9</u>		



**FUTURE PLANS AND PROPOSED USE OF  
THE NET PROCEEDS FROM THE GLOBAL OFFERING**

Intended use of the net proceeds from the Global Offering	Particulars	Quantity	Estimated total investment (RMB'million)	Amount of investment expected to be settled using the net proceeds from the Global Offering (RMB'million)	Expected installation dates
<b>Purchase of production machinery and equipment</b>	<b>Types of machinery and equipment</b>				
	Mica grinding processing and production line (雲母研磨加工生產線)	4	87.8	43.8	Purchase and installation in different phases in (a) the fourth quarter of 2021 and the fourth quarter of 2022 and (b) the fourth quarter of 2023 and the fourth quarter of 2024
	Hydrolysis reaction equipment (水解反應設備)	100	67.2	35.7	Purchase and installation in different phases in (a) the fourth quarter of 2021 and the fourth quarter of 2022 and (b) the fourth quarter of 2023 and the fourth quarter of 2024
	Storage of ancillary materials and production line for mixing of ingredients	5	14.2	8.4	Purchase and installation in different phases in (a) the fourth quarter of 2021 and the fourth quarter of 2022 and (b) the fourth quarter of 2023 and the fourth quarter of 2024
	Pearlescent calcination production line (珠光煨燒生產線)	22	95.2	52.2	Purchase and installation in different phases in (a) the fourth quarter of 2021 and the fourth quarter of 2022 and (b) the fourth quarter of 2023 and the fourth quarter of 2024
	Storage and packaging equipment	5	53.7	29.6	Purchase and installation in different phases in (a) the fourth quarter of 2021 and the fourth quarter of 2022 and (b) the fourth quarter of 2023 and the fourth quarter of 2024

**FUTURE PLANS AND PROPOSED USE OF  
THE NET PROCEEDS FROM THE GLOBAL OFFERING**

Intended use of the net proceeds from the Global Offering	Particulars	Quantity	Estimated total investment (RMB'million)	Amount of investment expected to be settled using the net proceeds from the Global Offering (RMB'million)	Expected installation dates
<b>Purchase of production machinery and equipment</b>	DCS Intelligent Control System	1	60.6	39.0	Purchase and installation in different phases in (a) the fourth quarter of 2021 and the fourth quarter of 2022 and (b) the fourth quarter of 2023 and the fourth quarter of 2024
	Power supply facilities	1	33.8	21.7	Purchase and installation in different phases in (a) the fourth quarter of 2021 and the fourth quarter of 2022 and (b) the fourth quarter of 2023 and the fourth quarter of 2024
	Other public works and equipment	1	26.4	16.4	Purchase and installation in different phases in (a) the fourth quarter of 2021 and the fourth quarter of 2022 and (b) the fourth quarter of 2023 and the fourth quarter of 2024
<b>Total</b>			<u>438.9</u>	<u>246.8</u>	

(2) 34.1% of the net proceeds from the Global Offering, or HK\$358.9 million (equivalent to RMB302.2 million), will be used for partial financing of the construction of our Luzhai Synthetic Mica Plant. The following sets forth further information on each usage;

- (a) *Payment of construction cost:* 17.8% of the net proceeds from the Global Offering, or HK\$187.7 million (equivalent to RMB158.0 million), will be used for the partial payment of the construction cost of factory buildings, warehouse for finished products and relevant facilities with a total gross floor area of 40,943 sq.m. and construction of air circulation system, electricity supply station, water recycling system and other ancillary facilities and part of the decoration cost; and
- (b) *Purchase of production machinery and equipment and facilities installation:* 16.3% of the net proceeds from the Global Offering, or HK\$171.2 million (equivalent to RMB144.2 million), will be used for partial payment of the purchase and installation of 60 synthetic mica melting furnaces and the intelligent control system.

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**FUTURE PLANS AND PROPOSED USE OF  
THE NET PROCEEDS FROM THE GLOBAL OFFERING**

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The table below sets forth detailed information on the intended applications of the net proceeds from the Global Offering and the implementation plan for the construction of Luzhai Synthetic Mica Plant:

<b>Intended use of the net proceeds from the Global Offering</b>	<b>Particulars</b>	<b>Total gross floor area (sq.m.)</b>	<b>Estimated total investment (RMB'million)</b>	<b>Amount of investment expected to be settled using the net proceeds from the Global Offering (RMB'million)</b>	<b>Expected completion dates</b>
<b>Construction costs . . . . .</b>	Plant No.1	14,756.0	42.0	38.8	First quarter of 2022
	Plant No.2	2,300.0	13.1	12.1	First quarter of 2022
	Plant No. 3	20,042.0	56.9	52.4	First quarter of 2022
	Engine room	540.0	2.4	2.2	First quarter of 2022
	Power substation	450.0	2.0	1.9	First quarter of 2022
	Exhaust gas absorption system	Not Applicable	0.7	0.6	First quarter of 2022
	Water recycling facilities	Not Applicable	4.7	4.3	First quarter of 2022
	Door entrance No. 1	20.0	0.8	0.7	First quarter of 2022
	Door entrance No. 2	20.0	0.8	0.7	First quarter of 2022
	Warehouse for finished products	2,815.0	10.1	9.3	First quarter of 2022
	Outdoor area	Not Applicable	17.1	15.8	First quarter of 2022
	Geological works	Not Applicable	20.8	19.2	First quarter of 2022
<b>Total</b>			<u>171.4</u>	<u>158.0</u>	

**FUTURE PLANS AND PROPOSED USE OF  
THE NET PROCEEDS FROM THE GLOBAL OFFERING**

Intended use of the net proceeds from the Global Offering	Particulars	Quantity	Estimated total investment (RMB'million)	Amount of investment expected to be settled using the net proceeds from the Global Offering (RMB'million)	Expected installation dates
<b>Purchase of production machinery and equipment</b>	<b>Types of machinery and equipment</b>				
	Raw material batching system (配料系統)	2	4.0	3.2	Purchase and installation in different phases in the first quarter of 2022 and the first quarter of 2024
	Melting furnace (熔制窯爐)	60	42.1	33.6	Purchase and installation in different phases in the first quarter of 2022, 2023, 2024 and 2025
	Furnace supporting facilities transfer system (窯爐配套轉運系統)	1	7.8	6.2	Purchase and installation in the first quarter of 2022
	Crushing and packaging equipment (破碎與包裝設備)	2	3.8	3.0	Purchase and installation in the first quarter of 2022 and the first quarter of 2024
	Air treatment facilities (空氣處理設備)	1	1.7	1.3	Purchase and installation in the first quarter of 2022
	Pulping and drying equipment (制漿壓幹設備)	26	39.1	31.3	Purchase and installation in different phases in the first quarter of 2022, 2023, 2024 and 2025
	Mica grinding and classification equipment (雲母研磨分級設備)	22	46.5	37.3	Purchase and installation in different phases in the first quarter of 2022, 2023, 2024 and 2025
	Steamer and dryer	2	0.9	0.7	Purchase and installation in the first quarter of 2022 and the first quarter of 2024
	Weighing and transportation equipment	2	2.7	2.2	Purchase and installation in the first quarter of 2022 and the first quarter of 2024
Water supply system	1	7.0	5.6	Purchase and installation in the first quarter of 2022	

**FUTURE PLANS AND PROPOSED USE OF  
THE NET PROCEEDS FROM THE GLOBAL OFFERING**

Intended use of the net proceeds from the Global Offering	Particulars	Quantity	Estimated total investment (RMB'million)	Amount of investment expected to be settled using the net proceeds from the Global Offering (RMB'million)	Expected installation dates
Purchase of production machinery and equipment.	Electricity supply system	1	15.0	11.9	Purchase and installation in the first quarter of 2022
	Intelligent Distributed Control System	1	9.9	7.9	Purchase and installation in the first quarter of 2022
<b>Total</b>			<u>180.5</u>	<u>144.2</u>	

- (3) 7.1%, or HK\$74.0 million (equivalent to RMB62.3 million), will be used to increase our investment in research and development facilities and testing equipment of our research and development centre. To this end, we intend to invest in the following and plan to complete before the fourth quarter of 2022:
- (a) 1.7%, or HK\$17.6 million (equivalent to RMB14.8 million), will be used for research and development in cosmetic-grade and weather resistant pearlescent pigment products and pearlescent pigment products with special functions to further enhance and build up a comprehensive portfolio of high-end pearlescent pigment products;
  - (b) 1.7%, or HK\$17.6 million (equivalent to RMB14.8 million), will be used for further research and development on synthetic mica, glass flakes, alumina flakes, graphene and other new substrates for pearlescent pigment products; and
  - (c) 3.7%, or HK\$38.8 million (equivalent to RMB32.7 million), will be used to improve the facilities of our laboratory and increase the number of testing equipment in our research and development centre, including construction of a new research centre on synthetic mica; laboratories for new products, innovative product applications and testing of heavy metals and microbiological elements; and acquisition of new equipment, such as ICP-MS heavy metal analyser, X-ray powder diffractometer (X射線粉末衍射儀), X-ray photoelectron spectrometer (X射線光電子能譜儀) and other research facilities for testing of new substrates.
- (4) 3.2%, or HK\$33.6 million (equivalent to RMB28.3 million), will be used for sales and marketing activities and building sales network to enhance our brand recognition in the PRC and overseas. To this end, we intend to invest in the following and plan to complete before the fourth quarter of 2023:
- (a) 1.7%, or HK\$17.7 million (equivalent to RMB14.8 million), will be used for advertising and promotional activities on printed and online media, including industry journals, periodicals, online platforms and social media, product catalogue, and other promotional video to enhance our brand image;

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## FUTURE PLANS AND PROPOSED USE OF THE NET PROCEEDS FROM THE GLOBAL OFFERING

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- (b) 0.7%, or HK\$7.1 million (equivalent to RMB6.0 million), will be used for organising technology training seminars and technology forums; and
- (c) 0.8%, or HK\$8.8 million (equivalent to RMB7.4 million), will be used for participation in exhibitions and industry events in the PRC and abroad.

If the Offer Price is finally determined to be HK\$3.52 (being the low-end of the indicative range of the Offer Price), the net proceeds from the Global Offering will be decreased by HK\$98.2 million and the above allocations of the net proceeds from the Global Offering will decrease on a pro rata basis.

If the Offer Price is finally determined to be HK\$4.22 (being the high-end of the indicative range of the Offer Price), the additional net proceeds from the Global Offering of HK\$98.2 million will be used for increasing the amounts to be used for financing the construction cost of our Phase 2 Production Plant and Luzhai Synthetic Mica Plant.

If the Offer Price is determined at HK\$4.22 (being the high-end of the indicative range of the Offer Price) and assuming that the Over-allotment Option is exercised in full, the additional net proceeds from the Global Offering would increase by HK\$275.7 million, which will be used for increase the amounts to be used for financing the construction cost of our Phase 2 Production Plant and Luzhai Synthetic Mica Plant.

If the Downward Offer Price Adjustment is made and the Offer Price is determined at HK\$3.17, the amount of the estimated net proceeds from the Global Offering will be reduced to HK\$856.6 million and HK\$989.9 million (on the basis that the Over-allotment Option is exercised in full). Under such circumstances, we will adjust the allocation of the proposed use of the net proceeds from the Global Offering for the above purposes on a pro rata basis.

To the extent that the net proceeds from the Global Offering are not sufficient to fund the projects as set forth above, we intend to finance the balance through a variety of means, including cash generated from our operations, bank loans and other borrowings, as appropriate. Should our Directors decide to re-allocate the intended use of proceeds from the Global Offering to other business plans and/ or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes and to the extent permitted by applicable law and regulations, if we are unable to effect any part of our future plans as intended, we will deposit the unused net proceeds from the Global Offering in short-term deposits with authorised financial institutions and/or licensed banks in Hong Kong or the PRC.

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## CORNERSTONE INVESTMENTS

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### CORNERSTONE INVESTMENTS

As part of the International Offering, the Cornerstone Investment (Shanghai Huijin) Agreement and the Cornerstone Investment (YBN Investments) Agreement have been entered into, pursuant to which Shanghai Huijin and YBN Investments have respectively agreed to invest RMB32.0 million and HK\$50.0 million for the subscription for our International Offer Shares at the Offer Price, rounded down to the nearest board lot of 1,000 Shares. Following the Listing, Shanghai Huijin No. 3 Fund and YBN Investments will hold our International Offer Shares issued and allotted to Shanghai Huijin and YBN Investments, respectively.

Our Directors consider that the investment made by the Cornerstone Investors, which form part of the International Offering, would facilitate successful completion of the Global Offering. We have acquainted with each of the Cornerstone Investors through referral by the Underwriters as part of the book-building process for the Global Offering. Our International Offer Shares to be subscribed for by the Cornerstone Investors (a) will rank *pari passu* in all respects with the other fully paid Shares in issue upon completion of the Global Offering and the Capitalisation Issue and (b) will be counted towards the public float of our Company. The Cornerstone Investors will pay their respective agreed investment amount in full for subscription for our International Offer Shares before the Listing.

Assuming that the Offer Price is HK\$3.52 (being the low-end of the indicative range of the Offer Price), the total number of our International Offer Shares to be subscribed for by the Cornerstone Investors would be 24,733,000 Shares, representing:

- (a) 9.45% of the initial number of our International Offer Shares (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme); or
- (b) 8.51% of the initial number of our Offer Shares or 2.13% of the number of our Shares in issue immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme); or
- (c) 7.40% of the initial number of our Offer Shares or 2.05% of the number of our Shares in issue immediately upon completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is exercised in full but without taking into consideration any Shares which may be issued pursuant to the exercise of any option that may be granted under the Post-IPO Share Option Scheme).

Assuming that the Offer Price is HK\$3.87 (being the mid-point of the indicative range of the Offer Price), the total number of our International Offer Shares to be subscribed for by the Cornerstone Investors would be 22,495,000 Shares, representing:

- (a) 8.60% of the initial number of our International Offer Shares (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme); or

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## CORNERSTONE INVESTMENTS

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- (b) 7.73% of the initial number of our Offer Shares or 1.93% of the number of our Shares in issue immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme); or
- (c) 6.72% of the initial number of our Offer Shares or 1.86% of the number of our Shares in issue immediately upon completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is exercised in full but without taking into consideration any Shares which may be issued pursuant to the exercise of any option that may be granted under the Post-IPO Share Option Scheme).

Assuming that the Offer Price is HK\$4.22 (being the high-end of the indicative range of the Offer Price), the total number of our International Offer Shares to be subscribed for by the Cornerstone Investors would be 20,630,000 Shares, representing:

- (a) 7.89% of the initial number of our International Offer Shares (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme); or
- (b) 7.10% of the initial number of our Offer Shares or 1.78% of the number of our Shares in issue immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme); or
- (c) 6.17% of the initial number of our Offer Shares or 1.71% of the number of our Shares in issue immediately upon completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is exercised in full but without taking into consideration any Shares which may be issued pursuant to the exercise of any option that may be granted under the Post-IPO Share Option Scheme).

To the best knowledge of our Directors, (a) each of the Cornerstone Investors is an Independent Third Party and is not our connected person (as defined in the Listing Rules); (b) none of the Cornerstone Investors is accustomed to take instructions from our Company, our Directors, our Controlling Shareholders, chief executive, substantial Shareholders, existing Shareholders or any of its subsidiaries or their respective close associates in relation to the acquisition, disposal, voting or other disposition of the Shares registered in its name or otherwise held by it; and (c) none of the subscription for our International Offer Shares by any of the Cornerstone Investors is financed by our Company, our Directors, our Controlling Shareholders, chief executive, substantial Shareholders, existing Shareholders or any of its subsidiaries or their respective close associates.

As confirmed by each of the Cornerstone Investors, its subscription for the Cornerstone Investment Shares would be financed by its own internal financial resources. There are no side agreements or arrangements between our Company and the Cornerstone Investors or any benefit, direct or indirect, conferred on the Cornerstone Investors by virtue of or in relation to their subscription for our International Offer Shares, other than a guaranteed allocation of the relevant Offer Shares at the final Offer Price.



## CORNERSTONE INVESTMENTS

The Cornerstone Investors will not subscribe for any Offer Shares other than pursuant to the Cornerstone Investment Agreements. Immediately following completion of the Global Offering and the Capitalisation Issue, the Cornerstone Investors will not have any Board representation in our Company, nor will the Cornerstone Investors become a substantial shareholder (as defined under the Listing Rules) of our Company. Hence, the Cornerstone Investors are independent of our Company, our connected persons and their respective associates. No special rights have been granted to the Cornerstone Investors pursuant to the investment made by the Cornerstone Investors.

Our International Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of our Offer Shares between the International Offering and the Hong Kong Public Offering as described in the section headed “Structure and Conditions of the Global Offering — The Hong Kong Public Offering — Reallocation” in this prospectus. There is no mechanism for the delayed settlement of the investment amounts or deferred delivery arrangement in respect of our International Offer Shares to be subscribed for by the Cornerstone Investors under the Cornerstone Investment Agreements.

The actual number of our International Offer Shares to be allocated to the Cornerstone Investors will be disclosed in our announcement of results of allocations of our Offer Shares under the Global Offering on or around Thursday, 15 July 2021.

### NUMBER OF OUR INTERNATIONAL OFFER SHARES TO BE SUBSCRIBED BY THE CORNERSTONE INVESTORS

The tables below set forth further information on the investments made by the Cornerstone Investors at different levels with the indicative range of Offer Price:

Assuming that the Offer Price is HK\$3.52 (being the low-end of the indicative range of the Offer Price):

Cornerstone Investor	Investment amount <sup>(1)</sup>	Number of International Offer Shares to be subscribed for (rounded down to nearest whole board lot of 1,000 Shares)	Percentage to the initial number of our Offer Shares		Percentage to the initial number of our Shares in issue immediately upon completion of the Global Offering and the Capitalisation Issue	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Shanghai Huijin (through Shanghai Huijin No. 3 Fund) . . . . .	RMB32.0 million <sup>(2)</sup>	10,529,000	3.62%	3.15%	0.91%	0.87%
YBN Investments . . . . .	HK\$50.0 million <sup>(3)</sup>	14,204,000	4.89%	4.25%	1.22%	1.18%
<b>Total</b>	<b>HK\$88.0 million</b>	<b>24,733,000</b>	<b>8.51%</b>	<b>7.40%</b>	<b>2.13%</b>	<b>2.05%</b>

## CORNERSTONE INVESTMENTS

*Notes:*

- (1) The actual investment amount of Shanghai Huijin in Hong Kong dollars is based on the exchange rate as disclosed in this prospectus.
- (2) The investment amount is inclusive of brokerage, transaction levy and trading fee, as well as the fee payable to Essence Securities Asset Management Co., Ltd., which Shanghai Huijin will pay in respect of such International Offer Shares.
- (3) The investment amount is exclusive of brokerage, transaction levy and trading fee which YBN Investments will pay in respect of such International Offer Shares.

Assuming that the Offer Price is HK\$3.87 (being the mid-point of the indicative range of the Offer Price):

Cornerstone Investor	Investment amount <sup>(1)</sup>	Number of International Offer Shares to be subscribed for (rounded down to nearest whole board lot of 1,000 Shares)	Percentage to the initial number of our Offer Shares		Percentage to the initial number of our Shares in issue immediately upon completion of the Global Offering and the Capitalisation Issue	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Shanghai Huijin (through Shanghai Huijin No. 3 Fund) . . . . .	RMB32.0 million <sup>(2)</sup>	9,576,000	3.29%	2.86%	0.82%	0.79%
YBN Investments. . . . .	HK\$50.0 million <sup>(3)</sup>	12,919,000	4.44%	3.86%	1.11%	1.07%
<b>Total</b>	<b>HK\$88.0 million</b>	<b>22,495,000</b>	<b>7.73%</b>	<b>6.72%</b>	<b>1.93%</b>	<b>1.86%</b>

*Notes:*

- (1) The actual investment amount of Shanghai Huijin in Hong Kong dollars is based on the exchange rate as disclosed in this prospectus.
- (2) The investment amount is inclusive of brokerage, transaction levy and trading fee, as well as the fee payable to Essence Securities Asset Management Co., Ltd., which Shanghai Huijin will pay in respect of such International Offer Shares.
- (3) The investment amount is exclusive of brokerage, transaction levy and trading fee which YBN Investments will pay in respect of such International Offer Shares.

## CORNERSTONE INVESTMENTS

Assuming that the Offer Price is HK\$4.22 (being the high-end of the indicative range of the Offer Price):

Cornerstone Investor	Investment amount <sup>(1)</sup>	Number of International Offer Shares to be subscribed for (rounded down to nearest whole board lot of 1,000 Shares)	Percentage to the initial number of our Offer Shares		Percentage to the initial number of our Shares in issue immediately upon completion of the Global Offering and the Capitalisation Issue	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Shanghai Huijin (through Shanghai Huijin No. 3 Fund) . . . . .	RMB32.0 million <sup>(2)</sup>	8,782,000	3.02%	2.63%	0.76%	0.73%
YBN Investments . . . . .	HK\$50.0 million <sup>(3)</sup>	11,848,000	4.08%	3.54%	1.02%	0.98%
<b>Total</b>	<b>HK\$88.0 million</b>	<b>20,630,000</b>	<b>7.10%</b>	<b>6.17%</b>	<b>1.78%</b>	<b>1.71%</b>

*Notes:*

- (1) The actual investment amount of Shanghai Huijin in Hong Kong dollars is based on the exchange rate as disclosed in this prospectus.
- (2) The investment amount is inclusive of brokerage, transaction levy and trading fee, as well as the fee payable to Essence Securities Asset Management Co., Ltd., which Shanghai Huijin will pay in respect of such International Offer Shares.
- (3) The investment amount is exclusive of brokerage, transaction levy and trading fee which YBN Investments will pay in respect of such International Offer Shares.

### INFORMATION ON SHANGHAI HUIJIN AND YBN INVESTMENTS

#### Shanghai Huijin

Shanghai Huijin No. 3 Fund will hold our International Offer Shares issued and allotted to Shanghai Huijin following the Listing. Shanghai Huijin No. 3 Fund is an investment fund in the PRC and managed by Shanghai Huijin. The largest investor of the Shanghai Huijin No. 3 Fund is LIU Qun (刘群) who owns 31.2% interest in the investment fund and an Independent Third Party. Shanghai Huijin Asset Management Co., Ltd., founded by Ms. JU Wei in October 2015, is a company established under the laws of the PRC and a wholly-owned subsidiary of Shanghai Huijin Enterprise Management Group Co., Ltd. Shanghai Huijin is a private equity investment fund manager registered with the Asset Management Association of China. Shanghai Huijin's principal business activities include asset management and investment management. The value of the assets under management of Shanghai Huijin exceeds RMB300 million.

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## CORNERSTONE INVESTMENTS

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Shanghai Huijin has engaged Essence Securities Asset Management Co., Ltd., an asset manager that is a qualified domestic institutional investor approved by the relevant PRC Government (the “**QDII Manager**”), in the name of Essence Securities Asset Management Co., Ltd. - QDII2021-02, to subscribe for and hold our International Offer Shares allocated to it on a discretionary basis on behalf of Shanghai Huijin. Following the Listing, Shanghai Huijin No. 3 Fund will hold our International Offer Shares issued and allotted to Shanghai Huijin. As the QDII Manager and the Sole Global Coordinator are within the same group of companies, the QDII Manager is a connected client of the Sole Global Coordinator under paragraph 13(7) of Appendix 6 to the Listing Rules. Accordingly, the participation of Shanghai Huijin as one of the Cornerstone Investors through the QDII Manager is subject to the consent from the Stock Exchange under paragraph 5(1) of Appendix 6 to the Listing Rules.

An application has been made to the Stock Exchange for, and the Stock Exchange has granted, a consent under paragraph 5(1) of Appendix 6 to the Listing Rules to allow our International Offer Shares to be allocated to the QDII Manager (to be held on behalf of Shanghai Huijin) as a “connected client” of the Sole Global Coordinator on the following conditions:

- (a) Our International Offer Shares to be allocated to the QDII Manager will be held on behalf of Shanghai Huijin in funds or accounts on a discretionary basis where Shanghai Huijin being the beneficial owner, is an Independent Third Party, as confirmed by the QDII Manager.
- (b) Our Company and the Sole Global Coordinator confirm to the Stock Exchange that no preferential treatment has been nor will be given to the QDII Manager by virtue of its relationship with Essence International Securities (Hong Kong) Limited acting in the capacity as the Sole Global Coordinator (other than the preferential treatment of assured entitlement under the cornerstone investment following the principles set forth in the Guidance Letter HKEx-GL51-13), nor are there material terms in the Cornerstone Investment (Shanghai Huijin) Agreement which are more favourable to the QDII Manager than those in other cornerstone investment agreements, if applicable, and details of the allocation of International Offer Shares to Shanghai Huijin will be disclosed in the allotment results announcement of the Global Offering to be published by our Company.
- (c) The QDII Manager confirms to the Sole Sponsor and the Stock Exchange that it has not received and will not receive preferential treatment in the allocation of our International Offer Shares on behalf of Shanghai Huijin as one of the Cornerstone Investors by virtue of its relationship with the Sole Global Coordinator, other than the preferential treatment of assured entitlement under the cornerstone investment.
- (d) The Sole Sponsor confirms to the Stock Exchange that it has no reason to believe that the QDII Manager has received any preferential treatment in the allocation of our International Offer Shares to Shanghai Huijin as one of the Cornerstone Investors by virtue of the QDII Manager’s relationship with the Sole Global Coordinator, other than the preferential treatment of assured entitlement under the cornerstone investment.

See the section headed “Waivers from strict compliance with the Listing Rules — Consent to the proposed allocation of Shares to a connected client of the Sole Global Coordinator” in this prospectus for further information.

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## CORNERSTONE INVESTMENTS

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### YBN Investments

YBN Investments is a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of YBN International Holdings Limited, which is a company incorporated under the laws of the BVI with limited liability and controlled by YBN Holdings Limited (formally known as CITIC YBN Capital Limited). To the best of our Directors' knowledge, having made all reasonable inquiries, YBN Holdings Limited is owned as to 46.75% by CITIC International Assets Management Limited, 15.0% by a company which is ultimately wholly-owned by a private investor and 38.25% by a company controlled by another four private investors as to 55.6%, 22.2%, 11.1% and 11.1%, respectively. To the best of our Directors' knowledge, having made all reasonable enquiries, all these private investors are Independent Third Parties.

To the best of our Directors' knowledge, having made all reasonable inquiries, CITIC International Assets Management Limited is ultimately and beneficially owned by two companies, which are dual-listed on the Stock Exchange and the Shanghai Stock Exchange, a company listed on the Boursa Kuwait and another company listed on the Tokyo Stock Exchange. YBN Investments has confirmed to our Company that no approval from any of these stock exchanges or the shareholders of YBN Investments and any of the four listed companies would be required for the proposed equity investment by our Company under the Cornerstone Investment (YBN Investments) Agreement.

### CONDITIONS PRECEDENT

The obligations of the Cornerstone Investors to subscribe for our International Offer Shares under the Cornerstone Investment Agreements are subject to the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement shall have been entered into and become effective and all of the conditions precedent to completion set forth therein shall have been satisfied in accordance with their respective original terms (or as subsequently waived, to the extent it may be waived, by the relevant parties thereto) by no later than the respective time and date specified therein;
- (b) the Offer Price having been agreed by the Sole Global Coordinator and our Company in connection with the Global Offering;
- (c) neither of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been terminated in accordance with their respective original terms or as subsequently varied by agreement of the parties thereto;
- (d) the respective representations, warranties, undertakings, confirmation, agreements and acknowledgements of the Cornerstone Investors are and will be as of the respective dates set forth in the relevant Cornerstone Investment Agreements accurate and true in all material respects and not misleading and there is no material breach of the relevant Cornerstone Investment Agreements by our Company and the Cornerstone Investors;

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## CORNERSTONE INVESTMENTS

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- (e) the Listing Committee having granted or agreeing to grant the listing of, and permission to deal in, our Shares (including the Cornerstone Investment Shares as well as other applicable waivers and approvals) on the Main Board and that such approval, permission or waiver has not been revoked;
- (f) the Listing shall take place on or before 15 December 2021; and
- (g) no laws (as defined therein) shall have been enacted or promulgated by any Government Authority (as defined therein) which prohibits completion of the investment by the Cornerstone Investors and there shall be no order or injunction of a court of competent jurisdiction in effect precluding or prohibiting completion of the investment by the Cornerstone Investors.

### RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Pursuant to the Cornerstone Investment Agreements, each of the Cornerstone Investors has agreed and undertaken to our Company and the Sole Global Coordinator that, without the prior written consent of our Company and the Sole Global Coordinator:

- (a) it shall not, whether directly or indirectly, at any time during a period of six months from and inclusive of the Listing Date (the “**Lock-up Period**”), (i) dispose of the Cornerstone Investment Shares and any Shares or other securities of our Company which are derived from our Shares (pursuant to any rights issue, capitalisation issue or other form of capital reorganisation) (the “**Relevant Shares**”) or any interest in any company or entity holding any of the Relevant Shares; (ii) undergo a change of control (as defined in The Takeovers Codes) at the level of its ultimate beneficial owner or (iii) enter into any transactions directly or indirectly with the same economic effect as any aforesaid transaction; and
- (b) at any time after the expiry of the Lock-up Period, in the event that the Cornerstone Investor enters into any transactions to dispose of any Relevant Shares, or agrees or contracts to, or publicly announces an intention to enter into any such transactions, the Cornerstone Investor shall first give reasonable notice to our Company and the Sole Global Coordinator in writing prior to the disposal of any Relevant Shares and shall take all reasonable steps to ensure that such disposal will not create a disorderly or false market in our Shares and will comply with all applicable laws and regulations and rules of securities exchanges of all competent jurisdictions including the Listing Rules, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance, and the SFO.

Notwithstanding the above, the Cornerstone Investors may transfer all or part of the Relevant Shares to its wholly-owned subsidiaries, provided that the transferee will undertake that it will abide by the obligations of the Cornerstone Investors under the Cornerstone Investment Agreements.

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## UNDERWRITING

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### HONG KONG UNDERWRITERS

#### Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager

Essence International Securities (Hong Kong) Limited

#### Joint Bookrunners and Joint Lead Managers

(In alphabetical order)

BOCOM International Securities Limited  
China Industrial Securities International Capital Limited  
China PA Securities (Hong Kong) Company Limited  
CMBC Securities Company Limited  
GF Securities (Hong Kong) Brokerage Limited  
Guosen Securities (HK) Capital Company Limited  
Guotai Junan Securities (Hong Kong) Limited  
Shenwan Hongyuan Securities (H.K.) Limited  
SPDB International Capital Limited  
Yue Xiu Securities Company Limited

#### Joint Lead Managers

(In alphabetical order)

Futu Securities International (Hong Kong) Limited  
Fuyuan Securities Limited  
HK Monkey Securities Limited  
Soochow Securities International Brokerage Limited  
Valuable Capital Limited  
Zhongtai International Securities Limited

### UNDERWRITING ARRANGEMENTS AND EXPENSES

#### Hong Kong Public Offering

##### *Hong Kong Underwriting Agreement*

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering 29,068,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on, and subject to, the terms and conditions set out in this prospectus and the Application Forms.

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## UNDERWRITING

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Subject to:

- (a) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus and such listing and permission not subsequently being revoked; and
- (b) certain other conditions set out in the Hong Kong Underwriting Agreement (including but not limited to the Offer Price being agreed upon between us and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters)),

the Hong Kong Underwriters have agreed severally, and not jointly, to subscribe for, or procure subscribers for, our Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering, on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters), the Global Offering will not proceed and will lapse.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated.

### *Grounds for termination*

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for our Hong Kong Offer Shares will be subject to termination by notice in writing to our Company from the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) with immediate effect if any of the following events occur at or prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Sole Global Coordinator:
  - (i) that any statement contained in any of this prospectus, the Application Forms and/or any notices, regulatory announcements, supplemental offering documents or other materials issued or used by or on behalf of our Company in connection with the Global Offering (including any supplement or amendments thereto) (collectively, the “**Relevant Documents**”), was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or
  - (ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute an omission therefrom; or
  - (iii) any breach of any of the obligations imposed or to be imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or



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## UNDERWRITING

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- (iv) any event, act or omission which gives or is likely to give rise to any liability of any of our Company, our executive Directors and the Controlling Shareholder(s) (the “Warrantors”) pursuant to the indemnities given by them under the Hong Kong Underwriting Agreement or under the International Underwriting Agreement; or
- (v) any change or development involving a prospective adverse change in the assets, liabilities, general affairs, management, business prospects, shareholders’ equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group (“Group Company”); or
- (vi) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the representations, warranties, agreements and undertakings to be given by the Warrantors respectively in terms set out in the Hong Kong Underwriting Agreement; or
- (vii) the approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) our Company withdraws any of the Relevant Documents or the Global Offering; or
- (ix) any person (other than the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- (x) that a petition or an order is presented for the winding-up or liquidation of any Group Company or any Group Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any Group Company or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any Group Company or anything analogous thereto occurs in respect of any Group Company; or
- (xi) an authority or a political body or organisation in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of the Directors and senior management member of the Group as set out in the “Directors, Senior Management and Employees” section of this prospectus; or
- (xii) a portion of the orders in the book building process, which is considered by the Sole Global Coordinator in its absolute opinion to be material, at the time the International Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled, and the Sole Global Coordinator, in its absolute opinion, conclude that it is inadvisable or inexpedient or impracticable to proceed with the Global Offering; or

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## UNDERWRITING

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- (xiii) any loss or damage has been sustained by any Group Company (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Sole Global Coordinator in its absolute opinion to be material; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome (SARS), avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome, coronavirus (including COVID-19) or such related or mutated forms) or interruption or delay in transportation); or
  - (ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets); or
  - (iii) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Tokyo Stock Exchange; or
  - (iv) any new law(s), rule(s), statute(s), ordinance(s), regulation(s), guideline(s), opinion(s), notice(s), circular(s), order(s), judgment(s), decree(s) or ruling(s) of any governmental authority (“**Law(s)**”), or any change or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any of the Cayman Islands, the BVI, Hong Kong, the PRC, the United States, the European Union (or any member thereof) or any other jurisdictions relevant to any Group Company or the Global Offering (the “**Specific Jurisdictions**”); or
  - (v) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or
  - (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or

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- (vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency) in or affecting any of the Specific Jurisdictions or affecting an investment in the Shares; or
- (viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (ix) any litigation or claim of any third party being threatened or instigated against any Group Company or any of the Warrantors; or
- (x) any of the Directors and senior management member of our Company as set out in the “Directors, Senior Management and Employees” section of this prospectus being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or
- (xi) the chairman or chief executive officer of our Company vacating his or her office; or
- (xii) the commencement by any governmental, regulatory or political body or organisation of any action against a Director in his or her capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or
- (xiii) a contravention by any Group Company or any Director of the Listing Rules, the Companies Ordinance or any other Laws applicable to the Global Offering; or
- (xiv) a prohibition on our Company for whatever reason from allotting, issuing or selling our Offer Shares and/or the Over-allotment Shares pursuant to the terms of the Global Offering; or
- (xv) non-compliance of this prospectus and the other Relevant Documents or any aspect of the Global Offering with the Listing Rules or any other Laws applicable to the Global Offering; or
- (xvi) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Global Offering pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any Group Company or in respect of which any Group Company is liable prior to its stated maturity,

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which in each case individually or in aggregate in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters):

- (a) has or is or will or could be expected to have an adverse effect on the assets, liabilities, business, general affairs, management, shareholders' equity, profitability, results of operation, financial, trading or other condition or position or prospects or risks of our Company or any Group Company as a whole; or
- (b) has or will or could be expected to have an adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
- (c) makes or will make or could make it inadvisable, inexpedient or impracticable for any part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or implemented or proceeded with as envisaged or to market the Global Offering or shall otherwise result in an interruption to or delay thereof; or
- (d) has or will or could have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

### **Undertakings given to the Stock Exchange pursuant to the Listing Rules**

#### ***By our Company***

We have undertaken by way of deeds to the Stock Exchange that we shall not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to issue any such Shares or securities within six months from the Listing Date (whether or not such issue of Shares will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

#### ***By our Controlling Shareholders***

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken by way of deed to us and to the Stock Exchange that except pursuant to the Global Offering, the Over-allotment Option or the Stock Borrowing Agreement, it shall not:

- (a) in the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities that it is shown to beneficially own in this prospectus (the “**Relevant Shares**”); or

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## UNDERWRITING

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- (b) in the period of a further six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Each of our Controlling Shareholders has further undertaken to us and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (a) when it pledges or charges any securities in our Company beneficially owned by it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us in writing of such pledge or charge together with the number of our securities so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities beneficially owned by it will be disposed of, immediately inform us in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in the paragraphs (a) and (b) above by any of our Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

### **Undertakings given to the Hong Kong Underwriters**

#### ***By our Company***

Our Company has undertaken by way of deed to each of the Sole Sponsor, the Sole Global Coordinator and the other Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option) and the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or any option which may be granted under the Post-IPO Share Option Scheme, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), we will not, and will procure each other Group Company not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing

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## UNDERWRITING

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or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect (“**Encumbrance**”) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other Group Company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, with a depository in connection with the issue of depository receipts; or repurchase any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable; or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable); or
- (c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other Group Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

Our Company has also undertaken that it will not, and will procure each other Group Company not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that any of our Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”).

In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

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## UNDERWRITING

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### *By our Controlling Shareholders*

Each of our Controlling Shareholders has undertaken by way of deed jointly and severally to each of our Company, the Sole Sponsor, the Sole Global Coordinator and the other Hong Kong Underwriters that, except pursuant to the Stock Borrowing Agreement and in compliance with the requirements under Rule 10.07(3) of the Listing Rules, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters):

- (i) at any time during the First Six-Month Period, it/he shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for it/him/her and the companies controlled by it/he (together, the “**Controlled Entities**”) shall not,
  - (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by it/him/her directly or indirectly through its Controlled Entities (the “**Relevant Securities**”), or deposit any Relevant Securities with a depositary in connection with the issue of depositary receipts; or
  - (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 the Relevant Securities; or
  - (c) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (a) or (b) above; or
  - (d) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (a), (b) or (c) above, which any of the foregoing transactions referred to in sub-paragraphs (a), (b), (c) or (d) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);
- (ii) at any time during the Second Six-Month Period, it/he shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in (i)(a), (b) or (c) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it/he would cease to be a “controlling shareholder” (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be “Controlling Shareholders” (as defined in the Listing Rules) of our Company;

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- (iii) in the event that it/he enters into any of the transactions specified in (i)(a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, it/he shall take all reasonable steps to ensure that it/he will not create a disorderly or false market for any Shares or other securities of our Company; and
- (iv) it/he shall, and shall procure that the relevant registered holder(s) and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it/he or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of our Company.

Each of the Controlling Shareholders has further undertaken to each of our Company, the Stock Exchange, the Sole Sponsor, the Sole Global Coordinator and the other Hong Kong Underwriters that, within the period from the date by reference to which disclosure of their shareholding in our Company is made in this prospectus and ending on the date which is twelve months from the Listing Date, it/he will:

- (i) when it/he pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (ii) when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

### **Undertakings given to the Company and the Sole Sponsor**

#### ***By GX Land & Sea***

Pursuant to GX Pre-IPO Agreement and the GX Lock-up Deed, GX Land & Sea has undertaken by way of deed not to transfer, dispose of, nor enter into any agreement to transfer, dispose of or otherwise create any options, rights, interests or encumbrances in respect of the Shares held by it upon the Listing during the First Six-Month Period.

#### ***By Guidong Electric***

Pursuant to the Guidong Lock-Up Deed, Guidong Electric has undertaken by way of deed not to transfer, dispose of, nor enter into any agreement to transfer, dispose of or otherwise create any options, rights, interests or encumbrances in respect of the Shares held by it upon the Listing during the First Six-Month Period.



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## UNDERWRITING

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### *By our other Shareholders prior to the Listing*

Pursuant to the Other Shareholders Lock-Up Deeds, each of the following Shareholders has undertaken by way of deed not to transfer, dispose of, nor enter into any agreement to transfer, dispose of or otherwise create any options, rights, interests or encumbrances in respect of the Shares held by it upon the Listing during the First Six-Month Period:

1. China Banyan Capital INT Holdings Ltd
2. CHUANFU INT CAPITAL GROUP LTD (川富国际资本集团有限公司)
3. WEIXINGZHICHEN INTERNATIONAL INVESTMENT LTD
4. LINGTAO Capital INT Group Limited (凌涛资本国际集团有限公司)
5. Zhejiang Venture Capital Group Co., Ltd
6. Xuanhai Capital INT Group Limited
7. Dice Hongze Ltd (迪策鸿泽有限公司)
8. Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) (福睿创信(厦门)新兴产业投资合伙企业(有限合伙))
9. Zhuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.) (珠海格金广发信德智能制造产业投资基金(有限合伙))
10. Capital Pearls International Investment Ltd
11. Ronghui Longma Capital Ltd
12. China Huazhen Equity Investment Co., Ltd. (中风投华臻股权投资有限公司)
13. JINYI Technology & Innovation Investment Management Co., Ltd.
14. GF Qianhe Investment Co., Ltd. (广发乾和投资有限公司)
15. LIU Zhihe (刘志和)
16. Dena Well Investment Limited
17. GUOLING CAPITAL MANAGEMENT LTD (国瓴资本管理有限公司)

### **Underwriters' interests in our Group**

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement or as otherwise disclosed in this prospectus, as of the Latest Practicable Date, none of the Underwriters was interested directly or indirectly in any of our Shares or securities or any shares or securities of any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any of our Shares or securities or any shares or securities of any other member of our Group.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and International Underwriting Agreement.

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## UNDERWRITING

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### **The Sole Sponsor's Independence**

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

### **The International Offering**

#### *International Offering*

In connection with the International Offering, we expect to enter into the International Underwriting Agreement on the Price Determination Date with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to purchase our International Offer Shares or procure purchasers for our International Offer Shares initially being offered pursuant to the International Offering. See the section headed “Structure and Conditions of the Global Offering — International Offering” in this prospectus for further information.

Under the International Underwriting Agreement, we intend to grant to the International Underwriters the Over-allotment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of the Sole Global Coordinator on behalf of the International Underwriters at any time within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering to require us to issue and allot up to an aggregate of 43,601,000 additional Offer Shares, representing 15% of our Offer Shares initially available under the Global Offering and at the Offer Price, to cover any over-allocations in the International Offering, if any.

### **Total Commission and Expenses**

We will pay the Sole Global Coordinator (for itself and on behalf of the other Underwriters) an underwriting commission of 3.5% of the aggregate Offer Price of our Offer Shares, out of which the Underwriters will pay all sub-underwriting commission, if any. The Underwriters are not entitled to any kind of discretionary incentive fee for underwriting.

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$3.87 (being the mid-point of the stated range of the Offer Price between HK\$4.22 and HK\$3.52), the aggregate commissions and estimated expenses, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Global Offering, are estimated to amount in aggregate to RMB60.6 million in total and are payable by us.

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## UNDERWRITING

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### **Indemnity**

Our Company has undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Sole Sponsor, the Sole Global Coordinator and the other Hong Kong Underwriters from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

### **Restrictions on our Offer Shares**

No action has been taken to permit a public offering of our 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.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (a) the Hong Kong Public Offering of 29,068,000 new Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “— The Hong Kong Public Offering” and
- (b) the International Offering of 261,606,000 Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States in offshore transactions in reliance on Regulation S as described below under “— the International Offering”.

In connection with the Global Offering, our Company would grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator, at any time within 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 43,601,000 additional Shares, representing 15.0% of the initial number of Offer Shares, at the Offer Price, to cover over-allocations, if any, in the International Offering.

Investors may either:

- apply for our Hong Kong Offer Shares under the Hong Kong Public Offering; or
- apply for or indicate an interest for our International Offer Shares under the International Offering,

but may not do both.

The 290,674,000 Offer Shares will represent approximately 25.0% of the enlarged number of Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, our Offer Shares will represent approximately 27.71% of the enlarged number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue.

References to applications, Application Forms, application or subscription monies, or procedure for applications relate solely to the Hong Kong Public Offering.

### THE HONG KONG PUBLIC OFFERING

We are initially offering 29,068,000 Offer Shares for subscription by members of the public in Hong Kong at the Offer Price, representing 10.0% of the total number of Shares initially available under the Global Offering.

Completion of the Hong Kong Public Offering is subject to the conditions set forth below under “— Conditions of the Global Offering”.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### Allocation

Allocation of our Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. We may, if necessary, allocate our Hong Kong Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of our Offer Shares available under the Hong Kong Public Offering is to be divided equally into two pools:

Pool A: our Offer Shares will be allocated on an equitable basis to applicants who have applied for our Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee); and

Pool B: our Offer Shares will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate subscription price of more than HK\$5 million (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee).

Investors should be aware that applications in Pool A and applications in Pool B may receive different allocation ratios. If our Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly. For the purpose of this subsection only, the “subscription price” for our Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 14,534,000 Hong Kong Offer Shares will be rejected.

### Reallocation

The allocation of our Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation under the Listing Rules. In accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Listing Rules and the Guidance Letter HKEx-GL91-18 issued by the Stock Exchange, if our Offer Shares under the International Offering are fully subscribed or oversubscribed and the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (a) 15 times or more but less than 50 times, (b) 50 times or more but less than 100 times and (c) 100 times or more of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, our Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Hong Kong Offer Shares will be increased to 87,203,000 Offer Shares (in the case of (a)), 116,270,000 Offer Shares (in the case of (b)) and 145,337,000 Offer Shares (in the case of (c)), representing 30.0%, 40.0% and 50.0% of our Offer Shares initially available under the Global

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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Offering (before any exercise of the Over-allotment Option), respectively. In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B in equal proportion and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate.

If (a) our Offer Shares under the International Offering are fully subscribed or oversubscribed, and if the number of Offer Shares validly applied for in the Hong Kong Public Offering represents more than 100%, but less than 15 times, of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering or (b) our Offer Shares under the International Offering are not fully subscribed, and if the number of Offer Shares validly applied for in the Hong Kong Public Offering represents more than 100% of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the Sole Global Coordinator may, at its discretion, reallocate our Offer Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, provided that the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering shall not be increased to more than 58,136,000 Offer Shares, representing two times the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering and 20% of the total number of Offer Shares initially available under the Global Offering, and the final Offer Price shall be fixed at the low-end of the Offer Price range (that is, HK\$3.52 per Offer Share) stated in this prospectus or (if the Downward Offer Price Adjustment is made) the final Offer Price after making the Downward Offer Price Adjustment in accordance with Guidance Letter HKEx-GL91-18 issued by the Stock Exchange.

Subject to the above, the Sole Global Coordinator shall have the discretion to reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, regardless of whether any reallocation pursuant to paragraph 4.2 of Practice Note 18 of the Listing Rules is triggered.

Any such clawback and reallocation between the International Offering and the Hong Kong Public Offering will be completed prior to any adjustment of the number of Offer Shares pursuant to the exercise of the Over-allotment Option, if any.

If the Hong Kong Public Offering is not fully subscribed for, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering in such proportions as the Sole Global Coordinator deems appropriate.

### **Applications**

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him or her that he or she and any person(s) for whose benefit he or she 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 International Offer Shares under the International Offering, 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 Offer Shares under the International Offering.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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The listing of our Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$4.22 per Offer Share in addition to the brokerage, the SFC transaction levy and the Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in “— Pricing and allocation” below, is less than the maximum Offer Price of HK\$4.22, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application money) will be made to the successful applicants, without interest. See the section headed “How to Apply for our Hong Kong Offer Shares” in this prospectus for further information.

### THE INTERNATIONAL OFFERING

#### Number of Offer Shares initially offered

We will be initially offering for subscription under the International Offering 261,606,000 Shares, representing 90.0% of our Offer Shares under the Global Offering and approximately 22.50% of the enlarged number of Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue, assuming the Over-allotment Option is not exercised.

#### Allocation

The International Offering will include selective marketing of our Offer Shares to professional investors and institutional investors anticipated to have a sizeable demand for our Offer Shares. 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. Prospective professional investors and institutional investors will be required to specify the number of our Offer Shares under the International Offering they would be prepared to acquire either at different prices or at particular price. This process, known as “book-building,” is expected to continue up to the Price Determination Date.

Allocation of our International Offer Shares will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to hold or sell its Shares, after the Listing. Such allocation is intended to result in a distribution of our Offer Shares under the International Offering on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of us and our shareholders as a whole.

The Sole Global Coordinator (for itself and on behalf of the other Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any applications under the Hong Kong Public Offering.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### Reallocation

The total number of Offer Shares to be issued or sold pursuant to the International Offering may change as a result of the clawback arrangement described in “— The Hong Kong Public Offering — Reallocation” or the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

### OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that we will grant the Over-allotment Option to the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Sole Global Coordinator, at any time during the 30-day period after the last day for lodging applications under the Hong Kong Public Offering, to require our Company to issue up to 43,601,000 Shares, representing 15.0% of the total number of our Offer Shares initially available under the Global Offering, under the International Offering to, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional Shares to be issued by our Company pursuant thereto will represent approximately 3.61% of our enlarged share capital upon completion of the Global Offering and the Capitalisation Issue assuming that the Over-allotment Option is exercised in full. In the event that the Over-allotment Option is exercised, an announcement will be made.

### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the Underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the Offer Price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilizing Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilizing Manager or any persons acting for it, to conduct any such stabilising action. Such stabilisation action, if taken, will be conducted at the absolute discretion of the Stabilizing Manager or any person acting for it and may be discontinued at any time, and is required to be brought to an end within 30 days of the last day for the lodging applications under the Hong Kong Public Offering. Stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of our Shares, (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares, (iii) purchasing,



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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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or agreeing to purchase, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases, and (vi) offering or attempting to do anything as described in paragraph (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in Shares should note that:

- the Stabilizing Manager may, in connection with the stabilising action, maintain a long position in our Shares;
- there is no certainty as to the extent to which and the time period for which the Stabilizing Manager will maintain such a long position;
- liquidation of any such long position by the Stabilizing Manager or any person acting for it and selling in the open market, may have an adverse impact on the market price of our Shares;
- no stabilising action can be taken to support the price of our Shares for longer than the stabilising period which will begin on the Listing Date and is expected to expire on the 30th day after the last day of closing of the Application Lists under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of our Shares, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of any security (including our Shares) cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, our Offer Shares. Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilising) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

### **Over-allocation**

Following any over-allocation of our Shares in connection with the Global Offering, the Stabilizing Manager may cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part, by using Shares purchased by the Stabilizing Manager or any person acting for it in the secondary market at prices that do not exceed the Offer Price, or through the stock borrowing arrangement as detailed below or a combination of these means.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### Stock Borrowing Agreement

To facilitate the settlement of over-allocation in connection with the Global Offering, the Stabilizing Manager may choose to borrow up to 43,601,000 Shares, representing 15.0% of our Offer Shares (being the maximum number of Offer Shares which may be issued upon exercise of the Over-allotment Option), from Hongzun International pursuant to the Stock Borrowing Agreement which is expected to be entered into between the Stabilizing Manager and Hongzun International. Such stock borrowing arrangement under the Stock Borrowing Agreement, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with.

Such stock borrowing arrangement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option. The same number of Offer Shares so borrowed must be returned to Hongzun International on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option having been issued and allotted by the Company, or (c) such earlier time as the Stabilizing Manager and Hongzun International may agree in writing. No payment will be made to Hongzun International by the Stabilizing Manager or its agent in relation to such stock borrowing arrangement.

### PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the other Underwriters) on the Price Determination Date, when market demand for our Offer Shares will be determined. The Price Determination Date is expected to be on or around Wednesday, 7 July 2021 (Hong Kong time), and in any event, no later than Friday, 9 July 2021 (Hong Kong time). Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the Offer Price range stated in this prospectus.

The Offer Price will not be more than HK\$4.22 and is expected to be not less than HK\$3.52 (subject to the Downward Offer Price Adjustment), unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as further explained below. If you apply for our Hong Kong Offer Shares, you must pay the maximum Offer Price of HK\$4.22, plus 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% the Stock Exchange trading fee.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$4.22, we will refund the respective difference, including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application money. We will not pay interest on any refunded amounts. See the section headed “How to Apply for our Hong Kong Offer Shares” in this prospectus.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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The International Underwriters will be soliciting indications from prospective investors of their interest in acquiring our International Offer Shares. Prospective professional investors and institutional investors will be required to specify the number of our International Offer 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, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

### **Announcement of reduction in the Offer Price**

The Sole Global Coordinators (for itself and on behalf of the other Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective investors during the book-building process, and with the prior consent of our Company, determine the final Offer Price to be not more than 10% below the low-end of the indicative range of the Offer Price at any time on or prior to the Price Determination Date.

In such situation, our Company will, as soon as practicable following the decision to set the Offer Price below the indicative range of the Offer Price, publish on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company’s website at [www.chesir.net](http://www.chesir.net) an announcement of the final Offer Price after making the Downward Offer Price Adjustment. Such announcement will be issued before and separate from the announcement of the results of allocations and is expected to be announced on Friday, 9 July 2021. The Offer Price announced following the making of the Downward Offer Price Adjustment shall be the final Offer Price and shall not be changed further unless the Withdrawal Mechanism is implemented.

In the absence of an announcement that the Downward Offer Price Adjustment has been made, the final Offer Price will not be outside the indicative range of the Offer Price as disclosed in this prospectus unless the Withdrawal Mechanism is implemented.

Irrespective of whether the Downward Offer Price Adjustment is made, the Offer Price, an indication of the level of interest in the International Offering, the basis of allotment of our Offer Shares available under the Hong Kong Public Offering and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available in a variety of channels in the manner described in the section “How to Apply for our Hong Kong Offer Shares — 14. Despatch/Collection of Share certificates and refund monies” in this prospectus.

### **UNDERWRITING AGREEMENT**

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to the agreement on the Offer Price.

We expect to enter into the International Underwriting Agreement on the Price Determination Date. The underwriting arrangements under the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed “Underwriting” in this prospectus.

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares is conditional on, among others:

- the Listing Committee granting approval for the listing of, and permission to deal in, our Shares to be issued pursuant to the Global Offering (including any Shares which may be sold or issued by us pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme);
- the Offer Price being duly agreed among our Company and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters);
- the execution and delivery of the International Underwriting Agreement on the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

**If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) on or before Friday, 9 July 2021 (Hong Kong time), the Global Offering will not proceed and will lapse.**

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon each other offering becoming unconditional and not having been terminated in accordance with its respective terms. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and on our website ([www.chesir.net](http://www.chesir.net)) on the next day following such lapse. In such situation, all application money will be returned, without interest, on the terms set forth in the section “How to Apply for our Hong Kong Offer Shares — 14. Despatch/Collection of Share certificates and refund monies”. In the meantime, all application money 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).

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## STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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### DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 16 July 2021, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 16 July 2021.

Our Shares will be traded in board lots of 1,000 Shares each and the stock code of our Shares is 6616.

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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### 1. HOW TO APPLY

If you apply for our Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for our Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online through the **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk) or by the **IPO App**; or
- give electronic application instructions to HKSCC to cause HKSCC Nominees to apply for our Hong Kong Offer Shares on your behalf.

None of you or your joint applicant(s) may make more than one application (whether individually or jointly), except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY

You can apply for our Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are not a U.S. person (as defined in Regulation S); and
- are outside the United States, and will be acquiring our Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S).

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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If an application is made by a person under a power of attorney, our Company or the Sole Global Coordinator may accept it at their discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **HK eIPO White Form** service for our Hong Kong Offer Shares.

We, the Sole Global Coordinator or the designated **HK eIPO White Form** Service Provider (where applicable), or our or their respective agents, have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of our Shares and/or any of its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate of any of the above;
- a core connected person of our Company (or the subsidiaries) or will become a core connected person of our Company (or the subsidiaries) immediately upon completion of the Global Offering and the Capitalisation Issue; or
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

### 3. APPLYING FOR OUR HONG KONG OFFER SHARES

#### Which Application Channel to Use

For our Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**.

For our Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. on Wednesday, 30 June 2021 until 12:00 noon on Tuesday, 6 July 2021 from:

— any of the following offices of the Hong Kong Underwriters:

<b>Essence International Securities (Hong Kong) Limited</b>	39th Floor One Exchange Square Central Hong Kong
<b>BOCOM International Securities Limited</b>	9th Floor, Man Yee Building 68 Des Voeux Road, Central Hong Kong
<b>China Industrial Securities International Capital Limited</b>	32nd Floor, Infinitus Plaza 199 Des Voeux Road Central Sheung Wan Hong Kong
<b>China PA Securities (Hong Kong) Company Limited</b>	Unit 3601, 07 and 11-13 36th Floor, The Center 99 Queen's Road Central Central, Hong Kong
<b>CMBC Securities Company Limited</b>	45th Floor One Exchange Square 8 Connaught Place Central Hong Kong
<b>GF Securities (Hong Kong) Brokerage Limited</b>	29-30/F, Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong
<b>Guosen Securities (HK) Capital Company Limited</b>	Suites 3207-3212 Level 32, One Pacific Place 88 Queensway Hong Kong
<b>Guotai Junan Securities (Hong Kong) Limited</b>	27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong



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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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<b>Shenwan Hongyuan Securities (H.K.) Limited</b>	Level 19 28 Hennessy Road Hong Kong
<b>SPDB International Capital Limited</b>	33rd Floor, SPD Bank Tower One Hennessy 1 Hennessy Road Hong Kong
<b>Yue Xiu Securities Company Limited</b>	1003-1005, 10/F Siu On Centre 188 Lockhart Road Wan Chai Hong Kong
<b>Futu Securities International (Hong Kong) Limited</b>	Unit C1-2 13th Floor, United Centre No.95 Queensway Admiralty Hong Kong
<b>Fuyuan Securities Limited</b>	Suite 4806-07, 48th Floor Central Plaza 18 Harbour Road, Wanchai Hong Kong
<b>HK Monkey Securities Limited</b>	Suite 2302-2303 23rd Floor, Tower 1 Lippo Centre 89 Queensway Admiralty Hong Kong
<b>Soochow Securities International Brokerage Limited</b>	Level 17 Three Pacific Place 1 Queen's Road East Hong Kong
<b>Valuable Capital Limited</b>	Room 3601, 36th Floor China Merchants Tower Shun Tak Centre 168-200 Connaught Road Central Hong Kong
<b>Zhongtai International Securities Limited</b>	19/F, Li Po Chun Chambers, 189 Des Voeux Road Central Hong Kong

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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— any of the following branches of the receiving bank, Bank of China (Hong Kong) Limited:

	<u>Branch name</u>	<u>Address</u>
<b>Hong Kong Island</b> . . . . .	Bank of China Tower Branch	1 Garden Road, Hong Kong
	Taikoo Shing Branch	Shop G1006, Hoi Shing Mansion, Taikoo Shing, Hong Kong
<b>Kowloon</b> . . . . .	Telford Plaza Branch	Shop Unit P2-P7, Telford Plaza, No.33 Wai Yip Street, Kowloon Bay, Kowloon
	Tsim Sha Tsui Branch	24-28 Carnarvon Road, Tsim Sha Tsui, Kowloon
<b>New Territories</b> . . . . .	City One Sha Tin Branch	Shop Nos.24-25, G/F, Fortune City One Plus, No.2 Ngan Shing Street, Sha Tin, New Territories
	Tseung Kwan O Plaza Branch	Shop 112-125, Level 1, Tseung Kwan O Plaza, Tseung Kwan O, New Territories

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Wednesday, 30 June 2021 until 12:00 noon on Tuesday, 6 July 2021 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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### 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 — GLOBAL NEW MATERIAL PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the designated branches of the receiving bank listed above, at the following times:

**Wednesday, 30 June 2021 — 9:00 a.m. to 5:00 p.m.**

**Friday, 2 July 2021 — 9:00 a.m. to 5:00 p.m.**

**Saturday, 3 July 2021 — 9:00 a.m. to 1:00 p.m.**

**Monday, 5 July 2021 — 9:00 a.m. to 5:00 p.m.**

**Tuesday, 6 July 2021 — 9:00 a.m. to 12:00 noon**

The Application Lists will be open from 11:45 a.m. to 12:00 noon on Tuesday, 6 July 2021, 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.

#### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- agree to comply with the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles;
- confirm that you have read the terms and conditions and application procedures set forth in this prospectus and in the Application Form(s) and agree to be bound by them;
- 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;
- confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the other Hong Kong Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- agree to disclose to our Company, the Hong Kong Share Registrar, receiving bankers, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong 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;
- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong 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;
- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application will be governed by the laws of Hong Kong;
- represent, warrant and undertake that (a) you understand that our Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (b) you and any person for whose benefit you are applying for our Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S; and (c) the purchaser is not an “affiliate” (within the meaning of Regulation S) of our Company or a person acting on the behalf of our Company or an affiliate of our Company;
- warrant that the information you have provided is true and accurate;
- agree to accept our Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company’s register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or our agents to send share certificate(s) or to deposit share certificate(s) into CCASS and to send any e-Auto Refund payment instruction(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- 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;
- understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of our Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (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 an agent for or for the benefit of that person or by that person or by any other person as an agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider on behalf of that other person as their agent.

### Additional Instructions for **YELLOW** Application Forms

You may refer to the **YELLOW** Application Form for details.

## 5. APPLYING THROUGH THE **HK eIPO WHITE FORM SERVICE**

### General

Individuals who meet the criteria in “— 2. Who Can Apply” in this section, may apply through the **HK eIPO White Form** service for our Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website or the **IPO App**. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

### Time for submitting applications under the **HK eIPO White Form Service**

You may submit your application to the **HK eIPO White Form** Service Provider at [www.hkeipo.hk](http://www.hkeipo.hk) or in the **IPO App** from 9:00 a.m. on Wednesday, 30 June 2021 until 11:30 a.m. on Tuesday, 6 July 2021 (24 hours daily, except on the last application day) and the latest time for completing full payment of application money in respect of such applications will be 12:00 noon on Tuesday, 6 July 2021 or such later time under “— 10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

### No multiple applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for our Hong Kong Offer Shares, an actual application shall be deemed

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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to have been made. For the avoidance of doubt, giving an electronic application instruction under the **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

## **6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS**

### **General**

CCASS Participants may give electronic application instructions to apply for our Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 852 2979 7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited  
Customer Service Center  
1/F One & Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for our Hong Kong Offer Shares on your behalf.

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

### Giving electronic application instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for our Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that our Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept our Hong Kong Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
  - (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that our Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of our Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of our Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set forth in this prospectus and agree to be bound by them;
  - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set forth in any supplement to this prospectus;

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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- agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving bankers, the Sole Sponsor, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the Application Lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the Application Lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the Application Lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for our Hong Kong Offer Shares;
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.



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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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### 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 our Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application money (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 number of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set forth in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

### Time for inputting electronic application instructions<sup>(1)</sup>

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

**Wednesday, 30 June 2021 — 9:00 a.m. to 8:30 p.m.**

**Friday, 2 July 2021 — 8:00 a.m. to 8:30 p.m.**

**Saturday, 3 July, 2021 — 8:00 a.m. to 1:00 p.m.**

**Monday, 5 July 2021 — 8:00 a.m. to 8:30 p.m.**

**Tuesday, 6 July 2021 — 8:00 a.m. to 12:00 noon**

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Wednesday, 30 June 2021 until 12:00 noon on Tuesday, 6 July 2021 (24 hours daily, except on Tuesday, 6 July 2021, the last application day).

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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The latest time for inputting your electronic application instructions will be 12:00 noon on Tuesday, 6 July 2021, 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.

*Note:*

- (1) These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

### **No multiple applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for our Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### **Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### **Personal data**

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, the Sole Sponsor, the Sole Global Coordinator and 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 our Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for our Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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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 Tuesday, 6 July 2021.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for our Hong Kong Offer Shares are not allowed except by nominees.

If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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### 9. HOW MUCH ARE OUR HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for our Shares under the terms set forth in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set forth in the table in the Application Form, or as otherwise specified on the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) or the **IPO App**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure and Conditions of the Global Offering — Pricing and allocation”.

### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The Application Lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 6 July 2021. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application Lists do not open and close on Tuesday, 6 July 2021 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Irrespective of whether the Downward Offer Price Adjustment is made, our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of our Hong Kong Offer Shares on Thursday, 15 July 2021 on our Company’s website at [www.chesir.net](http://www.chesir.net) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at **www.chesir.net** and the Stock Exchange’s website at **www.hkexnews.hk** by no later than 9:00 a.m. on Thursday, 15 July 2021;
- from the designated results of allocations website at **www.tricor.com.hk/IPO/result** or **www.hkeipo.hk/IPOResult** or “IPO Results” function in the **IPO App** with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, 15 July 2021 to 12:00 midnight on Wednesday, 21 July 2021;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. to 6:00 p.m. from Thursday, 15 July 2021 to Tuesday, 20 July 2021 on a business day;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 15 July 2021 to Monday, 19 July 2021 at all the designated branches of the receiving bank.

If our Company accept your offer to subscribe (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 our Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further information, see “Structure and conditions of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which our Hong Kong Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the Application Lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(iii) If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list our Shares either:

- within three weeks from the closing date of the Application Lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the Application Lists.

**(iv) If:**

- you make multiple applications or are suspected of making multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website or in the **IPO App**;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;

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- Our Company or the Sole Global Coordinator believes or believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of our Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

### 13. REFUND OF APPLICATION MONEY

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\$4.22 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with “Structure and Conditions of the Global Offering — Conditions of the Global Offering” in this prospectus or if any application is revoked, the application money, 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 money will be made on or before Thursday, 15 July 2021.

### 14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of our 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 our Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application money for our Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Thursday, 15 July 2021. The right is reserved to retain any share certificate(s) and any surplus application money pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 16 July 2021, provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### *(i) If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 15 July 2021 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant who 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 Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Thursday, 15 July 2021, by ordinary post and at your own risk.

#### *(ii) If you apply using a YELLOW Application Form*

If you apply for 1,000,000 or more Hong Kong Offer Shares, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Thursday, 15 July 2021, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 15 July 2021, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.



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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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— *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For our Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

— *If you are applying as a CCASS investor participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "— 11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 15 July 2021 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of our Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

*(iii) If you apply through the HK eIPO White Form Service*

If you apply for 1,000,000 or more Hong Kong Offer Shares and your application is wholly or partially successful, you may collect your Share certificate(s) from Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 15 July 2021, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, 15 July 2021 by ordinary post at your own risk.

If you apply and pay the application money from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application money from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) on or before Thursday, 15 July 2021 by ordinary post at your own risk.

*(iv) If you apply by giving electronic application instructions to HKSCC*

### *Allocation of Hong Kong Offer Shares*

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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### *Deposit of Share Certificates into CCASS and Refund of Application Money*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 15 July 2021, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in “— 11. Publication of Results” above on Thursday, 15 July 2021. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 15 July 2021 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's “An Operating Guide for Investor Participants” in effect from time to time) on Thursday, 15 July 2021. Immediately following the credit of our Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application money (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 15 July 2021.

### **15. ADMISSION OF OUR SHARES INTO CCASS**

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

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## HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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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 our Shares to be admitted into CCASS.

*The following is the text of a report set out on pages I-1 to I-69, received from the Company's reporting accountants, RSM Hong Kong, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this investment circular.*

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30 June 2021

**ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF GLOBAL NEW MATERIAL INTERNATIONAL HOLDINGS LIMITED (环球新材国际控股有限公司) AND ESSENCE CORPORATE FINANCE (HONG KONG) LIMITED**

**Introduction**

We report on the historical financial information of Global New Material International Holdings Limited (环球新材国际控股有限公司) (the "Company") and its subsidiaries (together, the "Group") set out on pages I-5 to I-69, which comprises the consolidated statements of financial position of the Group as at 31 December 2018, 2019 and 2020, the statements of financial position of the Company as at 31 December 2018, 2019 and 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 for each of the years then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-5 to I-69 forms an integral part of this report, which has been prepared for inclusion in the investment circular of the Company dated 30 June 2021 (the "Investment Circular") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

**Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Company's financial position as at 31 December 2018, 2019 and 2020 and the Group's financial position as at 31 December 2018, 2019 and 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 1 to the Historical Financial Information.

**Report on matters under the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited***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 states that no dividends have been paid by Global New Material International Holdings Limited (环球新材国际控股有限公司) in respect of the Track Record Period.

**RSM Hong Kong***Certified Public Accountants*

Hong Kong

**HISTORICAL FINANCIAL INFORMATION OF THE GROUP****Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by RSM Hong Kong in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("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.

## A. CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	Year ended 31 December		
		2018	2019	2020
		RMB'000	RMB'000	RMB'000
<b>Revenue</b> .....	6	318,244	440,583	569,113
Cost of goods sold .....		(166,917)	(218,222)	(280,046)
Sales related tax and auxiliary charges .....		(4,380)	(4,084)	(5,002)
<b>Gross profit</b> .....		146,947	218,277	284,065
Other income and other gains and losses .....	7	4,971	5,295	14,778
Reversals of impairment losses on trade and other receivables/ (Impairment losses for trade and other receivables) .....		612	208	(4,118)
Selling expenses .....		(13,347)	(23,292)	(24,607)
Administrative and other operating expenses .....		(35,568)	(56,712)	(72,898)
<b>Profit from operations</b> .....		103,615	143,776	197,220
Finance costs .....	9	(15,869)	(18,475)	(19,399)
<b>Profit before tax</b> .....		87,746	125,301	177,821
Income tax expense .....	10	(6,382)	(17,968)	(24,960)
<b>Profit for the year</b> .....	11	<u>81,364</u>	<u>107,333</u>	<u>152,861</u>
<b>Attributable to:</b>				
Owners of the Company .....		77,400	102,806	148,172
Non-controlling interests .....		3,964	4,527	4,689
		<u>81,364</u>	<u>107,333</u>	<u>152,861</u>
<b>Profit for the year</b> .....		<u>81,364</u>	<u>107,333</u>	<u>152,861</u>
<b>Other comprehensive income:</b>				
<i>Item that may be reclassified to profit or loss:</i>				
Exchange differences on translating foreign operations .....		2	(2)	2
<b>Other comprehensive income for the year, net of tax</b> .....		<u>2</u>	<u>(2)</u>	<u>2</u>
<b>Total comprehensive income for the year</b> .....		<u>81,366</u>	<u>107,331</u>	<u>152,863</u>
<b>Attributable to:</b>				
Owners of the Company .....		77,402	102,804	148,174
Non-controlling interests .....		3,964	4,527	4,689
		<u>81,366</u>	<u>107,331</u>	<u>152,863</u>



## B. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Note</i>	As at 31 December		
		2018	2019	2020
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment . . . . .	16	304,696	353,907	486,170
Right-of-use assets . . . . .	17	17,932	29,949	68,247
Deposits paid for acquisition of property, plant and equipment and right-of-use assets . . . . .		16,367	26,671	184
Deferred tax assets . . . . .	30	1,190	1,190	1,190
<b>Total non-current assets . . . . .</b>		<b>340,185</b>	<b>411,717</b>	<b>555,791</b>
<b>Current assets</b>				
Inventories . . . . .	19	74,420	80,134	75,371
Trade and bills receivables . . . . .	20	144,019	121,692	191,951
Deposits, prepayments and other receivables . . . . .	21	14,305	4,029	23,609
Amount due from a shareholder . . . . .	22	330	330	—
Bank and cash balances . . . . .	23	171,854	559,839	747,582
<b>Total current assets . . . . .</b>		<b>404,928</b>	<b>766,024</b>	<b>1,038,513</b>
<b>TOTAL ASSETS . . . . .</b>		<b>745,113</b>	<b>1,177,741</b>	<b>1,594,304</b>

		<b>As at 31 December</b>		
	<i>Note</i>	<b>2018</b>	<b>2019</b>	<b>2020</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>EQUITY AND LIABILITIES</b>				
Equity attributable to owners of the Company				
Share capital . . . . .	24	330	330	12,342
Reserves . . . . .	25	297,771	711,878	1,168,897
		298,101	712,208	1,181,239
Non-controlling interests . . . . .		156,858	161,385	166,074
<b>Total equity . . . . .</b>		<b>454,959</b>	<b>873,593</b>	<b>1,347,313</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Bank loans and other borrowings . . . . .	26	4,971	143,776	75,366
Convertible loans . . . . .	27	—	69,106	—
Lease liabilities . . . . .	28	191	2,615	2,044
Deferred revenue . . . . .	29	10,179	7,487	5,351
<b>Total non-current liabilities . . . . .</b>		<b>15,341</b>	<b>222,984</b>	<b>82,761</b>
<b>Current liabilities</b>				
Bank loans and other borrowings . . . . .	26	181,146	11,953	90,273
Convertible loans . . . . .	27	29,921	—	—
Derivative component of convertible loans . . . . .	27	—	1,642	—
Lease liabilities . . . . .	28	85	543	577
Trade payables . . . . .	31	23,839	29,941	21,891
Accruals and other payables . . . . .	32	31,839	30,890	42,056
Amount due to a director . . . . .	22	56	105	—
Contract liabilities . . . . .	33	2,398	710	446
Deferred revenue . . . . .	29	2,723	2,692	2,136
Current tax liabilities . . . . .		2,806	2,688	6,851
<b>Total current liabilities . . . . .</b>		<b>274,813</b>	<b>81,164</b>	<b>164,230</b>
<b>TOTAL EQUITY AND LIABILITIES . . . . .</b>		<b>745,113</b>	<b>1,177,741</b>	<b>1,594,304</b>

## C. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Other reserve	Merger reserve	Convertible loans reserve	Foreign currency translation reserve	Statutory surplus reserve	(Accumulated losses)/ Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	83,100	160,600	—	—	14	—	(23,345)	220,369	2,894	223,263
Total comprehensive income for the year	—	—	—	—	2	—	77,400	77,402	3,964	81,366
Transfer to statutory reserve	—	—	—	—	—	20,195	(20,195)	—	—	—
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	150,000	150,000
Issue of share capital (note 24)	330	—	—	—	—	—	—	330	—	330
Group reorganisation	(83,100)	—	83,100	—	—	—	—	—	—	—
Changes in equity for the year	(82,770)	—	83,100	—	2	20,195	57,205	77,732	153,964	231,696
At 31 December 2018	330	160,600	83,100	—	16	20,195	33,860	298,101	156,858	454,959
At 1 January 2019	330	160,600	83,100	—	16	20,195	33,860	298,101	156,858	454,959
Total comprehensive income for the year	—	—	—	—	(2)	—	102,806	102,804	4,527	107,331
Transfer to statutory reserve	—	—	—	—	—	9,998	(9,998)	—	—	—
Recognition of equity component of convertible loans	—	—	—	8,163	—	—	—	8,163	—	8,163
Issue of share capital of 广西七色珠光材料股份有限公司 (Guangxi Chesir Pearl Material Co., Ltd.) ("Chesir Pearl")	—	269,466	33,674	—	—	—	—	303,140	—	303,140
Changes in equity for the year	—	269,466	33,674	8,163	(2)	9,998	92,808	414,107	4,527	418,634
At 31 December 2019	330	430,066	116,774	8,163	14	30,193	126,668	712,208	161,385	873,593
At 1 January 2020	330	430,066	116,774	8,163	14	30,193	126,668	712,208	161,385	873,593
Total comprehensive income for the year	—	—	—	—	2	—	148,172	148,174	4,689	152,863
Transfer to statutory reserve	—	—	—	—	—	15,307	(15,307)	—	—	—
Issue share of convertible bonds converted (note 27)	—	73,056	8,000	(8,163)	—	—	—	72,893	—	72,893
Issue of share capital of Chesir Pearl	—	223,177	24,787	—	—	—	—	247,964	—	247,964
Issue of share capital (note 24)	12,012	—	(12,012)	—	—	—	—	—	—	—
Changes in equity for the year	12,012	296,233	20,775	(8,163)	2	15,307	132,865	469,031	4,689	473,720
At 31 December 2020	12,342	726,299	137,549	—	16	45,500	259,533	1,181,239	166,074	1,347,313

## D. CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<i>Note</i>			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax . . . . .	87,746	125,301	177,821
Adjustments for: . . . . .			
Finance costs . . . . .	15,869	18,475	19,399
Interest income . . . . .	(697)	(1,683)	(2,106)
Depreciation of property, plant and equipment . . . . .	20,760	23,153	22,867
Depreciation of right-of-use assets . . . . .	717	1,156	1,557
Amortisation of deferred revenue . . . . .	(3,200)	(2,723)	(2,692)
(Reversals of impairment losses on trade and other receivables)/ impairment losses for trade and other receivables . . . . .	(612)	(208)	4,118
Fair value (gain)/loss on derivative component of convertible loans . . . . .	(564)	1,120	1,998
<b>Operating profit before working capital changes . . . . .</b>	<b>120,019</b>	<b>164,591</b>	<b>222,962</b>
(Increase)/decrease in inventories . . . . .	(19,518)	(5,714)	4,763
(Increase)/decrease in trade and bills receivables . . . . .	(64,238)	22,546	(74,346)
(Increase)/decrease in deposits, prepayments and other receivables . . . . .	(6,695)	10,265	(19,611)
Increase/(decrease) in trade payables . . . . .	6,624	6,102	(8,050)
Increase/(decrease) in accruals and other payables . . . . .	7,582	(1,112)	11,781
Increase/(decrease) in contract liabilities . . . . .	1,982	(1,688)	(264)
<b>Cash generated from operations . . . . .</b>	<b>45,756</b>	<b>194,990</b>	<b>137,235</b>
Income tax paid . . . . .	(4,022)	(18,086)	(20,797)
Interest on lease liabilities . . . . .	(40)	(184)	(162)
Interest paid . . . . .	(15,675)	(13,176)	(19,705)
<b>Net cash generated from operating activities . . . . .</b>	<b>26,019</b>	<b>163,544</b>	<b>96,571</b>

	<i>Note</i>	<b>Year ended 31 December</b>		
		<b>2018</b>	<b>2019</b>	<b>2020</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment . . . . .		(5,817)	(55,503)	(155,130)
Payments for right-of-use assets . . . . .		—	(9,764)	(13,362)
Prepayment for acquisition of property, plant and equipment and right-of-use assets . . . . .		(71,186)	(26,487)	—
Government grant received . . . . .		3,920	—	—
Interest received . . . . .		697	1,683	2,106
<b>Net cash used in investing activities . . . . .</b>		<b>(72,386)</b>	<b>(90,071)</b>	<b>(166,386)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Bank loans and other borrowings raised . . . . .		32,628	151,740	21,718
Repayment of bank loans and other borrowings . . . . .		(30,845)	(182,128)	(11,808)
Proceeds from issue of convertible loans . . . . .		—	72,240	—
Repayment of convertible loans . . . . .		—	(30,000)	—
Principal elements of lease payments . . . . .		(276)	(527)	(539)
Increase/(decrease) in amount due to a director . . . . .		56	49	(105)
Capital contribution from non-controlling interests . . . . .		150,000	—	—
Repayment in amount due from a shareholder . . . . .		—	—	330
Proceeds from issue of share capital of Chesir Pearl . . . . .		—	303,140	247,960
<b>Net cash generated from financing activities . . . . .</b>		<b>151,563</b>	<b>314,514</b>	<b>257,556</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS . . . . .</b>				
<b>Effect of foreign exchange rate changes . . . . .</b>		<b>2</b>	<b>(2)</b>	<b>2</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR . . . . .</b>				
		<b>66,656</b>	<b>171,854</b>	<b>559,839</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR . . . . .</b>				
	23	<b>171,854</b>	<b>559,839</b>	<b>747,582</b>

## E. STATEMENTS OF FINANCIAL POSITION

	<i>Note</i>	As at 31 December		
		2018	2019	2020
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>				
Investment in a subsidiary . . . . .	18	330	330	296,393
<b>Current assets</b>				
Prepayments . . . . .		—	—	4,168
Amount due from a shareholder . . . . .	22	330	330	—
Amount due from a subsidiary . . . . .		—	—	65
Bank and cash balances . . . . .		—	—	2,959
<b>Total current assets</b> . . . . .		<u>330</u>	<u>330</u>	<u>7,192</u>
<b>TOTAL ASSETS</b> . . . . .		<u>660</u>	<u>660</u>	<u>303,585</u>
<b>EQUITY AND LIABILITIES</b>				
Equity attributable to owners of the Company				
Share capital . . . . .	24	330	330	12,342
Reserves . . . . .	25(b)	(48)	(81)	274,674
<b>Total equity</b> . . . . .		<u>282</u>	<u>249</u>	<u>287,016</u>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Other borrowing . . . . .		—	—	3,783
Accruals and other payables . . . . .		2	4	6,338
Amount due to subsidiaries . . . . .	18	330	330	6,448
Amount due to a director . . . . .	22	46	77	—
<b>Total current liabilities</b> . . . . .		<u>378</u>	<u>411</u>	<u>16,569</u>
<b>TOTAL EQUITY AND LIABILITIES</b> . . . . .		<u>660</u>	<u>660</u>	<u>303,585</u>

**F. NOTES TO THE HISTORICAL FINANCIAL INFORMATION****1. Group Reorganisation and Basis of Preparation and Presentation of Historical Financial Information**

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Pearlescent Industrial Park, No. 380, Feilu Road, Luzhai Town, Luzhai County, Liuzhou City, Guangxi Zhuang Autonomous Region, People's Republic of China ("the PRC").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 18 to the Historical Financial Information.

Pursuant to the group reorganisation as more fully explained in the paragraph headed "History, Development and Reorganisation" section to this investment circular ("Reorganisation"), the Company became the holding company of the companies now comprising the Group on 18 November 2020. As the Reorganisation involved only the insertion of new holding companies at the top of the existing group and did not result in any change in economic substance in terms of the ownership and control of the Group, the Historical Financial Information for the Track Record Period has been prepared as a continuation of the existing group using the principles of merger accounting.

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 are prepared as if the current group structure had been in existence throughout the Track Record Period. The consolidated statements of financial position as at 31 December 2018, 2019 and 2020 present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates.

Upon completion of the Reorganisation and as at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

<u>Name of subsidiary</u>	<u>Place of incorporation/ establishment</u>	<u>Authorised capital</u>	<u>Issued / paid up capital</u>	<u>Attributable equity interest of the Group as at 31 December</u>	<u>Principal activities</u>
Generous Fortune Limited (盛富有限公司) ("Generous Fortune")	British Virgin Islands	Hong Kong Dollar ("HK\$") 12,590,725.2	HK\$ 12,590,725.2	100% (Direct)	Investment holding
Global New Material (China) Limited (环球新材(中国)有限公司) ("Global New Material (HK)")	Hong Kong	N/A	HK\$30,000	100% (Indirect)	Investment holding
Chesir Pearl	The PRC	RMB 149,561,191	RMB 149,561,191	97.19% (Indirect)	Manufacturing and sales of pearlescent pigmented and synthetic mica
上海万紫千红珠光效应材料有限公司 (Shanghai Multicolor Pearl Effect Material Co., Ltd ("Shanghai Multicolor"))	The PRC	RMB 10,000,000	RMB 10,000,000	97.19% (Indirect)	Trading of pearlescent pigment and synthetic mica
鹿寨七色珠光云母材料有限公司 (Luzhai Chesir Pearl Mica Material Co., Ltd ("Chesir Luzhai"))	The PRC	RMB 104,927,076	RMB 104,927,076	58.35% (Indirect)	Manufacturing and sales of synthetic mica
Chesir Europe S.A.S. ("Chesir France")	France	Euro ("EUR") 50,000	EUR 50,000	97.19% (Indirect)	Inactive



No audited statutory financial statements have been issued for entities incorporated in Cayman Islands, British Virgin Islands and France as there are no statutory audit requirement in the respective places of their incorporation.

No audited statutory financial statements of Global New Material (HK) have been prepared as it is newly incorporated on 30 December 2019.

The financial statements of Chesir Pearl for the year ended 31 December 2018 have been prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC and were audited by Moore Stephens Da Hua Certified Public Accountants registered in the PRC. Since 2019, no audited financial statements of Chesir Pearl have been prepared as there are no statutory audit requirement in the place of its registration.

No audited statutory financial statements of Shanghai Multicolor and Chesir Luzhai have been prepared as there are no statutory audit requirement in the place of their registration.

## **2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS**

During the Track Record Period, the Group has adopted all the new and revised International Financial Reporting Standards (“IFRSs”) that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2020. IFRSs comprise International Financial Reporting Standards (“IFRS”), International Accounting Standards (“IAS”) and Interpretations.

### **New and revised IFRSs in issue but not yet effective**

The Group has not early applied new and revised IFRSs that have been issued but are not yet effective for the financial period beginning 1 January 2020. These new and revised IFRSs include the following which may be relevant to the Group.

List of new and revised IFRSs in issue but not yet effective:

	<b><u>Effective for accounting periods beginning on or after</u></b>
Amendments to IAS 8 Accounting Policies, Changes to Accounting Estimates and Errors: Definition of Accounting Estimates . . . . .	1 January 2023
Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting Policies . . . . .	1 January 2023
IFRS 17 Insurance Contracts . . . . .	1 January 2023
Amendments to IAS 1 Classification of Liabilities as Current or Non-current. . . . .	1 January 2023
Amendments to IFRS 3 Reference to the Conceptual Framework. . . . .	1 January 2022
Amendments to IAS 37 Onerous Contracts - Cost of Fulfilling a Contract. . . . .	1 January 2022
Annual Improvements to IFRS Standards 2018—2020 . . . . .	1 January 2022
Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use . . . . .	1 January 2022
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform — Phase 2 . . . . .	1 January 2021
Amendments to IFRS 16 COVID-19 Related Rent Concession . . . . .	1 June 2020

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Historical Financial Information.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared under the historical cost convention, unless mentioned otherwise in the accounting policies below (e.g. certain financial instruments that are measured at fair value).

The preparation of the Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 4.

The significant accounting policies applied in the preparation of the Historical Financial Information are set out below.

**(a) Consolidation**

The Historical Financial Information includes the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Group's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less impairment losses.

**(b) Foreign currency translation**

*(i) Functional and presentation currency*

Items included in the Historical Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Historical Financial Information is presented in Renminbi ("RMB"), which is the Company's presentation and functional currency.

*(ii) Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

*(iii) Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

**(c) Property, plant and equipment**

Property, plant and equipment, including buildings, held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal useful annual lives are as follows:

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Office equipment	3 - 5 years
Leasehold improvement	3 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

**(d) Leases**

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

*The Group as a lessee*

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily office equipment. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract (“lease modification”) that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

The Group presents right-of-use assets that do not meet the definition of investment properties and lease liabilities separately in the consolidated statement of financial position.

**(e) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

**(f) Contract assets and contract liabilities**

Contract asset is recognised when the Group recognises revenue before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (“ECL”) in accordance with the policy set out in note 3(v) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

**(g) Recognition and derecognition of financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty.

#### **(h) Financial assets**

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt investments held by the Group are classified into measured at amortised cost if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

#### **(i) Trade and other receivables**

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.



Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

**(j) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statements of cash flows. Cash and cash equivalents are assessed for ECL.

**(k) Financial liabilities and equity instruments**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

**(l) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

**(m) Convertible loans**

Convertible loans which entitle the holder to convert the loans into a fixed number of equity instruments at a fixed conversion price are regarded as compound instruments consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loans and the fair value assigned to the liability component, representing the embedded option for the holder to convert the loans into equity of the Group, is included in equity as convertible loans reserve. The liability component is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and equity components of the convertible loans based on their relative carrying amounts at the date of issue. The portion related to the equity component is charged directly to equity.

Convertible loans which entitle the holder to convert the loans into equity instruments, other than into a fixed number of equity instruments at a fixed conversion price, are regarded as combined instruments consisting of a liability and a derivative component. At the date of issue, the fair value of the derivative component is determined using an option pricing model; this amount is carried as a derivative liability that is subsequently measured at fair value through profit or loss until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability at amortised cost using the effective interest method until extinguished on conversion or redemption.

Transaction costs are apportioned between the liability and derivative components of the convertible loans based on the allocation of proceeds to the liability and derivative components on initial recognition. The portion related to the derivative component is expensed immediately.

**(n) Trade and other payables**

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

**(o) Equity instruments**

An equity instrument is any contract that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**(p) Revenue and other income**

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Revenue from the sale of goods is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

**(q) Employee benefits****(i) Employee leave entitlements**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

**(ii) Pension obligations**

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

**(iii) Termination benefits**

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

**(r) 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 capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**(s) Government grants**

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become 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.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

**(t) Taxation**

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on 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 and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such 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 arising on 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.

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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities 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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### **(u) Impairment of non-financial assets**

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

**(v) Impairment of financial assets and contract assets**

The Group recognises a loss allowance for expected credit losses on trade receivables and contract assets. The amount of expected credit losses 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 receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions 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 recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

*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 at the reporting date with the risk of a default occurring on the financial instrument 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, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core 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 for a particular financial instrument;
- 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 debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of "investment grade" in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of "performing". Performing means that the counterparty has a strong financial position and there is no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

#### *Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, 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 counterparty;
- a breach of contract, such as a default or past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the counterparty 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 debtor is in severe financial difficulty and there is no realistic prospect of recovery, including when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade 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 expected credit losses 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 expected credit loss 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.



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.

**(w) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

**(x) Events after the reporting period**

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Historical Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Historical Financial Information when material.

#### **4. CRITICAL JUDGEMENTS AND KEY ESTIMATES**

**Critical judgements in applying accounting policies**

In the process of applying the accounting policies, the directors have made the following judgements that have the most significant effect on the amounts recognised in the Historical Financial Information (apart from those involving estimations, which are dealt with below).

**(a) Significant increase in credit risk**

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

***(b) Determining the lease term***

In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation.

Generally, periods covered by an extension option in other properties leases have not been included in the lease liability because the Group could replace the assets without significant cost or business disruption. See note 17 for further information.

The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. During the Track Record Period, no lease term has been reassessed.

**Key sources of estimation uncertainty**

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 causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

***(a) Impairment of property, plant and equipment, right-of-use assets and intangible assets***

Property, plant and equipment, right-of-use assets and intangible assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

As at 31 December 2018, 2019 and 2020, the carrying amount of the property, plant and equipment and right-of-use assets were approximately RMB304,696,000, RMB353,907,000 and RMB486,170,000 and RMB17,932,000, RMB29,949,000 and RMB68,247,000 respectively.

***(b) Impairment loss of trade receivables***

The management of the Group estimates the amount of impairment loss for ECL on trade receivables based on the credit risk of trade receivables. The amount of the impairment loss based on ECL model is measured 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 effective interest rate determined at initial recognition. Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss may arise.

As at 31 December 2018, 2019 and 2020, the carrying amount of trade receivables were approximately RMB140,710,000 (net of allowance for doubtful debts of approximately RMB1,053,000), approximately RMB119,863,000 (net of allowance for doubtful debts of approximately RMB851,000) and approximately RMB191,951,000 (net of allowance for doubtful debts of approximately RMB4,938,000) respectively.

***(c) Allowance for slow-moving inventories and net realisable value of inventories***

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. Allowance for slow-moving inventories of RMB9,000, RMB Nil and RMB Nil made for the year ended 31 December 2018, 2019 and 2020 respectively.

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer's taste and competitor's actions in response to severe industry cycles. The Group will reassess the estimates by the end of each reporting period.

**5. FINANCIAL RISK MANAGEMENT**

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

***(a) Foreign currency risk***

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in RMB. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group monitors its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

**(b) Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit-rating assigned by international credit-rating agencies, for which the Group considers to have low credit risk.

*Trade receivables*

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 - 180 days from the date of billing. Debtors with balances that are more than 90 - 180 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018, 2019 and 2020:

	<b>At 31 December 2020</b>		
	<b>Expected loss rate</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>
	<i>%</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current (not past due) . . . . .	1.7%	194,949	3,402
1 - 90 days past due . . . . .	32.1%	206	66
91 - 365 days past due . . . . .	69.1%	855	591
Over 1 year past due . . . . .	100.0%	879	879
		<u>196,889</u>	<u>4,938</u>

<b>At 31 December 2019</b>			
	<b>Expected loss rate</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>
	%	<i>RMB'000</i>	<i>RMB'000</i>
Current (not past due) . . . . .	0.1%	119,079	151
1 - 90 days past due . . . . .	10.0%	711	71
91 - 365 days past due . . . . .	38.7%	481	186
Over 1 year past due . . . . .	100.0%	443	443
		<u>120,714</u>	<u>851</u>

<b>At 31 December 2018</b>			
	<b>Expected loss rate</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>
	%	<i>RMB'000</i>	<i>RMB'000</i>
Current (not past due) . . . . .	0.3%	111,399	323
1 - 90 days past due . . . . .	0.3%	27,656	82
91 - 365 days past due . . . . .	6.7%	2,208	148
Over 1 year past due . . . . .	100.0%	500	500
		<u>141,763</u>	<u>1,053</u>

Expected loss rates are based on actual loss experience over the past 1 year. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance for trade receivables during the Track Record Period is as follows:

<b>As at 31 December</b>			
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January . . . . .	1,677	1,053	851
Impairment loss recognised for the year . . . . .	—	—	4,087
Reversal of impairment loss for the year . . . . .	(624)	(202)	—
At 31 December . . . . .	<u>1,053</u>	<u>851</u>	<u>4,938</u>

The following significant changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during the year ended 31 December 2020:

- origination of new trade receivables net of those settled resulted in an increase in loss allowance of approximately RMB4,087,000.

#### *Financial assets at amortised cost*

All of the Group's financial assets at amortised cost are considered to have low credit risk, and the loss allowance recognised during the Track Record Period was therefore limited to 12-month expected losses. Management considers financial assets at amortised cost to be low credit risk when they have a low of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

#### **(c) Liquidity risk**

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

	<b>Weighted average interest rate</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over and 5 years</b>	<b>Undiscounted cash flows</b>	<b>Carrying amount</b>
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 31 December 2020</b>							
Trade payables . . . . .		21,891	—	—	—	21,891	21,891
Accruals and other payables . . . . .		42,056	—	—	—	42,056	42,056
Bank loans and other borrowings							
- fixed rate . . . . .	6.85	84,578	77,526	—	—	162,104	148,881
- variable rate . . . . .	8.89	16,149	1,636	—	—	17,785	16,758
Lease liabilities . . . . .	4.89	707	728	1,494	—	2,929	2,621
		<u>165,381</u>	<u>79,890</u>	<u>1,494</u>	<u>—</u>	<u>246,765</u>	<u>232,207</u>

	Weighted average interest rate	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over and 5 years	Undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 31 December 2019</b>							
Trade payables . . . . .		29,941	—	—	—	29,941	29,941
Accruals and other payables . . . . .		30,890	—	—	—	30,890	30,890
Amount due to a director . . . . .		105	—	—	—	105	105
Bank loans and other borrowings							
- fixed rate . . . . .	7.21	16,860	70,869	77,526	—	165,255	142,230
- variable rate . . . . .	8.96	6,881	6,585	1,636	—	15,102	13,499
Convertible loans . . . . .	15.44	5,779	78,019	—	—	83,798	69,106
Lease liabilities . . . . .	5.87	705	706	2,183	33	3,627	3,158
		<u>91,161</u>	<u>156,179</u>	<u>81,345</u>	<u>33</u>	<u>328,718</u>	<u>288,929</u>

	Weighted average interest rate	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over and 5 years	Undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>At 31 December 2018</b>							
Trade payables . . . . .		23,839	—	—	—	23,839	23,839
Accruals and other payables . . . . .		31,839	—	—	—	31,839	31,839
Amount due to a director . . . . .		56	—	—	—	56	56
Bank loans and other borrowings							
- fixed rate . . . . .	7.49	28,651	3,026	2,269	—	33,946	31,656
- variable rate . . . . .	6.37	162,297	—	—	—	162,297	154,461
Convertible loans . . . . .	17.16	30,000	—	—	—	30,000	29,921
Lease liabilities . . . . .	9.32	102	41	127	78	348	276
		<u>276,784</u>	<u>3,067</u>	<u>2,396</u>	<u>78</u>	<u>282,325</u>	<u>272,048</u>

**(d) Interest rate risk**

The Group's convertible loans and certain of the Group's bank loans and other borrowings bear interest at fixed interest rates and therefore are subject to fair value interest rate risk.

The Group's exposure to interest-rate risk arises from its bank deposits and certain of the Group's bank loans and other borrowings. These deposits and bank loans and other borrowings bear interest at variable rates varied with the then prevailing market condition.

At 31 December 2018, 2019 and 2020, it is estimated that a general increase/decrease of 10 basis points in interest rates, with all other variables held constant, would have increased/(decreased) the Group's profit after tax for the year as follows:

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Increase/(decrease) in interest rates			
10 basis points . . . . .	130	4,097	5,485
(10) basis points . . . . .	<u>(130)</u>	<u>(4,097)</u>	<u>(5,485)</u>

The sensitivity analysis above indicates the impact on the Group's profit for the year and retained profits that would have arisen assuming that there is an annualised impact on interest income and expense by a change in interest rates. The analysis has been performed on the same basis through the Track Record Period.

**(e) Categories of financial instruments:**

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Financial assets:</b>			
Financial assets measured at amortised cost . . . . .	<u>319,245</u>	<u>684,691</u>	<u>946,677</u>
<b>Financial liabilities:</b>			
Derivative component of convertible loans . . . . .	—	1,642	—
Financial liabilities measured at amortised cost . . . . .	<u>272,048</u>	<u>288,929</u>	<u>232,207</u>

**(f) Fair values**

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.



## 6. REVENUE

## Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products for the Track Record Period is as follows:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue from contracts with customers within the scope of IFRS 15</b>			
Disaggregated by major products			
Pearlescent pigments . . . . .	314,976	434,155	565,788
Synthetic mica . . . . .	3,268	6,428	3,325
Total . . . . .	<u>318,244</u>	<u>440,583</u>	<u>569,113</u>

The Group derives revenue from the transfer of goods at a point in time.

## 7. OTHER INCOME AND OTHER GAINS AND LOSSES

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on bank deposits . . . . .	697	1,683	2,106
Government grant (note) . . . . .	4,285	3,616	13,229
Net foreign exchange (losses)/gains . . . . .	(580)	1,110	451
Fair value gain/(loss) on derivative component of convertible loans . . . . .	564	(1,120)	(1,998)
Sundry income . . . . .	5	6	990
	<u>4,971</u>	<u>5,295</u>	<u>14,778</u>

*Note:* Government grant mainly related to the subsidies and rewards received from the local government authority for research and development ("R&D") and the achievements accomplished by the Group.

**8. SEGMENT INFORMATION**

The Group has carried on a single business in a single geographical location, which is manufacturing and sales of pearlescent pigments and synthetic mica in the PRC, and all the assets are substantially located in the PRC. Accordingly, there is only one single business reportable segment which is regularly reviewed by the chief operating decision maker.

The Group's reportable segment is a strategic business unit that offers different products. It is centrally managed with the required technology and marketing strategies.

The accounting policies of the operating segments are the same as those described in note 3 to the Historical Financial Information.

**Geographical information:**

The Group's revenue from external customers by location of operations are detailed below:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The PRC . . . . .	293,202	410,428	539,172
Thailand . . . . .	4,927	724	—
Others . . . . .	20,115	29,431	29,941
Consolidated total . . . . .	<u>318,244</u>	<u>440,583</u>	<u>569,113</u>

**Revenue from major customers:**

There was no customer that had contributed over 10% of the Group's revenue during the Track Record Period.

**9. FINANCE COSTS**

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans and other borrowings . . . . .	12,226	13,339	11,126
Interest expenses on lease liabilities (note 17). . . . .	40	184	162
Interest on convertible loans (note 27) . . . . .	4,713	5,630	8,111
Total borrowing costs . . . . .	16,979	19,153	19,399
Amount capitalised . . . . .	(1,110)	(678)	—
	<u>15,869</u>	<u>18,475</u>	<u>19,399</u>

## 10. INCOME TAX EXPENSE

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current tax - PRC:			
Provision for the year . . . . .	6,828	16,308	24,742
Under provision in prior year . . . . .	—	1,660	218
Deferred tax (note 30) . . . . .	(446)	—	—
	<u>6,382</u>	<u>17,968</u>	<u>24,960</u>

Under the two-tiered profits tax regime, profits tax rate for the first HK\$2 million of assessable profits of qualifying corporations established in Hong Kong will be lowered to 8.25%, and profits above that amount will be subject to the tax rate of 16.5%.

PRC Enterprise Income Tax has been provided at a rate of 25% for the Track Record Period.

France Corporation Tax is calculated at the applicable rate of 33.33% in accordance with the relevant law and regulations in France for the Track Record Period.

The Company and those subsidiaries incorporated in the Cayman Islands and the British Virgin Islands are not subject to income tax.

Those subsidiaries incorporated in Hong Kong and France have had no assessable profit subject to Hong Kong Profits Tax or France Corporation Tax during the Track Record Period, respectively.

The income tax expense for the Track Record Period represents the PRC Enterprise Income Tax which is calculated at the prevailing tax rate on the taxable income of the group entities in the PRC.

Chesir Pearl obtained the high and new technology enterprise certificate to entitle to a preferential tax rate of 15% during the Track Record Period, subject to annual review by the relevant authority.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC Enterprise Income Tax rate is as follows:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax . . . . .	87,746	125,301	177,821
Tax at the domestic income tax rate of 25% . . . . .	21,937	31,325	44,455
Tax effect of income that is not taxable. . . . .	(5,300)	(8,199)	(7,039)
Tax effect of expenses that are not deductible. . . . .	2,866	7,566	9,283
Tax effect of tax concession . . . . .	(6,434)	(14,166)	(21,862)
Tax effect of utilisation of tax losses not previously recognised . . . . .	(5,106)	—	—
Under provision in prior year . . . . .	—	1,660	218
(Under)/over provision in current year. . . . .	(1,581)	(218)	(95)
Income tax expense . . . . .	<u>6,382</u>	<u>17,968</u>	<u>24,960</u>

## 11. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging/(crediting) the following:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation on property plant and equipment. . . . .	20,760	23,153	22,867
Depreciation on right-of-use assets . . . . .	717	1,156	1,557
Research and development expenditures . . . . .	10,745	23,247	29,284
Cost of inventories sold. . . . .	166,917	218,222	280,046
Allowance for inventories (included in cost of inventories sold) . . . . .	9	—	—
(Reversals of impairment losses on trade and other receivables)/Impairment losses for trade and other receivables. . . . .	(612)	(208)	4,118
Listing expense . . . . .	—	—	13,206
Operating lease charge . . . . .	<u>729</u>	<u>936</u>	<u>965</u>

*Note:*

The following costs are included in the amounts of cost of inventories sold disclosed separately above:

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs . . . . .	22,139	23,935	26,708
Depreciation . . . . .	11,123	12,998	13,419

## 12. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefits expense:			
Salaries, bonuses and allowances . . . . .	31,962	38,803	45,712
Retirement benefit scheme contributions . . . . .	9,061	10,146	4,871
	<u>41,023</u>	<u>48,949</u>	<u>50,583</u>

### Five highest paid individuals

The five individuals with the highest emoluments in the Group during the Track Record Period included, 4, 4, and 4 were directors of the Company whose are reflected in the analysis presented in note 13.

The emoluments of the remaining 1, 1, and 1 individual during the Track Record Period were as follows:

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, bonuses and allowances . . . . .	360	390	550
Retirement benefit scheme contributions . . . . .	54	—	24
	<u>414</u>	<u>390</u>	<u>574</u>

The emoluments fell within the following band:

	<b>Number of Individuals</b>		
	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Nil to HK\$1,000,000 . . . . .	<u>5</u>	<u>5</u>	<u>5</u>

During the Track Record Period, there was no arrangement under which a director of the Company waived or agreed to waive any remuneration, and no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

## 13. BENEFITS AND INTERESTS OF DIRECTORS

## (a) Directors' emoluments

The remuneration of every director is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking										Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	Fees	Salaries	Discretionary bonus	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Housing allowance	Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:												
Mr. SU Ertian (苏尔田先生) . . . . .	—	246	254	—	—	63	—	—	—	—	—	563
Mr. ZHENG Shizhan (郑世展先生) . . . . .	—	168	282	—	—	55	—	—	—	—	—	505
Mr. JIN Zengqin (金增勤先生) . . . . .	—	149	251	—	—	50	—	—	—	—	—	450
Mr. ZHOU Fangchao (周方超先生) . . . . .	—	162	238	—	—	54	—	—	—	—	—	454
Non-executive director:												
Mr. QIN Min (秦敏先生) . . . . .	—	—	—	—	—	—	—	—	—	—	—	—
Total for the year ended 31 December 2018 . . . . .	—	725	1,025	—	—	222	—	—	—	—	—	1,972

The remuneration of every director is set out below:

Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking	Remunerations							Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	Fees	Salaries	Discretionary bonus	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of accepting office as director	Housing allowance		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:									
Mr. SU Ertian (苏尔田先生) . . . . .	—	258	362	—	62	—	—	—	682
Mr. ZHENG Shizhan (郑世展先生) . . . . .	—	192	338	—	57	—	—	—	587
Mr. JIN Zengqin (金增勤先生) . . . . .	—	168	312	—	52	—	—	—	532
Mr. ZHOU Fangchao (周方超先生) . . . . .	—	186	294	—	56	—	—	—	536
Non-executive director:									
Mr. QIN Min (秦敏先生) . . . . .	—	—	—	—	—	—	—	—	—
Total for the year ended 31 December 2019 . . . . .	—	804	1,306	—	227	—	—	—	2,337



The remuneration of every director is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking						Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
	Fees	Salaries	Discretionary bonus	Estimated money value of other benefits	Employer's contribution to a retirement benefit scheme	Remunerations paid or receivable in respect of office as director		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:								
Mr. SU Ertian (苏尔田先生)	—	480	220	—	38	—	—	738
Mr. Zheng Shizhan (郑世展先生)	—	420	180	—	36	—	—	636
Mr. JIN Zengqin (金增勤先生)	—	360	190	—	33	—	—	583
Mr. ZHOU Fangchao (周方超先生)	—	360	190	—	33	—	—	583
Non-executive directors:								
Mr. QIN Min (秦敏先生)	—	—	—	—	—	—	—	—
Mr. HU Yongxiang (胡永祥先生)	—	—	—	—	—	—	—	—
Mr. NG Teck Sim (黄得森先生)	—	—	—	—	—	—	—	—
(Note)	—	—	—	—	—	—	—	—
Mr. KOK Hoong Chwan (郭宏船先生) (alternate director of Mr. NG Teck Sim) (Note)	—	—	—	—	—	—	—	—
Independent non-executive directors:								
Mr. MAK Hing Keung, Thomas (麦兴强先生)	—	—	—	—	—	—	—	—
Professor HAN Gaorong (韩高荣教授)	—	—	—	—	—	—	—	—
Mr. LEUNG Kwai Wah Alex (梁贵华先生)	—	—	—	—	—	—	—	—
Total for the year ended 31 December 2020	—	1,620	780	—	140	—	—	2,540

Note: Mr. NG Teck Sim and Mr. Mr. KOK Hoong Chwan appointed on 30 October 2020 and resigned on 29 May 2021.

**(b) Directors' material interests in transactions, arrangements or contracts**

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party had a material interest, whether directly or indirectly, subsisted during the Track Record Period.

**14. DIVIDENDS**

No dividend has been paid or declared by the Company since its incorporation.

**15. EARNINGS PER SHARE**

Earnings per share information is not presented as its inclusion, for the purpose of this financial information, is not considered meaningful due to the Reorganisation and the basis of presentation of the results of the Group for the Track Record Period as further explained in note 1 to the Historical Financial Information.

## 16. PROPERTY, PLANT AND EQUIPMENT

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Motor vehicles</b>	<b>Office equipment</b>	<b>Construction in progress</b>	<b>Leasehold improvement</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost</b>							
At 1 January 2018 . . . . .	198,150	62,808	2,207	9,527	41,234	1,059	314,985
Additions . . . . .	32	1,200	16	105	61,317	—	62,670
Disposals . . . . .	—	—	—	—	—	(1,059)	(1,059)
Transfer . . . . .	<u>50,361</u>	<u>3,297</u>	<u>—</u>	<u>—</u>	<u>(62,192)</u>	<u>8,534</u>	<u>—</u>
At 31 December 2018 and 1 January 2019 . . . . .	248,543	67,305	2,223	9,632	40,359	8,534	376,596
Additions . . . . .	531	10	356	99	71,368	—	72,364
Transfer . . . . .	<u>6,961</u>	<u>86</u>	<u>—</u>	<u>—</u>	<u>(7,047)</u>	<u>—</u>	<u>—</u>
At 31 December 2019 and 1 January 2020 . . . . .	256,035	67,401	2,579	9,731	104,680	8,534	448,960
Additions . . . . .	19	6,521	54	281	148,255	—	155,130
Disposals . . . . .	—	—	—	(17)	—	—	(17)
Transfer . . . . .	<u>—</u>	<u>838</u>	<u>—</u>	<u>—</u>	<u>(838)</u>	<u>—</u>	<u>—</u>
At 31 December 2020 . . . . .	<u>256,054</u>	<u>74,760</u>	<u>2,633</u>	<u>9,995</u>	<u>252,097</u>	<u>8,534</u>	<u>604,073</u>
<b>Accumulated depreciation</b>							
At 1 January 2018 . . . . .	27,829	15,620	1,553	6,138	—	1,059	52,199
Charge for the year . . . . .	10,671	6,849	321	1,777	—	1,142	20,760
Disposals . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,059)</u>	<u>(1,059)</u>
At 31 December 2018 and 1 January 2019 . . . . .	38,500	22,469	1,874	7,915	—	1,142	71,900
Charge for the year . . . . .	<u>12,565</u>	<u>6,543</u>	<u>159</u>	<u>959</u>	<u>—</u>	<u>2,927</u>	<u>23,153</u>
At 31 December 2019 and 1 January 2020 . . . . .	51,065	29,012	2,033	8,874	—	4,069	95,053
Charge for the year . . . . .	12,807	6,902	122	191	—	2,845	22,867
Disposals . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>(17)</u>	<u>—</u>	<u>—</u>	<u>(17)</u>
At 31 December 2020 . . . . .	<u>63,872</u>	<u>35,914</u>	<u>2,155</u>	<u>9,048</u>	<u>—</u>	<u>6,914</u>	<u>117,903</u>
<b>Carrying amount</b>							
At 31 December 2020 . . . . .	<u>192,182</u>	<u>38,846</u>	<u>478</u>	<u>947</u>	<u>252,097</u>	<u>1,620</u>	<u>486,170</u>
At 31 December 2019 . . . . .	<u>204,970</u>	<u>38,389</u>	<u>546</u>	<u>857</u>	<u>104,680</u>	<u>4,465</u>	<u>353,907</u>
At 31 December 2018 . . . . .	<u>210,043</u>	<u>44,836</u>	<u>349</u>	<u>1,717</u>	<u>40,359</u>	<u>7,392</u>	<u>304,696</u>

As at 31 December 2018, 2019, and 2020, the carrying amount of property, plant and equipment pledged as security for the Group's bank loans and other borrowings amounted to approximately RMB139,913,000, RMB125,503,000 and RMB118,302,000 respectively.

## 17. RIGHT-OF-USE ASSETS

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January . . . . .	18,726	17,932	29,949
Additions . . . . .	—	13,177	39,849
Depreciation . . . . .	(717)	(1,156)	(1,557)
Written-off . . . . .	(79)	—	—
Exchange differences . . . . .	2	(4)	6
	<u>17,932</u>	<u>29,949</u>	<u>68,247</u>

Right-of-use assets comprised the leasehold lands in the PRC, and leased property in the PRC and France.

As at 31 December 2018, 2019, and 2020, the carrying amount of right-of-use assets pledged as security for the Group's bank loans amounted to approximately RMB17,669,000, RMB17,260,000 and RMB16,851,000 respectively.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

	<b>Year ended 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation expenses on right-of-use assets . . . . .	717	1,156	1,557
Interest expense on lease liabilities (included in finance cost) . . . . .	<u>40</u>	<u>184</u>	<u>162</u>

Details of total cash outflow for leases is set out in note 34.

During the Track Record Period, the Group leases various offices and warehouses for its operations. Lease contracts are entered into for fixed term of 6 months to 108 months. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

## 18. INVESTMENTS IN SUBSIDIARIES

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follow:

Name of subsidiary	Place of incorporation / establishment	Authorised capital	Issued / paid up capital	Attributable equity interest of the Group	Principal activities
Generous Fortune	British Virgin Islands	HK\$ 12,590,725.2	HK\$12,590,725.2	100% (Direct)	Investment holding
Global New Material (HK)	Hong Kong	N/A	HK\$30,000	100% (Indirect)	Investment holding
Chesir Pearl	The PRC	RMB149,561,191	RMB149,561,191	97.19% (Indirect) (31 December 2018, 2019 and 2020)	Manufacturing and sales of pearlescent pigments and synthetic mica
Shanghai Multicolor	The PRC	RMB10,000,000	RMB10,000,000	97.19% (Indirect) (31 December 2018, 2019 and 2020)	Trading of pearlescent pigments and synthetic mica
Chesir Luzhai	The PRC	RMB104,927,076	RMB104,927,076	58.35% (Indirect) (31 December 2018, 2019 and 2020)	Manufacturing and sales of synthetic mica
Chesir France	France	EUR50,000	EUR50,000	97.19% (Indirect) (31 December 2018, 2019 and 2020)	Inactive

The following table shows information on the subsidiaries that have non-controlling interests (“NCI”) material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name . . . . .	Chesir Luzhai		
	The PRC		
Principal place of business . . . . .	As at 31 December		
	2018	2019	2020
% of ownership interests / voting rights held by NCI . . . . .	41.65% <i>/</i>	41.65% <i>/</i>	41.65% <i>/</i>
	41.65%	41.65%	41.65%
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets . . . . .	150,578	157,178	144,770
Current assets . . . . .	237,714	231,744	244,834
Non-current liabilities . . . . .	—	—	—
Current liabilities . . . . .	(8,711)	(5,714)	(5,771)
Net assets . . . . .	<u>379,581</u>	<u>383,208</u>	<u>383,833</u>
Accumulated NCI . . . . .	<u>151,748</u>	<u>153,260</u>	<u>153,521</u>
	Year ended 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue . . . . .	89,847	59,776	59,845
Profit . . . . .	4,193	3,627	625
Total comprehensive income . . . . .	4,193	3,627	625
Profit allocated to NCI . . . . .	1,748	1,512	261
Net cash generated from/(used in) operating activities . . . . .	185	(26,178)	12,308
Net cash used in investing activities . . . . .	—	(6,600)	(5,199)
Net cash generated from financing activities . . . . .	<u>150,000</u>	<u>—</u>	<u>—</u>
Net increase/(decrease) in cash and cash equivalents . . . . .	<u>150,185</u>	<u>(32,778)</u>	<u>7,109</u>

Conversion of RMB into foreign currencies is subject to the PRC’s Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 19. INVENTORIES

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials . . . . .	12,752	3,931	6,506
Work in progress . . . . .	35,904	36,863	45,126
Finished goods . . . . .	25,764	39,340	23,739
	<u>74,420</u>	<u>80,134</u>	<u>75,371</u>

## 20. TRADE AND BILLS RECEIVABLES

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables . . . . .	141,763	120,714	196,889
Bills receivables . . . . .	3,309	1,829	—
Allowance for doubtful debts . . . . .	(1,053)	(851)	(4,938)
	<u>144,019</u>	<u>121,692</u>	<u>191,951</u>

The Group generally allows a credit period from 90 to 180 days for its customers. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors of the Company.

The aging analysis of trade receivables based on the invoice date (or date of revenue recognition, if earlier), and net of allowance, is as follows:

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days . . . . .	89,263	118,457	168,476
91 to 180 days . . . . .	48,084	550	23,161
181 to 365 days . . . . .	3,075	856	290
Over 365 days . . . . .	288	—	24
	<u>140,710</u>	<u>119,863</u>	<u>191,951</u>

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB .....	136,669	113,010	185,823
US\$ .....	3,512	6,853	6,128
Great British Pound ("GBP") .....	529	—	—
Total .....	<u>140,710</u>	<u>119,863</u>	<u>191,951</u>

## 21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposits .....	2,168	2,067	2,997
Prepayments .....	11,263	1,199	16,465
Value-added tax recoverable .....	160	272	3,776
Other receivables .....	714	491	371
	<u>14,305</u>	<u>4,029</u>	<u>23,609</u>

## 22. AMOUNTS DUE FROM/(TO) A SHAREHOLDER / A DIRECTOR

The amounts due are unsecured, interest-free and have no fixed terms of repayment. The balances are non-trade in nature and have been settled in full during the year ended 31 December 2020.

## 23. BANK AND CASH BALANCES

The carrying amounts of the Group's bank and cash balances are denominated in the following currencies:

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB .....	169,395	555,581	743,520
US\$ .....	2,316	4,192	3,895
EUR .....	143	66	89
HK\$ .....	—	—	78
Total .....	<u>171,854</u>	<u>559,839</u>	<u>747,582</u>



Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

#### 24. SHARE CAPITAL

	Number of shares issued	Authorised	Authorised	Authorised	Issued and fully paid
		<i>RMB'000</i>	<i>USD'000</i>	<i>HKD'000</i>	<i>RMB'000</i>
Share capital of Chesir Pearl included in the Group					
At 1 January 2018 . . . . .	83,100,000	83,100	—	—	83,100
Group reorganisation . . . . .	(83,100,000)	(83,100)	—	—	(83,100)
At 31 December 2018, 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020 . . . . .	—	—	—	—	—
Share capital of the Company ordinary shares of US\$1 each					
- upon incorporation on 8 June 2018 (note (b)) . . . . .	—	—	50	—	—
- issue of 1 share at US\$1 paid (note (b)) . . . . .	1	—	—	—	—
- issued and allotted of 49,999 shares at US\$1 paid (note (b)) . . . . .	49,999	—	—	—	330
At 31 December 2018, 1 January 2019, 31 December 2019, 1 January 2020 . . . . .	50,000	—	50	—	330
Share capital of the Company ordinary shares of US\$1 each					
- cancellation of authorised capital (note (c)) . . . . .	(50,000)	—	(50)	—	(330)
At 31 December 2020 . . . . .	—	—	—	—	—
Share capital of the Company ordinary shares of HK\$0.1 each					
- issued and allotted of 3,900,000 shares (note (c)) . . . . .	3,900,000	—	—	—	330
- increase of authorised capital (note (c)) . . . . .	—	—	8,000,000	—	—
- share issue (note (d)) . . . . .	141,436,931	—	—	—	12,012
At 31 December 2020 . . . . .	145,336,931	—	—	8,000,000	12,342

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*Notes:*

- (a) Upon the incorporation of the Company on 8 June 2018, the share capital of Chesir Pearl of RMB83,100,000 was transferred to merger reserve and share capital reflected that of the Company.
- (b) The Company was incorporated in the Cayman Islands under the Cayman Islands Companies Act as an exempted company with limited liability on 8 June 2018 with an authorised share capital of US\$1 divided into 1 share of US\$1 each. On the same day, the initial subscribing shareholder transferred one issued share to Continuous Profit Limited at par and allotted credited as fully paid at par. The one share was transferred to Continuous Profit Limited on the same date for nominal consideration. On the same date, the Company issued and allotted 49,999 shares to Continuous Profit Limited as fully-paid at par value.
- (c) Pursuant to the written resolutions approved by the then sole shareholder of the Company on 30 October 2020, (a) the authorised share capital of the Company was increased to HK\$8,000,000,000 by the creation of 80,000,000,000 ordinary shares of HK\$0.1 each; (b) the authorised share capital of the Company has been diminished by the cancellation of all unissued shares of par value of US\$1.0 each; and (c) the issued share capital has been increased to 3,900,000 ordinary shares of HK\$0.1 each allotted and issued to the then sole shareholder in consideration for the repurchase by the Company for cancellation from the then sole shareholder the 50,000 shares of par value of US\$1.0 each of the Company.
- (d) On 18 November 2020, the Company allotted and issued 122,007,252 new ordinary shares of the Company of HK\$0.1 each pursuant to a share swap implemented and accepted by all shareholders of Generous Fortune, whereby one ordinary share of Generous Fortune was exchanged for one ordinary share of the Company, except for the 7,493,138 shares of Generous Fortune held by Ertian International Investment Limited (“Ertian International”), a company wholly owned by Mr. SU, which were exchanged for 3,593,138 ordinary shares of the Company allotted and issued to Ertian International and as a result, the 22 equity holders of Chesir Pearl who have agreed and completed the required procedures under the applicable PRC laws and regulations to transfer their equity interests in Chesir Pearl for the same number of shares of Generous Fortune (“Consent Chesir Pearl Equity Holders”) have become the shareholders of the Company. On the same date, 19,429,679 new ordinary shares of the Company of HK\$0.1 each have been allotted and issued to the bond holder and a shareholder of Chesir Pearl.

The number of shares of the Company held by each of the shareholders following completion of the Reorganisation mirrors the previous equity holding of the Consent Chesir Pearl Equity Holders in Chesir Pearl. Further details please refer to the group reorganisation as more fully explained in the paragraph headed “History, Development and Reorganisation” section of this investment circular.

For the purpose of this report, the share capital as presented in the consolidated statements of the financial position as at 31 December 2018, 2019 and 2020 represented the combined equity capital of the subsidiaries now comprising the Group after elimination of inter-company investments.

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the payment of dividends, issue new shares, buy-back shares, raise new debts, redeem existing debts or sell assets to reduce debts.

The Group monitors capital on the basis of the debt-to-equity ratio. This ratio is calculated as net debt divided by total equity. Total debt comprises bank loans and other borrowings, convertible loans and lease liabilities. Adjusted capital comprises all components of equity (i.e. share capital, retained profits and other reserves etc.) except for non-controlling interests.

During the Track Record Period, the Group's strategy, which was unchanged from previous years, was to maintain the debt-to-equity ratio at a level of industry average.

The debt-to-adjusted capital ratios at 31 December 2018, 2019 and 2020 were as follows:

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total debts . . . . .	216,314	227,993	168,260
Less: Cash and cash equivalents . . . . .	(171,854)	(559,839)	(747,582)
Net debt/(capital) . . . . .	<u>44,460</u>	<u>(331,846)</u>	<u>(579,322)</u>
Total equity . . . . .	<u>298,101</u>	<u>712,208</u>	<u>1,181,239</u>
Debt-to-adjusted capital ratio . . . . .	<u>15%</u>	<u>N/A</u>	<u>N/A</u>

The externally imposed capital requirements for the Group are to meet financial covenants attached to the interest-bearing borrowings.

Breaches in meeting the financial covenants would permit the bank to immediately call borrowings. There have been no breaches in the financial covenants of any interest-bearing borrowing during the Track Record Period.

## 25. RESERVES

### (a) The Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statements of profit or loss and other comprehensive income and consolidated statements of changes in equity.

### (b) The Company

	<b>Special reserve</b>	<b>Accumulated losses</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 25(e)(vi))</i>		
At 8 June 2018 (date of incorporation) . . . . .	—	—	—
Total comprehensive income for the period . . . . .	—	(48)	(48)
At 31 December 2018 and 1 January 2019 . . . . .	—	(48)	(48)
Total comprehensive income for the year . . . . .	—	(33)	(33)
At 31 December 2019 and 1 January 2020 . . . . .	—	(81)	(81)
Group Reorganisation . . . . .	284,381	—	284,381
Total comprehensive income for the year . . . . .	—	(9,626)	(9,626)
At 31 December 2020 . . . . .	<u>284,381</u>	<u>(9,707)</u>	<u>274,674</u>

**(c) Nature and purpose of reserves****(i) Merger reserve**

Merger reserve arose as a result of the group reorganisation upon incorporation of the Company on 8 June 2018. The share capital of Chesir Pearl was transferred to merger reserve and share capital reflected that of the Company.

**(ii) Other reserve**

Other reserve arose as a result of excess of capital contribution over the share capital of the subsidiaries.

**(iii) Convertible loans reserve**

The convertible loans reserve represents the value of the unexercised equity component of convertible loans issued by a subsidiary recognised in accordance with the accounting policy adopted for convertible loans in note 3(m) to the Historical Financial Information.

**(iv) Foreign currency translation reserve**

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(b) to the Historical Financial Information.

**(v) Statutory surplus reserve**

The statutory surplus reserve, which is non-distributable, is appropriated from the profit after tax of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

**(vi) Special reserve**

Special reserve represents the difference between the consideration and the share capital of a subsidiary acquired under common control pursuant to the group reorganisation.

**26. BANK LOANS AND OTHER BORROWINGS**

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Secured bank loans . . . . .	175,500	137,740	137,340
Other borrowings			
- Secured . . . . .	10,617	17,989	18,581
- Unsecured . . . . .	—	—	9,718
	<u>186,117</u>	<u>155,729</u>	<u>165,639</u>

The bank loans and other borrowings are repayable as follows:

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year . . . . .	181,146	11,953	90,273
More than one year, but not exceeding two years . . . .	2,757	68,410	75,366
More than two years, but not more than five years . . .	2,214	75,366	—
	<u>186,117</u>	<u>155,729</u>	<u>165,639</u>
Less: Amount due for settlement within 12 months (shown under current liabilities). . . . .	<u>(181,146)</u>	<u>(11,953)</u>	<u>(90,273)</u>
	<u><u>4,971</u></u>	<u><u>143,776</u></u>	<u><u>75,366</u></u>

The carrying amounts of the Group's borrowings are denominated in RMB and HKD.

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB . . . . .	186,117	155,729	155,921
HK\$ . . . . .	—	—	9,718
	<u>186,117</u>	<u>155,729</u>	<u>165,639</u>

The average interest rates at 31 December were as follows:

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Bank loans . . . . .	6.49% per annum	7.18% per annum	7.17% per annum
Other borrowings			
- Secured . . . . .	7.67% per annum	8.72% per annum	8.80% per annum
- Unsecured . . . . .	<u>—</u>	<u>—</u>	<u>2.00% per annum</u>

Bank loans and other borrowings of approximately RMB31,656,000, RMB142,230,000 and RMB148,881,000 as at 31 December 2018, 2019 and 2020 respectively are arranged at fixed interest rates and expose the Group to fair value interest rate risk. The remaining balances of bank loans and other borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

The Group's secured bank loans are secured by the Group's property, plant and equipment (note 16) and right-of-use assets (note 17) and also secured by the corporate guarantees from related parties, together with personal guarantees of a director of the Company and the close family members of a director of the Company and pledged by non-controlling equity interests of the Group held by related parties.

The Group's secured other borrowings are secured by the Group's property, plant and equipment (note 16) and also secured by the corporate guarantees from related parties, together with personal guarantees of a director of the Company and the close family members of a director of the Company.

Upon listing of the Shares of the Company, the corporate guarantees from related parties, together with personal guarantees of a director of the Company and the close family members of a director of the Company and the pledge from non-controlling equity interests of the Group held by related parties will be released or replaced by corporate guarantees executed by the Company.

## **27. CONVERTIBLE LOANS**

### **2017 Convertible loan**

The unlisted, guaranteed and secured convertible loan was issued by Chesir Pearl, a subsidiary of the Group on 6 January 2017 with a nominal value of RMB30,000,000. ("2017 Convertible loan")

If 2017 Convertible loan is not converted, it will be redeemed at par on 6 January 2019. It has coupon rate of 11% per annum on the principal amount outstanding and interest will be paid quarterly in arrears until that settlement date.

If the holder of 2017 Convertible loan requests a share conversion within one year from the date of issue of 2017 Convertible loan, the conversion price shall be the lower of the latest non-public offering of equity financing of Chesir Pearl after the date of issue of 2017 Convertible loan or RMB10 per share.

If the holder of 2017 Convertible loan requests a share conversion after one year from the date of issue of 2017 Convertible loan but before the settlement date on 6 January 2019, the conversion price is the latest non-public offering of equity financing of Chesir Pearl after the date of issue of 2017 Convertible loan and RMB10 per share, whichever is lower, times 110%.

Under certain conditions as stipulated in the agreement of 2017 Convertible loan ("Early Repayment Conditions") occurs during the loan period of 2017 Convertible loan, the holder of 2017 Convertible loan has the right to require Chesir Pearl to repay 2017 Convertible loan in advance, or if the holder of 2017 Convertible loan has converted shares in accordance with the contract of 2017 Convertible loan, the holder of 2017 Convertible loan has the right to require the then Chesir Pearl's prevailing controlling shareholder to repurchase all or some of the converted shares.

In the inception date of 2017 Convertible loan, the directors has assessed that the probability of the occurrence of the Early Repayment Conditions were remote and eventually these Early Repayment Conditions also had not been occurred. The directors has also assessed the fair value of the derivative component of early repayment option of 2017 Convertible loan are immaterial in both the inception date of 2017 Convertible loan and in each subsequent reporting period end during the loan period, and thus the liability of the derivative component of early repayment option of 2017 Convertible loan has not been recognised in the Track Record Period.

2017 Convertible loan is guaranteed by the then prevailing controlling shareholder of Chesir Pearl and a director of Chesir Pearl and secured by certain equity interest of Chesir Pearl held by the prevailing controlling shareholder of the Company.

The net proceeds received from the issue of 2017 Convertible loan has been split between the liability element and the derivative component, as follows:

	<u>RMB'000</u>
Liability component at 1 January 2018 . . . . .	28,700
Interest charged (note 9) . . . . .	4,713
Interest paid . . . . .	<u>(3,492)</u>
Liability component at 31 December 2018 and 1 January 2019 . . . . .	29,921
Interest charged (note 9) . . . . .	79
Repayment of the liability component . . . . .	<u>(30,000)</u>
Liability component at 31 December 2019 . . . . .	<u>—</u>
Derivative component at 1 January 2018 . . . . .	564
Fair value gain for the year . . . . .	<u>(564)</u>
Derivative component at 31 December 2018, 1 January 2019 and 31 December 2019 . . . . .	<u>—</u>

The interest charged is calculated by applying an effective interest rate of 17.16% to the liability component for the 24 month period since 2017 Convertible loan was issued.

The directors estimate the fair value of the liability component of 2017 Convertible loan at 31 December 2018 to be approximately RMB29,921,000. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

The derivative component of 2017 Convertible loan is measured at its fair value at the date of issue of 2017 Convertible loan and at the end of each reporting period. The fair values are estimated using binomial option pricing model (level 3 fair value measurements). The key assumptions used are as follows:

	<u>Date of issue</u>	<u>31 December 2018</u>
Weighted average share price of Chesir Pearl . . . . .	RMB 10.50	RMB 7.38
Weighted average exercise price of Chesir Pearl . . . . .	RMB 10	RMB 11
Expected volatility . . . . .	57.28%	36.05%
Expected life . . . . .	2.00 years	0.02 year
Risk free rate . . . . .	2.86%	2.45%
Expected dividend yield . . . . .	14.57%	15.21%

Information about level 3 fair value measurements

	<u>Valuation techniques</u>	<u>Significant unobservable input</u>	<u>Range</u>	<u>Effect on fair value for increase of inputs</u>
Derivative component of 2017 Convertible loan . . . . .	Binomial option pricing model	Expected volatility	2018: 39.38% to 36.05%	N/A

The fair value of derivative component of 2017 Convertible loan is determined using binomial option pricing model and the significant unobservable input in the fair value measurement is expected volatility. As at 31 December 2018, the fair value of derivative component of 2017 Convertible loan was insensitive to the change in expected volatility.

### 2019 Convertible Bonds

The unlisted, guaranteed and unsecured convertible loan was issued by Chesir Pearl on 31 May 2019 with a nominal value of RMB72,240,000. The convertible loan is convertible at 8,000,000 shares of Chesir Pearl per RMB9.03 convertible loan ("2019 Convertible Bonds").

If 2019 Convertible Bonds is not converted, it will be redeemed at par on or before 24 months from the date of loans advanced (around 31 May 2021). It has coupon rate of 8% per annum on the principal amount outstanding and interest will be paid annually in arrears until that settlement date.

If Chesir Pearl fails to complete or meet the qualifications for a qualified listing before 31 December 2019, and the holders of 2019 Convertible Bonds has not exercised the debt-to-equity swap option, the holders of 2019 Convertible Bonds has the right (but not the obligation) to choose to extend the loan period of 2019 Convertible Bonds to 31 December 2021, and the coupon rate of 2019 Convertible Bonds during the extension period is remained at 8% per annum.



During the loan period and extension period, when one of the following situations occurs, the holders of 2019 Convertible Bonds have the right (but not the obligation) to choose to convert its 2019 Convertible Bonds into ordinary share of Chesir Pearl; the holders of 2019 Convertible Bonds also has the right to convert its 2019 Convertible Bonds into ordinary share of Chesir Pearl after 31 December 2019 regardless of the occurrence of the following situations:

- Chesir Pearl meets the qualifications for a qualified listing; or
- The loan period expires and Chesir Pearl does not have any breach of 2019 Convertible Bonds contract. "Qualified listing" refers to the Chesir Pearl's initial public offering of shares and listing and trading of its shares on the Shanghai Stock Exchange, the Shenzhen Stock Exchange or other overseas stock exchanges (such as the Hong Kong Stock Exchange and the Singapore Stock Exchange, etc.) recognised by the holders of 2019 Convertible Bonds.

2019 Convertible Bonds is guaranteed by the prevailing controlling shareholder of Chesir Pearl and a director of Chesir Pearl.

The net proceeds received from the issue of 2019 Convertible Bonds has been split between the liability element, the derivative component of extension option and an equity component, as follows:

	<u>RMB'000</u>
Nominal value of 2019 Convertible Bonds issued . . . . .	72,240
Derivative component of extension opinion . . . . .	(522)
Equity component . . . . .	<u>(8,163)</u>
Liability component at date of issue . . . . .	63,555
Interest charged (note 9) . . . . .	<u>5,551</u>
Liability component at 31 December 2019 and 1 January 2020 . . . . .	69,106
Interest charged (note 9) . . . . .	8,111
Interest paid . . . . .	(7,964)
Converted during the year . . . . .	<u>(69,253)</u>
Liability component at 31 December 2020. . . . .	<u>—</u>
Derivative component of extension option at date of issue . . . . .	522
Fair value loss for the year . . . . .	<u>1,120</u>
Derivative component of extension option at 31 December 2019 and 1 January 2020. . . . .	1,642
Fair value loss for the year . . . . .	1,998
Converted during the year . . . . .	<u>(3,640)</u>
Derivative component of extension option at 31 December 2020 . . . . .	<u>—</u>

The interest charged is calculated by applying an effective interest rate of 15.44% to the liability component for the 24 month period since 2019 Convertible Bonds was issued.

The directors estimate the fair value of the liability component of 2019 Convertible Bonds at 31 December 2019 to be approximately RMB69,106,000. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

On 19 October 2020, Chesir Pearl and the new bond holder entered into a convertible bond conversion agreement for the purpose of converting the 2019 Convertible Bonds into 8,000,000 shares of Chesir Pearl. These shares were issued to the new bond holder on the same date.

The derivative component of extension option of 2019 Convertible Bonds is measured at its fair value at the date of issue of 2019 Convertible Bonds and at the end of each reporting period. The fair values are estimated using binomial option pricing model (level 3 fair value measurements). The key assumptions used are as follows:

	<u>Date of issue</u>	<u>31 December 2019</u>
Weighted average share price of Chesir Pearl . . . . .	RMB9.41	N/A
Weighted average exercise price of Chesir Pearl . . . . .	RMB 9.03	RMB 9.03
Expected volatility . . . . .	44.24%	45.60%
Expected life . . . . .	2.0 years	1.4 years
Risk free rate . . . . .	2.81%	2.43%
Expected dividend yield . . . . .	15.44%	15.08%

Information about level 3 fair value measurements

	<u>Valuation techniques</u>	<u>Significant unobservable input</u>	<u>Range</u>	<u>Effect on fair value for increase of inputs</u>
Derivative component of extension option of 2019 Convertible Bonds . . . . .	Binomial option pricing model	Expected volatility	31 December 2019: 44.24% to 45.60%	2019: Increase

The fair value of derivative component of extension option of 2019 Convertible Bonds is determined using binomial option pricing model and the significant unobservable input in the fair value measurement is expected volatility. As at 31 December 2019, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 10% would have decreased/increased the Group's profit by approximately RMB230,000 and RMB737,000 respectively.

## 28. LEASE LIABILITIES

	Minimum lease payments			Present value of minimum lease payments		
	As at 31 December			As at 31 December		
	2018	2019	2020	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within one year . . . . .	102	705	707	85	543	577
In the second to fifth years, inclusive . . . . .	168	2,889	2,222	121	2,586	2,044
After five years . . . . .	78	33	—	70	29	—
	348	3,627	2,929	276	3,158	2,621
Less: Future finance charges . . . . .	(72)	(469)	(308)	N/A	N/A	N/A
Present value of lease obligations . . . . .	<u>276</u>	<u>3,158</u>	<u>2,621</u>			
Less: Amount due for settlement within 12 months (shown under current liabilities) . . . . .				(85)	(543)	(577)
Amount due for settlement after 12 months . . . . .				<u>191</u>	<u>2,615</u>	<u>2,044</u>

The carrying amounts of the Group's lease liabilities are denominated in the following currencies:

	As at 31 December		
	2018	2019	2020
	RMB'000	RMB'000	RMB'000
RMB . . . . .	62	2,970	2,452
EUR . . . . .	214	188	169
	<u>276</u>	<u>3,158</u>	<u>2,621</u>

## 29. DEFERRED REVENUE

	As at 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grant . . . . .	12,902	10,179	7,487
	<u>12,902</u>	<u>10,179</u>	<u>7,487</u>
	As at 31 December		
	2018	2019	2020
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Analysed as:			
Current liabilities . . . . .	2,723	2,692	2,136
Non-current liabilities . . . . .	10,179	7,487	5,351
	<u>12,902</u>	<u>10,179</u>	<u>7,487</u>

The deferred revenue arises in respect of the Group's government grant.

The deferred revenue arises as a result of the government grant received during the Track Record Period.

## 30. DEFERRED TAX

Deferred tax assets

	<u>Doubtful debts</u>
	<i>RMB</i>
At 1 January 2018 . . . . .	744
Credit to profit or loss for the year . . . . .	<u>446</u>
At 31 December 2018 and 1 January 2019 . . . . .	1,190
Credit to profit or loss for the year . . . . .	<u>—</u>
At 31 December 2019 and 1 January 2020 . . . . .	1,190
Credit to profit or loss for the year . . . . .	<u>—</u>
At 31 December 2020 . . . . .	<u>1,190</u>

The deferred tax liabilities in relation to convertible bond's equity component have been charged/credited to equity directly.

**31. TRADE PAYABLES**

The aging analysis of trade payables based on the date of receipt of goods, is as follows:

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days . . . . .	21,328	24,439	21,507
91 to 180 days . . . . .	2,511	5,486	—
181 to 365 days . . . . .	—	16	263
Over 365 days . . . . .	—	—	121
	<u>23,839</u>	<u>29,941</u>	<u>21,891</u>

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB . . . . .	23,765	28,773	19,426
US\$. . . . .	74	1,168	2,465
Total . . . . .	<u>23,839</u>	<u>29,941</u>	<u>21,891</u>

**32. ACCRUALS AND OTHER PAYABLES**

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accruals . . . . .	12,309	20,470	25,322
Other payables . . . . .	19,530	10,420	16,734
	<u>31,839</u>	<u>30,890</u>	<u>42,056</u>

**33. CONTRACT LIABILITIES**

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract liabilities			
Deposit received in advance . . . . .	2,398	710	446
	<u>2,398</u>	<u>710</u>	<u>446</u>

Movements in contract liabilities:

	<b>As at 31 December</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January . . . . .	416	2,398	710
Decrease in contract liabilities as a result of recognising revenue during the year was included in the contract liabilities at the beginning of the period . . . . .	(416)	(2,398)	(710)
Increase in contract liabilities as a result of deposit received in advance . . . . .	2,398	710	446
Balance at 31 December . . . . .	<u>2,398</u>	<u>710</u>	<u>446</u>

### 34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

#### i Major non-cash transaction

During the year 2020, the Group utilised approximately RMB26,487,000 of deposits paid for acquisition of property, plant and equipment and right-of-use assets as at 31 December 2019, for purchasing approximately RMB39,849,000 of additional leasehold land in the PRC.

#### ii 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 which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	<b>1 January 2018</b>	<b>Cash flows</b>	<b>Interest expenses/ lease charges</b>	<b>31 December 2018</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans and other borrowings . . . . .	184,334	(10,443)	12,226	186,117
Convertible loans . . . . .	28,700	(3,492)	4,713	29,921
Lease liabilities . . . . .	629	(393)	40	276
	<u>213,663</u>	<u>(14,328)</u>	<u>16,979</u>	<u>216,314</u>

	<b>1 January 2019</b>	<b>Entering into new leases</b>	<b>Cash flows</b>	<b>Interest expenses/ lease charges</b>	<b>Recognition of derivative and equity components of convertible loans</b>	<b>31 December 2019</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans and other borrowings . . . . .	186,117	—	(43,727)	13,339	—	155,729
Convertible loans . . . . .	29,921	—	42,240	5,630	(8,685)	69,106
Lease liabilities . . . . .	276	3,409	(711)	184	—	3,158
	<u>216,314</u>	<u>3,409</u>	<u>(2,198)</u>	<u>19,153</u>	<u>(8,685)</u>	<u>227,993</u>

	<b>1 January 2020</b>	<b>Cash flows</b>	<b>Interest expenses/ lease charges</b>	<b>Transfer to equity</b>	<b>31 December 2020</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans and other borrowings . . . . .	155,729	(1,216)	11,126	—	165,639
Convertible loans . . . . .	69,106	(7,964)	8,111	(69,253)	—
Lease liabilities . . . . .	3,158	(699)	162	—	2,621
	<u>227,993</u>	<u>(9,879)</u>	<u>19,399</u>	<u>(69,253)</u>	<u>168,260</u>

### 35. CONTINGENT LIABILITIES

As at 31 December 2018, 2019, and 2020, the Group did not have any significant contingent liabilities.

**36. CAPITAL COMMITMENTS**

Capital commitments contracted for at the end of respective financial period during the Track Record Period but not yet incurred are as follows:

	<u>As at 31 December</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment . . . . .	<u>11,873</u>	<u>589,952</u>	<u>568,332</u>

**37. EVENTS AFTER THE REPORTING PERIOD**

Subsequent to 31 December 2020 and up to the date of this report, the Group has entered several contracts with a total contract sum amounted to RMB101,750,000 for acquisition of the plant and equipment in related to the Group's Phase 2 production plant.

**38. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2020.



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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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*For illustrative purpose only, the pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set forth herein to provide the investors with further information to assess the financial performance of our Group after taking into account the adjusted net tangible assets of our Group to illustrate the financial position of our Group after completion of the Global Offering and to illustrate the performance of our Group had the Global Offering been completed on 31 December 2020.*

**A.    UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS**

The unaudited pro forma financial information has been prepared, on the basis of the notes set out below, to illustrate how the Global Offering may have affected the net tangible assets attributable to owners of the Company had it occurred as of 31 December 2020. It has been prepared for illustrative purpose only and, because of its nature, may not give a true picture of the financial position of the Group.

	<b>Audited consolidated net tangible assets attributable to owners of the Company as of 31 December 2020 (Note 1)</b>	<b>Estimated net proceeds from the Global Offering (Note 2,5)</b>	<b>Unaudited pro forma adjusted net tangible assets (Note 4)</b>	<b>Unaudited pro forma adjusted net tangible assets per Share (Note 3,4,5)</b>	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
Based on the Offer Price of HK\$3.17 per Offer Share, after a Downward Offer Price Adjustment of 10% . . .	1,181,239	731,366	1,912,605	1.64	1.96
Based on the low-end of the indicative range of the Offer Price of HK\$3.52 per Offer Share . . . . .	1,181,239	813,762	1,995,001	1.72	2.04
Based on the high-end of the indicative range of the Offer Price of HK\$4.22 per Offer Share . . . . .	<u>1,181,239</u>	<u>978,555</u>	<u>2,159,794</u>	<u>1.86</u>	<u>2.21</u>

*Notes:*

(1) The audited consolidated net tangible assets attributable to owners of the Company as of 31 December 2020 is arrived at after deducting the non-controlling interests of approximately RMB166,074,000 from the audited consolidated net assets of RMB1,347,313,000 as of 31 December 2020, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

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**APPENDIX II                      UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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- (2) The adjustment to the pro forma statement of net tangible assets reflects the estimated proceeds from the Global Offering to be received by the Company. The estimated proceeds from the Global Offering is based on the Offer Price of HK\$3.52 and HK\$4.22, respectively, being the low-end and high-end of the indicative range of the Offer Price per Offer Share respectively, and also based on the Offer Price of HK\$3.17 per Offer Share, after making a Downward Offer Price Adjustment of 10%, and 290,674,000 Shares, net of estimated underwriting fees and other related expenses.
- (3) The number of Shares is based on a total of 1,162,695,586 Shares issued, adjusted as if the Global Offering had occurred at 31 December 2020. Our property interests as of 30 April 2021 have been valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix III “Property Valuation Report” to this prospectus. The above adjustment does not take into account the surplus arising from the revaluation of our property interests amounting to RMB71.9 million. The revaluation surplus was not incorporated in our financial statements for the year ended 31 December 2020. If the valuation surplus was recorded in our financial statements, an additional annual depreciation expenses of property, plant and equipment and amortisation charges of right-of-use assets would be increased by approximately RMB1,837,000.
- (4) The unaudited pro forma adjusted net tangible assets attributable to owners of the Company and the amounts per Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,162,695,586 shares are expected to be in issue following the Global Offering (including 290,674,000 shares newly issued upon the Global Offering) and the respective Offer Prices of HK\$3.52 and HK\$4.22, respectively, being the low-end and high-end of the indicative range of the Offer Price per Offer Share respectively. and also based on the Offer Price of HK\$3.17 per Offer Share, after making a Downward Offer Price Adjustment of 10%.
- (5) The estimated net proceeds from the Global Offering and the unaudited pro forma adjusted net tangible assets attributable to owners of the Company per Share are converted from or into Hong Kong dollars at an exchange rate of RMB0.8393 to HK\$1.00, the prevailing rate of Hong Kong Association of Banks on 31 December 2020. No representation is made that the HK\$ amounts have been, could have been or may be converted into RMB, or vice versa, at that rate.
- (6) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 31 December 2020.

**B. ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, from the independent reporting accountant, RSM Hong Kong, Certified Public Accountants, Hong Kong.*



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30 June 2021

The Board of Directors

**Global New Material International Holdings Limited**

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Global New Material International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma net assets statement as at 31 December 2020, as set out on pages II-1 to II-2 of the prospectus issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on section A of Appendix II of the prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering of 290,674,000 Shares of HK\$0.1 each on the Group’s financial position as at 31 December 2020 as if the Global Offering had been taken place at 31 December 2020. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial information for the year ended 31 December 2020, on which an accountant’s report has been published.

**Directors' Responsibility for the Pro Forma Financial Information**

The Directors are responsible for compiling the 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" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The firm applies Hong Kong Standard on Quality Control 1 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 Accountant's Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2020 would have been as presented.

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**APPENDIX II            UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgement, having regard to the reporting accountant's understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

**RSM Hong Kong**  
*Certified Public Accountants*  
Hong Kong

*The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 30 April 2021 of the property interests held by the Group.*



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited

7/F One Taikoo Place, 979 King's Road, Hong Kong

tel +852 2846 5000 fax +852 2169 6001

Licence No : C-030171

30 June 2021

The Board of Directors  
**Global New Material International Holdings Limited**  
Level 54, Hopewell Centre  
183 Queen's Road East  
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property interests held by Global New Material International Holdings Limited (the "**Company**") and its subsidiaries (hereinafter together referred to as the "**Group**") in the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 30 April 2021 (the "**valuation date**").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Due to the nature of the completed buildings and structures of property no. 1 in Group I, there are no market sales comparables readily available, the property interests have been valued by the cost approach with reference to their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. In arriving at the value of land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

In valuing the construction in progress for portions of property no. 1 in Group I and property no. 2 in Group II, we have assumed that they will be developed and completed in accordance with the latest development proposal provided to us by the Group. In arriving at our opinion of value, we have made reference to sale prices of land within the locality and taken into account the construction cost and professional fees relevant to the stage of construction as at the date of valuation.

We have valued the property interest in Group III which is held for future development by the Group by the comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the market. This approach rests on the wide acceptance of the market transactions as the best indicator and pre-supposes that evidence of relevant transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; the RICS Valuation — Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors, and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Real Estate Title Certificates and other official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC Legal Advisers — AllBright Law Offices (Fuzhou), concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the properties was carried out in September 2020 by Mr. Jimmy Gu and Ms. Diana Yang. They have more than 4 to 8 years' experience in the valuation of properties in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

We are instructed to provide our opinion of values as per the valuation date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of, the valuation date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, the outbreak of the Novel Coronavirus (COVID-19) since declared Global Pandemic on 11 March 2020 has caused much disruption to economic activities around the world. As of the report date, China's economy has recovered and most business activities have been back to normal. We also note that market activity and market sentiment in this particular market sector remain stable. However, we remain cautious due to uncertainty for the pace of global economic recovery in the midst of the outbreak which may have future impact on the real estate market. Therefore, we recommend that you keep the valuation of these properties under frequent review.



Our valuation is summarised below and the valuation certificates are attached below for your attention.

Yours faithfully,  
For and on behalf of  
**Jones Lang LaSalle Corporate Appraisal and Advisory Limited**  
**Eddie T. W. Yiu**  
*MRICS MHKIS RPS (GP)*  
*Senior Director*

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*Notes:* Eddie T. W. Yiu is a Chartered Surveyor who has 27 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

## SUMMARY OF VALUES

## Group I — Property held and occupied by the Group in the PRC

No.	Property	Market value in existing state as at the valuation date	Interest attributable to the Group	Market value attributable to the Group as at the valuation date
		<i>RMB</i>		<i>RMB</i>
1.	Pearlescent Industrial Park No. 380 Feilu Avenue Luzhai County Liuzhou City Guangxi Zhuang Autonomous Region The PRC	264,000,000	97.19%	256,582,000
	<b>Sub-total:</b>	<b><u>264,000,000</u></b>	<b><u>—</u></b>	<b><u>256,582,000</u></b>

## Group II — Property held under development by the Group in the PRC

No.	Property	Market value in existing state as at the valuation date	Interest attributable to the Group	Market value attributable to the Group as at the valuation date
		<i>RMB</i>		<i>RMB</i>
2.	Pearlescent Material Project under development located at the northwestern side of Xinliu Avenue (Duling Road Section) Luzhai County Liuzhou City Guangxi Zhuang Autonomous Region The PRC	279,000,000	97.19%	271,160,000
	<b>Sub-total:</b>	<u>279,000,000</u>	<u>—</u>	<u>271,160,000</u>

## Group III — Property held for future development by the Group in the PRC

No.	Property	Market value in existing state as at the valuation date	Interest attributable to the Group	Market value attributable to the Group as at the valuation date
		<i>RMB</i>		<i>RMB</i>
3.	A parcel of land located at the southeastern side of National Highway G322 and the southwestern side of Mountain Guniang Luzhai County Liuzhou City Guangxi Zhuang Autonomous Region The PRC	39,300,000	58.35%	22,932,000
	<b>Sub-total:</b>	<u>39,300,000</u>	—	<u>22,932,000</u>
	<b>Grand-total:</b>	<u>582,300,000</u>	—	<u>550,674,000</u>

## VALUATION CERTIFICATE

## Group I — Property held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 April 2021 RMB
1.	Pearlescent Industrial Park No. 380 Feilu Avenue Luzhai County Liuzhou City Guangxi Zhuang Autonomous Region The PRC	<p>The property is located at the southern side of the junction of National Highway G322 and Feilu Avenue in Liuzhou City. It is served by public transportation with 15 minutes' driving distance to Luzhai Railway Station and Luzhai Bus Terminal Station, 50 minutes' driving distance to Liuzhou Bailian Airport and 75 minutes' driving distance to Liuzhou Railway Station. The locality of the property is a traditional industrial area served by various public facilities.</p> <p>The property comprises two parcels of land with a total site area of approximately 99,688.20 sq.m., 10 buildings and various structures erected thereon which were completed in various stages between 2014 and 2015 (“<b>Part A</b>”).</p> <p>Part A has a total gross floor area of approximately 56,445.63 sq.m., mainly including 8 factories, an industrial office building, a dormitory and 9 structures. The structures of Part A mainly include gates, boundary walls, roads and ancillary facilities.</p> <p>In addition to Part A, the property also comprises 4 buildings which were being constructed on the land parcel of Part A as at the valuation date (“<b>Part B</b>”).</p> <p>Part B will be developed into 2 factories, an activity centre and an industrial office building with a total planned gross floor area of approximately 11,126.60 sq.m. and it is scheduled to be completed in December 2021.</p> <p>As advised by the Group, the construction cost of Part B is estimated to be approximately RMB48,000,000, of which approximately RMB38,700,000 had been paid up to the valuation date.</p> <p>The classification, usage and gross floor area details of the property are set out in note 5.</p> <p>The land use rights of the property have been granted for the terms expiring on 20 December 2061 for industrial use.</p>	<p>As at the valuation date, Part A was held and occupied by Chesir Pearl for production, staff dormitory, canteen, storage and ancillary purposes whilst Part B was under construction.</p>	264,000,000

## Notes:

1. Pursuant to 2 State-owned Land Use Rights Certificates — Lu Guo Yong (2014) Di Nos. 07-2110 and 07-2111, the land use rights of two parcels of land with a total site area of approximately 99,688.20 sq.m. have been granted to Guangxi Chesir Pearl Material Co., Ltd. (广西七色珠光材料股份有限公司, “Chesir Pearl”, a 97.19%-owned subsidiary of the Company) for the terms expiring on 20 December 2061 for industrial use.
2. Pursuant to 19 Building Ownership Certificates — Gui Fang Quan Zheng Lu Zhai Zi Di Nos. D0067816 to D0067822, D0072518 to D0072526 and D0073288 to D0073290, 8 factories, an industrial office building, a dormitory and 9 structures (mainly include gates and ancillary facilities) with a total gross floor area of approximately 56,445.63 sq.m. are owned by Chesir Pearl.
3. Pursuant to 2 Construction Work Planning Permits — Jian Zi Di Nos. 452223201200016 and 450223201500028 in favour of Chesir Pearl, 3 factories, an activity centre, 2 industrial office buildings and a dormitory of the property (including Part B of the property) with a total gross floor area of approximately 32,564.51 sq.m. have been approved for construction.
4. Pursuant to 2 Construction Work Commencement Permits — Nos. 405223201208240701 and 450223201601190201 in favour of Chesir Pearl, permissions by the relevant local authority were given to commence the construction of Part B of the property with a total gross floor area of approximately 11,126.60 sq.m.
5. According to the information provided by the Group, the gross floor area/planned gross floor area of the property is set out as below:

Property	Usage	Gross Floor Area/ Planned Gross Floor Area <i>(sq.m.)</i>
Part A	Factory	39,582.32
	Industrial office building	8,712.34
	Dormitory	6,935.46
	Structures	1,215.51
	<b>Sub-total:</b>	<b>56,445.63</b>
Part B	Factory	1,936.09
	Activity centre	2,953.31
	Industrial office building	6,237.20
	<b>Sub-total:</b>	<b>11,126.60</b>
	<b>Total:</b>	<b>67,572.23</b>

6. We have been provided with a legal opinion regarding the property interest by the Company's PRC Legal Advisers, which contains, *inter alia*, the following:
  - a. Chesir Pearl has already applied for and obtained the valid State-owned Land Use Rights Certificates of the land parcels of the property. Chesir Pearl is in possession of the legal and valid rights of use of such land parcels, which are protected by the PRC laws. Chesir Pearl has the rights to transfer, lease, mortgage or otherwise dispose of the land use rights of such land parcels in accordance with the laws;
  - b. Chesir Pearl legally owns Part A of the property; and
  - c. Chesir Pearl has legally obtained requisite planning permits, commencement permits and environmental protection approvals of Part B of the property.

## VALUATION CERTIFICATE

## Group II — Property held under development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 April 2021 RMB
2.	Pearlescent Material Project under development located at the northwestern side of Xinliu Avenue (Duling Road Section) Luzhai County Liuzhou City Guangxi Zhuang Autonomous Region The PRC	<p>The property is located at the northwestern side of Xinliu Avenue (Duling Road Section) in Liuzhou City. It is served by public transportation with 20 minutes' driving distance to Luzhai Railway Station and Luzhai Bus Terminal Station, 45 minutes' driving distance to Liuzhou Bailian Airport and 60 minutes' driving distance to Liuzhou Railway Station.</p> <p>The locality of the property is a traditional industrial area served by various public facilities.</p> <p>The property comprises 5 parcels of land with a total site area of approximately 148,713.70 sq.m., which will be developed into various workshops, warehouses, a production complex building and various ancillary buildings and structures with a total planned gross floor area of approximately 145,180.30 sq.m. and it is scheduled to be completed in December 2021.</p> <p>As advised by the Group, the construction cost of the property is estimated to be approximately RMB627,100,000, of which approximately RMB206,900,000 had been paid up to the valuation date.</p> <p>The land use rights of portions of the property have been granted for the terms expiring on 30 August 2070 for industrial use. The land use rights of the remaining portion of the property have been granted for a term expiring on 31 August 2069 for industrial use.</p>	As at the valuation date, the property was under construction.	279,000,000

## Notes:

- Pursuant to a State-owned Land Use Rights Grant Contract — Lu Zi Yuan Gui Hua Chu Zi (2019) No. 6 dated 1 July 2019, the land use rights of a parcel of land with a site area of approximately 38,199.90 sq.m. were contracted to be granted to Chesir Pearl for a term of 50 years for industrial use commencing from the land delivery date. The total land premium was RMB9,400,000.
- Pursuant to 4 State-owned Land Use Rights Grant Contracts — Lu Zi Yuan Gui Hua Chu Zi (2020) Nos. 23 to 26 all dated 20 July 2020, the land use rights of 4 parcels of land with a total site area of approximately 110,513.80 sq.m. were contracted to be granted to Chesir Pearl for a term of 50 years for industrial use commencing from the land delivery date. The total land premium was RMB27,960,000.

3. Pursuant to a Real Estate Title Certificate — Gui (2019) Lu Zhai Xian Bu Dong Chan Quan Di No. 0005669, the land use rights of a parcel of land with a site area of approximately 38,199.90 sq.m. have been granted to Chesir Pearl for a term expiring on 31 August 2069 for industrial use.
4. Pursuant to 4 Real Estate Title Certificates — Gui (2020) Lu Zhai Xian Bu Dong Chan Quan Di Nos. 0005916 to 0005918 and 0006472, the land use rights of 4 parcels of land with a total site area of approximately 110,513.80 sq.m. have been granted to Chesir Pearl for the terms expiring on 30 August 2070 for industrial use.
5. Pursuant to 7 Construction Work Planning Permits — Jian Zi Di Nos. 450223202000167 to 450223202000173 in favour of Chesir Pearl, the property with a total gross floor area of approximately 142,172.30 sq.m. has been approved for construction.
6. Pursuant to 7 Construction Work Commencement Permits — Nos. 450223202012160201, 450223202012160301, 450223202012160401, 450223202012160501, 450223202012160601, 450223202012160701 and 450223202012160801 in favour of Chesir Pearl, permissions by the relevant local authority were given to commence the construction of the property with a total gross floor area of approximately 145,180.30 sq.m.
7. In undertaking our valuation, we have made reference to sales prices of land within the locality which have the similar characteristics comparable to the property. The land prices of these comparable land sites range from RMB250 to RMB270 per sq.m. for industrial use. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at the assumed unit rate.
8. We have been provided with a legal opinion regarding the property interest by the Company's PRC Legal Advisers, which contains, *inter alia*, the following:
  - a. Chesir Pearl has already applied for and obtained the valid Real Estate Title Certificates of the land parcels of the property. Chesir Pearl is in possession of the legal and valid rights of use of such land parcels, which are protected by the PRC laws. Chesir Pearl has the rights to transfer, lease, mortgage or otherwise dispose of the land use rights of such land parcels in accordance with the laws.



## VALUATION CERTIFICATE

## Group III — Property held for future development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 April 2021 RMB
3.	A parcel of land located at the southeastern side of National Highway G322 and the southwestern side of Mountain Guniang Luzhai County Liuzhou City Guangxi Zhuang Autonomous Region The PRC	<p>The property is located at the southeastern side of National Highway G322 and the southwestern side of Mountain Guniang in Liuzhou City. It is served by public transportation with 15 minutes' driving distance to Luzhai Railway Station and Luzhai Bus Terminal Station, 50 minutes' driving distance to Liuzhou Bailian Airport and 75 minutes' driving distance to Liuzhou Railway Station. The locality of the property is a traditional industrial area served by various public facilities.</p> <p>The property comprises a parcel of land with a site area of approximately 42,467.20 sq.m. which is planned to be developed into a new industrial plant. The construction of the property had not been commenced as at the valuation date.</p> <p>The land use rights of the property have been granted for a term expiring on 26 April 2070 for industrial use.</p>	As at the valuation date, the property was bare land.	39,300,000

*Notes:*

1. Pursuant to a State-owned Land Use Rights Grant Contract — Lu Zi Yuan Gui Hua Chu Zi (2019) No. 15 dated 25 October 2019, the land use rights of a parcel of land with a site area of approximately 42,467.20 sq.m. were contracted to be granted to Luzhai Chesir Pearl Mica Material Co., Ltd (鹿寨七色珠光雲母材料有限公司, “Chesir Luzhai”, a 58.35%-owned subsidiary of the Company) for a term of 50 years for industrial use commencing from the land delivery date. The total land premium was RMB10,400,000.
2. Pursuant to a Real Estate Title Certificate — Gui (2020) Lu Zhai Xian Bu Dong Chan Quan Di No. 0001559, the land use rights of a parcel of land with a site area of approximately 42,467.20 sq.m. have been granted to Chesir Luzhai for a term expiring on 26 April 2070 for industrial use.
3. As advised by the Company, approximately RMB27,993,000 of the land improvement cost of the property had been incurred up to the valuation date. In undertaking our valuation, we have made reference to sales prices of land within the locality which have the similar characteristics comparable to the property. The land prices of these comparable land sites range from RMB250 to RMB270 per sq.m. for industrial use. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the property to arrive at the assumed unit rate.
4. We have been provided with a legal opinion regarding the property interest by the Company's PRC Legal Advisers, which contains, *inter alia*, the following:
  - a. Chesir Luzhai has already applied for and obtained the valid Real Estate Title Certificate of the land parcel of the property. Chesir Luzhai is in possession of the legal and valid rights of use of such land parcel, which are protected by the PRC laws. Chesir Luzhai has the rights to transfer, lease, mortgage or otherwise dispose of the land use rights of such land parcel in accordance with the laws.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 8 June 2018 under the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Companies Act**”). The Company’s constitutional documents consist of its Memorandum and its 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 Companies Act 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 2 June 2021 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

### **(a) Shares**

#### *(i) Classes of shares*

The share capital of the Company consists of ordinary shares.

#### *(ii) Variation of rights of existing shares or classes of shares*

Subject to the Companies Act, 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 Companies Act in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

***(v) Power of the Company to purchase its own shares***

The Company is empowered by the Companies Act and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

***(vi) Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

***(vii) Calls on shares and forfeiture of shares***

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(b) Directors*****(i) Appointment, retirement and removal***

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

***(ii) Power to allot and issue shares and warrants***

Subject to the provisions of the Companies Act and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Act and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

***(iii) Power to dispose of the assets of the Company or any of its subsidiaries***

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Act to be exercised or done by the Company in general meeting.

***(iv) Borrowing powers***

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Act, 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 Companies Act, 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 Companies Act 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 Companies Act.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up,

provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(h) Inspection of corporate records**

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Act or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

**(i) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

**(j) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(k) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, 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 Companies Act and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Company operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Act provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

**(c) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Act expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Act.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

The Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Disposal of assets**

The Companies Act 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 10 November 2020.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Act 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) is 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 Companies Act 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 Companies Act. A branch register must be kept in the same manner in which a principal register is by the Companies Act required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Act 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 Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for public inspection in Hong Kong" 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 of our Company**

Our Company was incorporated in the Cayman Islands on 8 June 2018 as an exempted company with limited liability under the Cayman Companies Act. The registered office of our Company is situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of our Company in Hong Kong is situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance, with Ms. HO Wing Tsz Wendy and Mr. NG Cheuk Ming appointed as the authorised representative of our Company under the Companies Ordinance for acceptance of service of process on behalf of our Company.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws and regulations of the Cayman Islands and our constitution which comprises the Memorandum and the Articles. A summary of the Memorandum and the Articles is set forth in Appendix IV to this prospectus. Appendix IV to this prospectus also contains certain provisions of the Cayman Companies Act.

**2. Changes in share capital of our Company**

The following changes in the share capital of our Company have taken place since the date of incorporation up to the date of this prospectus:

- (a) On 8 June 2018, our Company was incorporated in the Cayman Islands under the Companies Act with limited liability with an authorised share capital of US\$50,000 divided into 50,000 shares of par value of US\$1.00. On the same date, one ordinary Share of US\$1.0 was issued to the initial subscriber at par. The one Share was transferred to Continuous Profit on the same date for nominal consideration and our Company issued and allotted 49,999 Shares to Continuous Profit as fully-paid at par value.
- (b) On 30 October 2020, our sole Shareholder, i.e. Continuous Profit, passed written resolutions, pursuant to which (a) the authorised share capital of our Company has been increased to HK\$8,000,000,000 by the creation of 80,000,000,000 Shares; (b) the authorised share capital of our Company has been diminished by the cancellation of all unissued shares of par value of US\$1.0 each; and (c) the issued share capital has been increased to HK\$390,000 comprising of 3,900,000 Shares allotted and issued to Continuous Profit in consideration for the repurchase by our Company for cancellation from Continuous Profit the 50,000 shares of par value of US\$1.0 each of our Company.
- (c) On 18 November 2020, our Company allotted and issued 122,007,252 new Shares pursuant to the Cayman Share Swap and as a result, the Consent Chesir Pearl Equity Holders have become our Shareholders.
- (d) On 18 November 2020, Continuous Profit transferred 3,900,000 Shares to Ertian International for the consideration of HK\$10.0.

- (e) On 18 November 2020, Guidong Electric has been allotted and issued 18,000,000 new Shares pursuant to the Guidong Share Swap.
- (f) On 18 November 2020, GF Qianhe has been allotted and issued 1,429,679 new Shares pursuant to the GF Share Swap.

The table below sets forth the details of the shareholding of our company following completion of the Reorganisation but before completion of the Global Offering and the Capitalisation Issue:

Name of our Shareholders	Number of Shares in issue before completion of the Global Offering and the Capitalisation Issue	Shareholding percentage  (%)
Hongzun International . . . . .	49,757,800	34.24
Guidong Electric . . . . .	18,000,000	12.39
GX Land & Sea . . . . .	12,787,724	8.80
Ertian International. . . . .	7,493,138	5.16
WEIXINGZHICHEN INTERNATIONAL INVESTMENT LTD. . . . .	5,622,260	3.87
LINGTAO Capital INT Group Limited . . . . .	5,109,105	3.52
Zhejiang Venture Capital Group Co., Ltd . . . . .	4,760,000	3.28
Seven Color Pearl Investment . . . . .	4,506,862	3.10
Liuzhou Qise LP . . . . .	4,551,200	3.13
Liuzhou Colorful LP . . . . .	4,498,158	3.09
China Banyan Capital INT Holdings Ltd . . . . .	3,214,200	2.21
Xuanhai Capital INT Group Limited . . . . .	3,102,863	2.13
Dice Hongze Ltd . . . . .	3,000,000	2.06
Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) . . . . .	2,768,549	1.90
Zhuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.) . . . . .	2,682,000	1.85
Capital Pearls International Investment Ltd . . . . .	2,656,000	1.83
Ronghui Longma Capital Ltd . . . . .	2,207,739	1.52
China Huazhen Equity Investment Co., Ltd. . . . .	1,661,130	1.14
JINYI Technology & Innovation Investment Management Co., Ltd. . . . .	1,558,140	1.07
GF Qianhe . . . . .	1,429,679	0.98
CHUANFU INT CAPITAL GROUP LTD . . . . .	1,415,964	0.97
Liu Zhihe . . . . .	1,107,420	0.76
Dena Well Investment Limited . . . . .	670,000	0.46
GUOLING CAPITAL MANAGEMENT LTD. . . . .	549,000	0.38
Liuzhou Lianrun LP . . . . .	228,000	0.16
<b>Total</b>	<b>145,336,931</b>	<b>100.00</b>

- (g) Pursuant to the written resolutions approved by our Shareholders on 2 June 2021, our Shareholders resolved that: (i) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise the sum of HK\$72,668,465.5 (or any such amount any one Director may determine) from the amount standing to the credit of the share premium account of our Company and apply such sum in paying up in full at par 726,684,655 Shares (or any such number of Shares by any one Director may determine) for allotment and issue to our Shareholders whose names appeared on the register of members of our Company at close of business on 2 June 2021 (or another date as our Directors may direct) in proportion to their then existing Shareholdings and such Shares to be allotted and issued shall rank *pari passu* in all respects with our existing issued Shares and (ii) immediately following completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Share which may be issued upon any exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme), our issued share capital would be HK\$116,269,558.6 divided into 1,162,695,586 Shares, as fully paid or credited as fully paid.

Other than pursuant to the General Mandate, our Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meetings, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed above and as mentioned in the following paragraphs under “4. Written resolutions approved by our Shareholders on 2 June 2021” there has been no alteration in the share capital of our Company two years immediately preceding the date of this prospectus.

### **3. Changes in the share capital of the subsidiaries of our Company**

A list of our Company’s subsidiaries is set forth in the Accountants’ Report. The following alterations in the share capital of our Company’s subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

#### ***(a) Generous Fortune***

Generous Fortune was incorporated in the BVI on 15 June 2018 with the authority to issue up to 50,000 shares of one class with a par value of US\$1.00 each, and has been wholly-owned by our Company with one share in issue at US\$1.00 since 5 July 2018.

On 30 October 2020, the sole shareholder of Generous Fortune, i.e. our Company, passed written resolutions, pursuant to which, on, (a) the authorised share capital of Generous Fortune has been increased to HK\$8,000,000,000 by the creation of 80,000,000,000 shares of a par value of HK\$0.1 each; (b) the number of authorised shares of Generous Fortune has been diminished by the cancellation of all unissued shares of par value of US\$1.0 each; and (c) the number of issued shares of Generous Fortune has been increased to 3,900,000 shares of par value of HK\$0.1 each allotted and issued to our Company in consideration for the repurchase by Generous Fortune for cancellation from our Company the 50,000 shares of par value of US\$1.0 each of Generous Fortune.

On 19 October 2020, the GX Pre-IPO Investment Agreement was entered into, pursuant to which GX Land & Sea has agreed to invest in Generous Fortune an aggregate of 12,787,724 shares for cash consideration of RMB125,319,695. On 30 October 2020, our Company transferred the existing 3,900,000 shares of Generous Fortune to GX Land & Sea in consideration of HK\$10. On 13 November 2020, Generous Fortune allotted and issued to GX Land & Sea 8,887,724 new shares for cash consideration of RMB125,319,695.

On 18 November 2020, the Chesir Pearl Equity Transfer Agreement was entered into whereby Global New Material (HK) has agreed to acquire 113,119,528 shares of Chesir Pearl from the Consent Chesir Pearl Equity Holders in consideration for the same number of shares of Generous Fortune to be allotted and issued to the Consent Chesir Pearl Equity Holders (or their nominees). The table below sets forth the details of the shareholding of Generous Fortune following completion of this transaction:

<b>Name of shareholders of Generous Fortune</b>	<b>Number of shares of Generous Fortune following completion of the Chesir Pearl Equity Transfer Agreement</b>	<b>Shareholding percentage</b>
		(%)
Hongzun International . . . . .	49,757,800	39.52
GX Land & Sea . . . . .	12,787,724	10.16
Ertian International. . . . .	7,493,138	5.95
Seven Color Pearl Investment . . . . .	4,506,862	3.58
WEIXINGZHICHEN INTERNATIONAL INVESTMENT LTD. . . . .	5,622,260	4.47
LINGTAO Capital INT Group Limited . . . . .	5,109,105	4.06
Zhejiang Venture Capital Group Co., Ltd. . . . .	4,760,000	3.78
Liuzhou Qise LP . . . . .	4,551,200	3.61
Liuzhou Colorful LP . . . . .	4,498,158	3.57
China Banyan Capital INT Holdings Ltd . . . . .	3,214,200	2.55
Xuanhai Capital INT Group Limited . . . . .	3,102,863	2.46
Dice Hongze Ltd . . . . .	3,000,000	2.38
Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) . . . . .	2,768,549	2.20
Zhuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.) . . . . .	2,682,000	2.13
Capital Pearls International Investment Ltd . . . . .	2,656,000	2.11
Ronghui Longma Capital Ltd . . . . .	2,207,739	1.75
China Huazhen Equity Investment Co., Ltd. . . . .	1,661,130	1.32
JINYI Technology & Innovation Investment Management Co., Ltd. . . . .	1,558,140	1.24
CHUANFU INT CAPITAL GROUP LTD . . . . .	1,415,964	1.12
Liu Zhihe . . . . .	1,107,420	0.88
Dena Well Investment Limited . . . . .	670,000	0.53
GUOLING CAPITAL MANAGEMENT LTD. . . . .	549,000	0.44
Liuzhou Lianrun LP . . . . .	228,000	0.18
<b>Total</b>	<b>125,907,252</b>	<b>100.00</b>

On 18 November 2020, the Cayman Share Swap was implemented whereby all shareholders of Generous Fortune have transferred their shares of Generous Fortune to our Company for the same number of Shares to be allotted and issued to them (except for Ertian International of which 7,493,138 shares of Generous Fortune was transferred to our Company and our Company allotted and issued 3,593,138 Shares to Ertian International), credited as fully-paid.

As of the Latest Practicable Date, Generous Fortune has a total issued share capital of HK\$12,590,725.2 comprising 125,907,252 shares of HK\$0.1 each, all of which were held by our Company. Generous Fortune is a wholly-owned subsidiary of our Company and the sole shareholder of Global New Material (HK).

**(b) *Global New Material (HK)***

Global New Material (HK) was incorporated in Hong Kong on 30 December 2019 with Generous Fortune as the sole shareholder of 10,000 shares in issue of HK\$1.0 each.

On 30 October 2020, Generous Fortune, as the sole shareholder of Global New Material (HK), approved the subdivision of every share of Global New Material (HK) of HK\$1.00 each into 10 shares of HK\$0.10 each and as a result, the number of issued shares has been increased to 100,000 shares which were then held by Generous Fortune.

On 19 October 2020, the GX Pre-IPO Investment Agreement was entered into, pursuant to which GX Land & Sea has agreed to invest in Generous Fortune an aggregate of 12,787,724 shares for cash consideration of RMB125,319,695.

On 30 October 2020, our Company transferred the existing 3,900,000 shares of Generous Fortune to GX Land & Sea in consideration of HK\$10.

On 13 November 2020, Generous Fortune allotted and issued to GX Land & Sea 8,887,724 shares for cash consideration of RMB125,319,695. Following the receipt of the amount of equity investment from GX Land & Sea pursuant to the GX Pre-IPO Investment Agreement, Generous Fortune used the same amount to subscribe for 100,000 new shares of Global New Material (HK) which, in turn, used the same amount to subscribe for 12,787,724 shares of Chesir Pearl.

On 28 November 2020, our Company transferred 19,429,679 shares of Chesir Pearl (previously acquired from Guidong Electric and GF Qianhe) to Global New Material (HK) for the allotment and issue of 100,000 new shares of Global New Material (HK) to Generous Fortune as directed by our Company.

As of the Latest Practicable Date, Global New Material (HK) has a total issued share capital of HK\$30,000 comprising 300,000 shares, all of which were held by Generous Fortune. Global New Material (HK) is a wholly-owned subsidiary of Generous Fortune and our Company.

**(c) *Chesir France***

Chesir France was incorporated in France on 5 December 2016 with Chesir Pearl as the sole shareholder with its entire share capital of Euro 50,000 divided into 500 shares of Euro 100 each. Since its date of establishment, Chesir France has been a wholly-owned subsidiary of Chesir Pearl.

*(d) Chesir Pearl*

Chesir Pearl was incorporated in the PRC in the name of Guangxi Pearl Pigment Co., Ltd (广西珠光颜料有限公司) on 29 March 2011 with limited liability and had an initial registered capital of RMB2.0 million. On 17 May 2011, its name was changed to Guangxi Chesir Pearl Effect Material Co., Ltd (广西七色珠光效应材料有限公司).

Chesir Pearl Effect changed its name to Guangxi Chesir Pearl Material Co., Ltd. (广西七色珠光材料股份有限公司) on 28 August 2014. On the same date, in contemplation of the listing on NEEQ, Chesir Pearl was converted from a limited liability company into a joint stock company with limited liability with a share capital of RMB60.0 million divided into 60,000,000 shares of RMB1.00 each. On 19 March 2015, its shares were listed on the NEEQ.

On the date of commencement of the Track Record Period, after a series of share transfers, increases of the registered capital and share allotments since the establishment of Chesir Pearl, Chesir Pearl had a registered capital of RMB83.1 million divided into 83,100,000 shares of RMB1.00 each.

On 16 February 2019, Chesir Pearl allotted and issued 33,673,467 shares. Following such allotment, Chesir Pearl had a registered capital of RMB116.8 million divided into 116,773,467 shares of RMB1.00 each.

On 31 May 2019, Chesir Pearl issued the 2019 Convertible Bonds in an aggregate principal amount of RMB72,240,000 at 8.0% coupon rate per annum. On 19 November 2020, Chesir Pearl allotted and issued 8,000,000 shares to Guidong Electric, being the then sole bondholder of the convertible bonds. Following the full conversion of the 2019 Convertible Bonds by Guidong Electric, Chesir Pearl has no outstanding amount due under the 2019 Convertible Bonds.

On 19 October 2020, pursuant to the GX Pre-IPO Investment Agreement, Chesir Pearl allotted and issued to Global New Material (Hong Kong) 12,787,724 shares for par value.

On 19 October 2020, pursuant to the SU Capital Contribution Agreement, Chesir Pearl allotted and issued to Mr. SU 12,000,000 shares for par value.

On 16 November 2020, Global New Material (HK) entered into the Chesir Pearl Equity Transfer Agreement for the acquisition of 113,119,528 shares of Chesir Pearl from the Consent Chesir Pearl Equity Holders in consideration of 113,119,528 shares to be allotted and issued by Generous Fortune at the direction of Global New Material (HK). Following completion of this acquisition, Global New Material (HK) holds 113,119,528 shares of Chesir Pearl, representing 84.19% of the equity interest in Chesir Pearl. On 28 November 2020, our Company transferred 19,429,679 shares of Chesir Pearl (previously acquired from Guidong Electric and GF Qianhe) to Global New Material (HK) for the allotment and issue of 100,000 new shares of Global New Material (HK) to Generous Fortune as directed by our Company.

As of the Latest Practicable Date, Chesir Pearl had a registered capital of RMB141.6 million divided into 141,561,191 of RMB1.00 each, of which 97.19% were held by Global New Material (HK) and 2.81% were held by Independent Third Parties. Chesir Pearl is a sino-foreign joint venture established in the PRC and a non-wholly owned subsidiary of our Company.

*(e) Chesir Luzhai*

Chesir Luzhai was incorporated in the PRC on 20 September 2017 as a limited liability company with Chesir Pearl as the sole shareholder with an initial registered capital of RMB25.0 million.

On 16 October 2017, Chesir Pearl transferred the ownership of three registered PRC invention patents, namely “Preparation method for wet synthesised  $\text{KMg}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$  crystal powder (一種濕法合成 $\text{KMg}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$  晶體粉的製備方法)”, “Preparation method of electrically conductive sericite in powder (導電絹雲母粉的製備方法)” and “A method for film shaped powder material dispersion (一種片狀粉體材料的濕法分級方法)”, to Chesir Luzhai and the appraised value of these three invention patents was RMB162.4 million.

On 5 December 2017, the registered capital of Chesir Luzhai increased from RMB25.0 million to RMB63.0 million and contributed by Chesir Pearl by assigning the intellectual property rights and the tangible properties, the aggregate appraised value of which was RMB225.4 million, of which RMB63.0 million was treated as paid-in capital and RMB162.4 million was treated as capital reserve of Chesir Luzhai.

On 18 January 2018, Chesir Pearl, Chesir Luzhai and Liuzhou Industrial Investment entered into the Luzhai Capital Contribution Agreement, pursuant to which Liuzhou Industrial Investment agreed to subscribe for new capital in Chesir Luzhai in the aggregate cash contribution of RMB150.0 million. Of the RMB150.0 million new funding contributed by Liuzhou Industrial Investment to Chesir Luzhai, RMB41.9 million was accounted by Chesir Luzhai as paid-in capital and RMB108.0 million was accounted as capital reserve. Subsequent to the increase in capital on 18 January 2018, the registered capital of Chesir Luzhai increased from RMB63.0 million to RMB104.9 million and Chesir Luzhai was owned as to 60.04% by Chesir Pearl and 39.96% by Liuzhou Industrial Investment.

On 13 September 2018, Chesir Luzhai, Liuzhou Industrial Investment and Guangxi Industrial Investment entered into the equity interest transfer agreement, pursuant to which Liuzhou Industrial Investment transferred its RMB150.0 million capital contribution in Chesir Luzhai to Guangxi Industrial Investment for nil consideration. Guangxi Industrial Investment is wholly-owned by the PRC Government. Such transfer was resulted from the change of investment entity from Liuzhou Industrial Investment to Guangxi Industrial Investment as directed by the PRC Government. Subsequent to the transfer of equity interest, Chesir Luzhai was owned as to 60.04% by Chesir Pearl and 39.96% by Guangxi Industrial Investment.

As of the Latest Practicable date, Chesir Luzhai had a registered capital of RMB104.9 million and Chesir Luzhai was owned as to 60.04% by Chesir Pearl and 39.96% by Guangxi Industrial Investment.

*(f) Shanghai Multicolour*

Shanghai Multicolour was incorporated in the PRC on 14 January 2014 as a limited liability company with Chesir Pearl as the sole shareholder with an initial registered capital of RMB10.0 million. Since its date of establishment, Shanghai Multicolour has been a wholly-owned subsidiary of Chesir Pearl.

**4. Written resolutions approved by our Shareholders on 2 June 2021**

Pursuant to the written resolutions approved by our Shareholders on 2 June 2021 among others:

- (a) the Articles were conditionally approved and adopted to take effect from the Listing;
- (b) conditional upon both (i) the Listing Committee granting listing of, and permission to deal in, on the Main Board, our Shares in issue and to be issued pursuant to the Global Offering, the Capitalisation Issue, the Over-allotment Option and our Shares that may be issued upon the exercise of any option that may be granted under the Post-IPO Share Option Scheme and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and the Underwriting Agreements not being terminated in accordance with the terms of such agreements or otherwise:
  - (i) the Global Offering and the grant of the Over-allotment Option were approved and any one Director was authorised to (a) implement the Listing, the Global Offering (including for the avoidance of doubt the Over-allotment Option); (b) allot and issue our Offer Shares and such number of Shares as may be required to be allotted and issued on and subject to the terms and conditions stated in this prospectus and the relevant Application Forms; and (c) do all things and execute all documents in connection with or incidental to the Listing and the Global Offering (including for the avoidance of doubt the Over-allotment Option) subject to such modifications, amendments, variations or otherwise (if any) as may be made by our Board (or any committee of our Board thereof established by our Board) in its absolute discretion, and our Board or any such committee of our Board or any one Director was authorised and directed to effect such modifications, amendments variations or otherwise as necessary or appropriate;
  - (ii) conditional further on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise an amount of HK\$72,668,465.5 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 726,684,655 Shares for allotment and issue to the persons whose names appear on the principal register of members of our Company in the Cayman Islands at the close of business on 2 June 2021 (or such other date as our Directors may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their then existing shareholdings in our Company, each ranking equally in all respects with the then existing Shares in issue, and our Directors were authorised to give effect to such capitalisation and distributions;
  - (iii) the rules of the Post-IPO Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by the Board were authorised, at their sole discretion, to: (a) administer the Post-IPO Share Option Scheme; (b) modify/amend the Post-IPO Share Option Scheme from time to time as requested by the Stock Exchange; (c) grant options to subscribe for Shares under the Post-IPO Share Option Scheme up to the limits referred to in the Post-IPO Share Option Scheme; (d) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Post-IPO Share Option Scheme; (e) make application at the appropriate time or times to the Stock



Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Post-IPO Share Option Scheme; and (f) take all such actions as they consider necessary;

- (iv) a general unconditional mandate was given to our Directors to allot, issue, and otherwise deal with our Shares or convertible securities and to make or grant offers, agreements and options which would or might require the exercise of such powers (otherwise than pursuant to, or in consequence of, the share offer, a rights issue, the exercise of any subscription rights which may be granted under any scrip dividend scheme or similar arrangements, any adjustment of rights to subscribe for our Shares under any options and warrants or a special authority granted by our Shareholders) with an aggregate of not exceeding 20% of the total number of our Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue, excluding our Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme;
- (v) a general unconditional mandate was given to the Directors to exercise all powers of our Company to repurchase our Shares with a total number of not more than 10% of total number of Shares in issue immediately following completion of Global Offering and the Capitalisation Issue, excluding Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme; and
- (vi) a general unconditional mandate as mentioned in paragraph (iv) above was extended by the addition to the aggregate number of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of the number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (v) above, provided that the extended number of Shares shall not exceed 10% of the total number of Shares immediately following completion of the Global Offering and the Capitalisation Issue, excluding any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme.

Each of the general mandates referred to in paragraphs (iv), (v), and (vi) above will remain in effect until the earlier of (a) the conclusion of the next annual general meeting of our Company, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions or (b) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

## **5. Reorganisation**

Our Group underwent the Reorganisation in preparation for the Listing. See the section headed “History, Development and Reorganisation” in this prospectus for further information.

## 6. Buy-back of our Shares by our Company

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the buy-back of our Shares or other securities, if applicable, by our Company.

### (a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to buy-back their securities on the Stock Exchange subject to certain restrictions, a summary of which is set forth below:

#### (i) Shareholders' approval

The Listing Rules provide that all buy-back of securities (which must be fully paid up in the case of share for the purpose of Rule 10.06 (1)(a)(i) of the Listing Rules) on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval in relation to specific transactions.

Pursuant to the written resolutions approved by our Shareholders on 2 June 2021, the Buy-back Mandate was given to our Directors authorising them to exercise all powers of our Company to buy-back our Shares on the Stock Exchange or on any other stock exchange on which our Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of not more than 10.0% of the total number of our Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme), such mandate to remain in effect until whichever is 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 under the Cayman Companies Act or the Articles or (3) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

#### (ii) Source of funds

Buy-back transactions must be funded out of funds legally available for the purpose in accordance with the Memorandum and Articles, the Listing Rules, the Cayman Companies Act and the applicable laws and regulations in Hong Kong. A listed company may not buy-back its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Any buy-back by our Company may be made out of profits, out of the share premium account or out of an issue of new shares made for the purpose of the buy-back and, in the cases of any premium payable on the buy-back out of either or both of the profits of our Company or the share premium account of our Company. Subject to the provisions of the Cayman Companies Act, a buy-back by our Company of its Shares may also be paid out of capital.

*(iii) Trading restrictions*

The total number of shares which a listed company may buy-back on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a buy-back (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring our Company to issue securities which were outstanding prior to such buy-back) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the buy-back would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a buy-back of securities discloses to the Stock Exchange such information with respect to the buy-back as the Stock Exchange may require.

*(iv) Status of bought-back Shares*

All bought-back securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed. Under the Cayman Companies Act, unless, prior to the purchase, the directors of our Company resolve to hold the shares purchased by our Company as treasury shares, the bought-back shares will be treated as cancelled and the amount of our Company's issued share capital shall be diminished by the nominal value of those shares. The purchase of shares shall not be taken to reduce the amount of the authorised share capital of our Company under Cayman law.

*(v) Suspension of Buy-back*

A listed company may not make any buy-back of securities on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not buy-back its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a buy-back of securities on the Stock Exchange if a listed company has breached the Listing Rules.

*(vi) Reporting requirements*

Certain information relating to buy-back of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding buy-back of securities made during the year, including a monthly analysis of the number of securities bought-back, the purchase price per share or the highest and lowest price paid for all such buy-back, where relevant, and the aggregate prices paid.

*(vii) Connected persons*

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person and a core connected person is prohibited from knowingly selling his securities to the listed company.

**(b) Reasons for buy-back**

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have the Buy-back Mandate. Such buy-back transactions may, depending on market conditions and funding arrangements at the time, result in an enhancement of the net value of our Company and its assets and/or its earnings per Share and will only be made when our Directors believe that such buy-back transactions will benefit our Company and its Shareholders.

**(c) Funding of buy-back transactions**

In buying back securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Buy-back Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Buy-back Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Buy-back Mandate, on the basis of 1,162,695,586 Shares in issue immediately after Listing, would result in up to 116,269,558 Shares being bought back by our Company during the period in which the Buy-back Mandate remains in force.

**(d) General**

Neither our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken by way of deeds to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buy-back Mandate in accordance with the Listing Rules, the Articles and the applicable laws of the Cayman Islands. If, as a result of a securities buy-back, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Codes. As a result, a Shareholder, a group of Shareholders acting in concert (within the meaning under the Takeovers Codes), depending on the level of increase of such Shareholders' interest, could obtain or consolidate control of our Company and may become obliged under Rule 26 of the Takeovers Codes to make a mandatory offer unless a whitewash waiver is obtained. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Codes as a consequence of any buy-backs pursuant to the Buy-back Mandate.

Our Directors will not exercise the Buy-back Mandate if the buy-back would result in the number of Shares which are in the hands of the public falling below 25% of the total number of our Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person (as defined in the Listing Rules) of our Company has notified our Company that he or she or it has a present intention to sell Shares to our Company, nor has he or she or it undertaken not to do so if the Buy-back Mandate is exercised.

Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25% of the total number of our Shares then in issue, being the relevant minimum prescribed percentage as required by the Stock Exchange, could only be implemented if the Stock Exchange agreed to waive the requirement regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the repurchase mandate to such an extent that, under the circumstances, there would be insufficient public float as prescribed under the Listing Rules.

**B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP****1. Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the convertible bonds investment agreement (可转债投资协议) dated 31 May 2019 entered into between 福睿创信(厦门)新兴产业投资合伙企业(有限合伙) (Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership)), 西藏福聚投资有限公司 (Tibet Fuju Investment Co., Ltd) and Guangxi Chesir Pearl Material Co., Ltd. (广西七色珠光材料股份有限公司), pursuant to which 福睿创信(厦门)新兴产业投资合伙企业(有限合伙) (Furui Innovation

- (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership)) and 西藏福聚投资有限公司 (Tibet Fuju Investment Co., Ltd) agreed to subscribe for the 2019 Convertible Bonds at an aggregate principal amount of RMB72,240,000;
- (b) the convertible bonds conversion agreement (债转股协议) dated 19 October 2020 entered into between Guangxi Guidong Electric Power Co., Ltd. (广西桂东电力股份有限公司) and Guangxi Chesir Pearl Material Co., Ltd. (广西七色珠光材料股份有限公司) for the purpose of exercising the conversion right attached with the 2019 Convertible Bonds;
- (c) the agreement (协议书) dated 19 October 2020 entered into between GX Land & Sea Connectivity Holding Ltd, Guangxi Chesir Pearl Material Co., Ltd. (广西七色珠光材料股份有限公司), our Company and Mr. SU Ertian (苏尔田), pursuant to which GX Land & Sea Connectivity Holding Ltd has agreed to invest in Generous Fortune Limited (盛富有限公司) an aggregate of 12,787,724 shares for cash consideration of RMB125,319,695;
- (d) the capital contribution agreement (增资协议) dated 19 October 2020 entered into between Mr. SU Ertian (苏尔田) and Guangxi Chesir Pearl Material Co., Ltd. (广西七色珠光材料股份有限公司) in relation to the subscription for 12,000,000 shares to be issued by Guangxi Chesir Pearl Material Co., Ltd. (广西七色珠光材料股份有限公司);
- (e) the capital contribution agreement (增资协议) dated 18 January 2018 entered into between Guangxi Liuzhou Industrial Investment Development Group Co., Ltd. (广西柳州市产业投资发展集团有限公司), Guangxi Chesir Pearl Material Co., Ltd. (广西七色珠光材料股份有限公司) and Luzhai Chesir Pearl Mica Material Co., Ltd (鹿寨七色珠光云母材料有限公司) in relation to new equity investment of RMB150.0 million in Luzhai Chesir Pearl Mica Material Co., Ltd (鹿寨七色珠光云母材料有限公司) by Guangxi Liuzhou Industrial Investment Development Group Co., Ltd. (广西柳州市产业投资发展集团有限公司);
- (f) the supplemental agreement (补充协议) dated 18 September 2020 entered into between Guangxi Liuzhou Industrial Investment Development Group Co., Ltd. (广西柳州市产业投资发展集团有限公司), Guangxi Chesir Pearl Material Co., Ltd. (广西七色珠光材料股份有限公司), Luzhai Chesir Pearl Mica Material Co., Ltd (鹿寨七色珠光云母材料有限公司) and Guangxi Industrial Investment Development Co., Ltd. (广西工业投资发展有限责任公司) in relation to the removal of certain protective provisions under the capital contribution agreement (增资协议) dated 18 January 2018;
- (g) the equity transfer agreement (股权转让协议) dated 18 November 2020 entered into between 22 Consent Chesir Pearl Equity Holders<sup>(1)</sup> and Global New Material (China) Limited (环球新材(中国)有限公司), pursuant to which the Consent Chesir Pearl Equity Holders have agreed to transfer their 113,119,528 shares of Guangxi Chesir Pearl Material Co., Ltd. (广西七色珠光材料有限公司) for 113,119,528 new shares of Generous Fortune Limited (盛富有限公司) to be allotted and issued to them (or their nominees);

- (h) the equity transfer agreement (股权转让协议) dated 18 November 2020 entered into between Guangxi Guidong Electric Power Co., Ltd. (广西桂东电力股份有限公司), GF Qianhe Investment Co., Ltd. (广发乾和投资有限公司) and our Company, pursuant to which our Company acquired 12.0352% and 0.9559% of the equity interest in Guangxi Chesir Pearl Material Co., Ltd. (广西七色珠光材料股份有限公司) from Guangxi Guidong Electric Power Co., Ltd. (广西桂东电力股份有限公司) and GF Qianhe Investment Co., Ltd. (广发乾和投资有限公司), respectively, representing an aggregate of 12.9911% of the total issued share capital of Guangxi Chesir Pearl Material Co., Ltd. (广西七色珠光材料股份有限公司), for 18,000,000 Shares and 1,429,679 Shares, respectively, credited as fully paid;
- (i) the lock-up deed (禁售契据) dated 1 June 2021 executed by Guangxi Guidong Electric Power Co., Ltd. (广西桂东电力股份有限公司), pursuant to which Guangxi Guidong Electric Power Co., Ltd. (广西桂东电力股份有限公司) has undertaken by way of deed not to transfer, dispose of, nor enter into any agreement to transfer, dispose of or otherwise create any options, rights, interests or encumbrances in respect of the Shares held by it upon the Listing during the First Six-Month Period;
- (j) the lock-up deed (禁售契据) dated 1 June 2021 executed by GX Land & Sea Connectivity Holding Ltd, pursuant to which GX Land & Sea Connectivity Holding Ltd has undertaken by way of deed not to transfer, dispose of, nor enter into any agreement to transfer, dispose of or otherwise create any options, rights, interests or encumbrances in respect of the Shares held by it upon the Listing during the First Six-Month Period;
- (k) the 17 lock-up deeds (禁售契据) dated 1 June 2021 executed by 17 existing Shareholders<sup>(2)</sup>, pursuant to which each of the 17 existing Shareholders has undertaken by way of deed not to transfer, dispose of, nor enter into any agreement to transfer, dispose of or otherwise create any options, rights, interests or encumbrances in respect of the Shares held by it upon the Listing during the First Six-Month Period;
- (l) the cornerstone investment agreement dated 23 June 2021 entered into between our Company, Shanghai Huijin Asset Management Co., Ltd. (上海汇瑾资产管理有限公司), Essence Corporate Finance (Hong Kong) Limited and Essence International Securities (Hong Kong) Limited, pursuant to which Shanghai Huijin Asset Management Co., Ltd. (上海汇瑾资产管理有限公司) has agreed to invest RMB32.0 million in such number of our International Offer Shares (to be issued and allotted to it or its nominee) at the Offer Price;
- (m) the cornerstone investment agreement dated 23 June 2021 entered into between our Company, YBN Investments Limited (中逸资本有限公司), Essence Corporate Finance (Hong Kong) Limited and Essence International Securities (Hong Kong) Limited, pursuant to which YBN Investments Limited (中逸资本有限公司) has agreed to invest HK\$50.0 million in such number of our International Offer Shares (to be issued and allotted to it or its nominee) at the Offer Price;
- (n) Deed of Non-Competition; and
- (o) Hong Kong Underwriting Agreement.

*Notes:*

- (1) These equity holders include (1) SU Ertian (苏尔田), (2) LUO Lingtao (骆凌涛), (3) LI Sun (李孙), (4) DAI Rong (戴荣), (5) ZHANG Xianchao (张仙超), (6) Guangxi Hongzun Investment Group Co., Ltd (广西鸿尊投资集团有限公司), (7) Hangzhou Weixing Zhichen Equity Investment L.P. (杭州伟星智晨股权投资合伙企业(有限合伙)), (8) Zhejiang Venture Investment Group Co., Ltd. (浙江省创业投资集团有限公司), (9) Liuzhou Qise Enterprise Management Partnership Enterprise (Limited Partnership) (柳州七色企业管理合伙企业(有限合伙)), (10) Liuzhou Colorful Enterprise Management Partnership Enterprise (Limited Partnership) (柳州七彩企业管理合伙企业(有限合伙)), (11) Liuzhou Banyan Business Management L.P. (柳州榕树企业管理合伙企业(有限合伙)), (12) Liuzhou Dice Hongze Enterprise Management L.P. (柳州迪策鸿泽企业管理合伙企业(有限合伙)), (13) Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) (福睿创信(厦门)新兴产业投资合伙企业(有限合伙)), (14) Zhuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.) (珠海格金广发信德智能制造产业投资基金(有限合伙)), (15) Ningbo Jingzhu Investment L.P. (宁波京珠投资合伙企业(有限合伙)), (16) Beijing Longmahui Capital Investment Co., Ltd. — Ningbo Meishan Bonded Port Area Fengrong Investment Management L.P. (北京龙马汇资本投资有限公司 — 宁波梅山保税港区丰融投资管理合伙企业(有限合伙)), (17) Beijing Jiahua Huijin Investment Management Co., Ltd. — Ningbo Meishan Bonded Port Area Huazhen Equity Investment L.P. (北京嘉华汇金投资管理有限公司 — 宁波梅山保税港区华臻股权投资合伙企业(有限合伙)), (18) Qingdao Jin Yi Qing Control Venture Investment Center L.P. (青岛清控金奕创业投资中心(有限合伙)), (19) Liuzhou Chuanfu Business Management Partnership L.P. (柳州川富企业管理合伙企业(有限合伙)), (20) Beijing Longmahui Capital Investment Co., Ltd. — Ningbo Meishan Bonded Port Area Fenghui Investment Management L.P. (北京龙马汇资本投资有限公司 — 宁波梅山保税港区丰汇投资管理合伙企业(有限合伙)), (21) Liuzhou Lianrun Enterprise Management Partnership Enterprise (Limited Partnership) (柳州连润企业管理合伙企业(有限合伙)) and (22) LIU Zhihe (刘志和).
- (2) These Shareholders include (1) China Banyan Capital INT Holdings Ltd, (2) CHUANFU INT CAPITAL GROUP LTD (川富国际资本集团有限公司), (3) WEIXINGZHICHEN INTERNATIONAL INVESTMENT LTD, (4) LINGTAO Capital INT Group Limited (凌涛资本国际集团有限公司), (5) Zhejiang Venture Capital Group Co., Ltd, (6) Xuanhai Capital INT Group Limited, (7) Dice Hongze Ltd (迪策鸿泽有限公司), (8) Furui Innovation (Xia Men) Emerging Industry Investment Partnership Enterprise (Limited Partnership) (福睿创信(厦门)新兴产业投资合伙企业(有限合伙)), (9) Zhuhai Gejin Guangfa Xinde Intelligent Manufacturing Industry Investment Fund (L.P.) (珠海格金广发信德智能制造产业投资基金(有限合伙)), (10) Capital Pearls International Investment Ltd, (11) Ronghui Longma Capital Ltd, (12) China Huazhen Equity Investment Co., Ltd. (中风投华臻股权投资有限公司), (13) JINYI Technology & Innovation Investment Management Co., Ltd., (14) GF Qianhe Investment Co., Ltd. (广发乾和投资有限公司), (15) LIU Zhihe (刘志和), (16) Dena Well Investment Limited and (17) GUOLING CAPITAL MANAGEMENT LTD (国瓴资本管理有限公司).

## 2. Intellectual property

### (a) Trademarks

As of the Latest Practicable Date, we had registered the following trademarks which are material to our business:

No.	Trademark	Registrant	Place of registration	Class	Registration number	Validity period
1	ChesVelour	Chesir Pearl	PRC	2	24805274	21 June 2018 — 20 June 2028
2	ChesCrystal	Chesir Pearl	PRC	2	24797350	21 June 2018 — 20 June 2028



## APPENDIX V

## STATUTORY AND GENERAL INFORMATION

No.	Trademark	Registrant	Place of registration	Class	Registration number	Validity period
3	ChesDiamond	Chesir Pearl	PRC	2	24793311	21 June 2018 — 20 June 2028
4	ChesEmerald	Chesir Pearl	PRC	2	24788184	21 June 2018 — 20 June 2028
5	ChesPearl	Chesir Pearl	PRC	2	24788064	21 June 2018 — 20 June 2028
6	ChesMica	Chesir Pearl	PRC	3	24782440	21 June 2018 — 20 June 2028
7	ChesSpher	Chesir Pearl	PRC	3	24782412	21 June 2018 — 20 June 2028
8	ChesColor	Chesir Pearl	PRC	3	24773318	28 June 2018 — 27 June 2028
9	ChesMatt	Chesir Pearl	PRC	3	24765640	28 June 2018 — 27 June 2028
10	Mistese	Chesir Pearl	PRC	3	22758043	21 February 2018 — 20 February 2028
11	Litodawn	Chesir Pearl	PRC	3	22757956	21 February 2018 — 20 February 2028
12		Chesir Pearl	PRC	2	13709118	7 March 2015 — 6 March 2025
13		Chesir Pearl	PRC	2	12132913	21 July 2014 — 20 July 2024
14		Chesir Pearl	Hong Kong	1, 2 and 3	305452830	19 November 2020 — 18 November 2030

*(b) Patents*

As of the Latest Practicable Date, we had registered the following patents in the PRC which are material to our business:

<b>No.</b>	<b>Patent</b>	<b>Type</b>	<b>Registered owner</b>	<b>Patent number</b>	<b>Date of application</b>	<b>Validity period</b>
1	White and interference pigment colour dumb-ray film shaped package core pigment and its preparation method (白色及干涉色啞光片狀包核顏料及製備方法)	Invention	Chesir Pearl	ZL201610023146.7	14 January 2016	14 January 2016 - 13 January 2036
2	Magnetic pearlescent pigment with 3D effect and its preparation method (一種具有3D效果的磁性珠光顏料及其製備方法)	Invention	Chesir Pearl	ZL201510340610.0	18 June 2015	18 June 2015 - 17 June 2035
3	Pearlescent pigment with low oil absorption and its preparation method (一種低吸油值珠光顏料及其製備方法)	Invention	Chesir Pearl	ZL201510168735.X	10 April 2015	10 April 2015 - 9 April 2035
4	Blue-green series pigment with pearlescent Effect and preparation method (藍綠系列珠光效應顏料及其製備方法)	Invention	Chesir Pearl	ZL201510113750.4	16 March 2015	16 March 2015 - 15 March 2035

No.	Patent	Type	Registered owner	Patent number	Date of application	Validity period
5	Pearlescent pigment with high heat resistance and its preparation method (一種耐高溫珠光顏料及其製備方法)	Invention	Chesir Pearl	ZL201410493495.6	25 September 2014	25 September 2014 - 24 September 2034
6	Pearlescent pigment with anatase type high colour saturation and its preparation method (銳鈦礦型高色飽和度珠光顏料及其製備方法)	Invention	Chesir Pearl	ZL201810100325.5	1 February 2018	1 February 2018 - 31 January 2038
7	Interference pearlescent pigment with rutile type high colour saturation and its preparation method (金紅石型高色飽和度干涉色珠光顏料及其製備方法)	Invention	Chesir Pearl	ZL201810100326.X	1 February 2018	1 February 2018 - 31 January 2038
8	Equipment for continuously preparing titanium dichloride solution (一種連續配製二氯氧鈦溶液的裝置)	Utility	Chesir Pearl	ZL202021351409.5	10 July 2020	10 July 2020 - 9 July 2030
9	A pearlescent pigment production system based on network media control (一種基於網路媒介控制的珠光顏料生產系統)	Utility	Chesir Pearl	ZL202021986256.1	11 September 2020	11 September 2020 - 10 September 2030

No.	Patent	Type	Registered owner	Patent number	Date of application	Validity period
10	Pearlescent pigment for ink coating (一種油墨用珠光顏料)	Utility	Chesir Pearl	ZL202021984723.7	11 September 2020	11 September 2020 - 10 September 2030
11	Equipment for packing of pearlescent pigment (珠光顏料打包裝置)	Utility	Chesir Pearl	ZL202021648348.9	10 August 2020	10 August 2020 - 9 August 2030
12	Equipment for storage of concentrated titanium (濃鈦存儲裝置)	Utility	Chesir Pearl	ZL202021648280.4	10 August 2020	10 August 2020 - 9 August 2030
13	Mica segregation system (雲母分級系統)	Utility	Chesir Pearl	ZL202021761803.6	21 August 2020	21 August 2020 - 20 August 2030
14	Equipment for mixing of pearlescent pigment powder (珠光顏料混粉裝置)	Utility	Chesir Pearl	ZL202021648279.1	10 August 2020	10 August 2020 - 9 August 2030
15	Mixing device for toning of pearlescent pigment powder (珠光顏料調色混粉裝置)	Utility	Chesir Pearl	ZL202021754309.7	20 August 2020	20 August 2020 - 19 August 2030
16	Titanium oxychloride solution preparation device (二氯氧鈦溶液配製裝置)	Utility	Chesir Pearl	ZL202021754307.8	20 August 2020	20 August 2020 - 19 August 2030
17	Mixing device for pearlescent pigment powder (珠光顏料混粉裝置)	Utility	Chesir Pearl	ZL202021777890.4	20 August 2020	20 August 2020 - 19 August 2030

No.	Patent	Type	Registered owner	Patent number	Date of application	Validity period
18	Exhaust gas recovery system for pearlescent pigment industry (珠光顏料行業用尾氣回收系統)	Utility	Chesir Pearl	ZL202021784211.6	21 August 2020	21 August 2020 - 26 August 2030
19	Fine sand removal system for mica flakes (一種雲母片精細除沙系統)	Utility	Chesir Pearl	ZL202021822036.5	27 August 2020	27 August 2020 - 26 August 2030
20	Mica peeling system (一種雲母剝片系統)	Utility	Chesir Pearl	ZL202021822048.8	27 August 2020	27 August 2020 - 26 August 2030
21	A steam condensate loop recovery system for pearlescent pigment production (一種用於珠光顏料生產的蒸汽冷凝水循環回收系統)	Utility	Chesir Pearl	ZL202021984714.8	11 September 2020	11 September 2020 - 10 September 2030
22	Feeding system for pearlescent pigment hydrolysis workstation (一種用於珠光顏料水解車間的輸料系統)	Utility	Chesir Pearl	ZL202021822055.8	27 August 2020	27 August 2020 - 26 August 2030
23	A volatile material conveying system for pearlescent pigment production (一種用於珠光顏料生產的易揮發原料輸料系統)	Utility	Chesir Pearl	ZL202021823068.7	27 August 2020	27 August 2020 - 26 August 2030

No.	Patent	Type	Registered owner	Patent number	Date of application	Validity period
24	Preparation method for wet synthesised $\text{KMg}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$ crystal powder (一種濕法合成 $\text{KMg}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$ 晶體粉的製備方法)	Invention	Chesir Luzhai	ZL200910058415.3	25 February 2009	25 February 2009 - 24 February 2029
25	A method for film shaped powder material dispersion (一種片狀粉體材料的濕法分級方法)	Invention	Chesir Luzhai	ZL200710049520.1	16 July 2007	16 July 2007 - 15 July 2027
26	Preparation method of electrically conductive sericite in powder (導電絹雲母粉的製備方法)	Invention	Chesir Luzhai	ZL200510021660.9	13 September 2005	13 September 2005 - 12 September 2025

As of the Latest Practicable Date, we had submitted the following patent applications in the PRC which are material to our business:

No.	Patent	Type	Applicant(s)	Patent application no.	Date of application
1.	Pearlescent pigment containing rutile and anatase TiO <sub>2</sub> layer and its preparation method (含有金紅石和銳鈦礦型TiO <sub>2</sub> 層的珠光顏料及其製備方法)	Invention	Chesir Pearl	201810100282	1 February 2018
2.	Lifting device for cover of reaction kettle (一種反應釜頂蓋升降裝置)	Invention	Chesir Pearl	201811177003.7	10 October 2018
3.	Pearlescent pigment for powder coating, its preparation method and reaction device (用於粉末塗料的珠光顏料、製備方法及其反應裝置)	Invention	Chesir Pearl	202010586330.9	24 June 2020
4.	Pearlescent pigment for water-based paint, its preparation method and device for screening and removing impurities (水性塗料用珠光顏料及其製備方法和篩分除雜裝置)	Invention	Chesir Pearl	202010587485.4	24 June 2020
5.	Equipment and process for continuously preparing titanium oxychloride solution (一種連續配製二氯氧鈦溶液的裝置及工藝)	Invention	Chesir Pearl	202010664112.2	10 July 2020
6.	Pearlescent pigment (珠光顏料)	Utility	Chesir Pearl	202021727757.8	18 August 2020
7.	Orange-red pearlescent pigment for cosmetics (用於化妝品的橙紅色相珠光顏料)	Utility	Chesir Pearl	202021727760.X	18 August 2020
8.	Pearlescent pigment (珠光顏料)	Utility	Chesir Pearl	202021727759.7	18 August 2020

No.	Patent	Type	Applicant(s)	Patent application no.	Date of application
9.	Mica flake pressing and drying device for pearlescent pigment (一種用於珠光顏料的雲母片壓幹裝置)	Utility	Chesir Pearl	202021822044.X	27 August 2020
10.	Golden pearlescent pigment (金色珠光顏料)	Utility	Chesir Pearl	202021933828.X	7 September 2020
11.	Multi-stage segregation and collection system for fine mica (一種微細雲母多級篩分收集系統)	Utility	Chesir Pearl	202021986260.8	11 September 2020
12.	Fluorophlogopite melting furnace (氟金雲母熔制爐體)	Utility	Chesir Luzhai	202021754311.4	20 August 2020
13.	Automatic unloading system and unloading method for roller kiln sagger (一種輓道窯匣鉢自動卸料系統及自動卸料方法)	Invention	Chesir Pearl	202110432647.1	21 April 2021
14.	Automatic unloading system for roller kiln sagger (一種輓道窯匣鉢自動卸料系統)	Utility	Chesir Pearl	202120825336.7	21 April 2021

**(c) Domain name**

As of the Latest Practicable Date, we had registered the following domain names which are material to our business:

Domain name	Registrant	Registration date	Expiry date	ICP filing approval date	ICP filing number
chesir.net. . . .	Chesir Pearl	15 January 2013	15 January 2023	8 July 2019	桂ICP備17005021號



*(d) Software Copyright*

As of the Latest Practicable Date, we owned the copyright of the following production systems:

<b>No.</b>	<b>Software Copyright</b>	<b>Owner</b>	<b>Place of registration</b>	<b>Date of registration</b>	<b>Registration number</b>	<b>Validity period</b>
1.	Production data management system V1.0 (生產數據管理系統V1.0)	Chesir Pearl	PRC	31 August 2016	2016SR243058	50 years
2.	Production visualisation management software V1.0 (生產管理可視化軟件V1.0)	Chesir Pearl	PRC	17 August 2016	2016SR222548	50 years
3.	PLC-based fully automated packaging control system V1.0 (基於PLC的自動包裝機控制系統V1.0)	Chesir Pearl	PRC	4 August 2016	2016SR205539	50 years
4.	Formulation and recipe production management system V1.0 (配方配料生產管理系統V1.0)	Chesir Pearl	PRC	4 August 2016	2016SR204815	50 years

**3. Summary of capital investments in Chesir Luzhai**

The principal terms of the capital investments in Chesir Luzhai are as follows:

- Date: Capital contribution agreement dated 18 January 2018 as amended by a supplemental agreement dated 13 September 2020;
- Parties: (a) Liuzhou Industrial Investment, a State-owned management enterprise which is wholly-owned and managed by the State-owned Assets Supervision and Administration Commission of Liuzhou City Municipal Government (柳州市人民政府国有资产监督管理委员会);
- (b) Chesir Pearl, the sole shareholder of Chesir Luzhai; and

(c) Chesir Luzhai.

Following an equity interest transfer agreement dated 13 September 2018, Liuzhou Industrial Investment transferred all of its capital contribution to Guangxi Industrial Investment, a company wholly-owned by the People's Government of Guangxi Zhuang Autonomous Region. The terms of the capital investment remain unchanged with the rights and responsibilities of Liuzhou Industrial Investment being changed to Guangxi Industrial Investment.

Investment amount and registered capital:	Liuzhou Industrial Investment to contribute RMB150.0 million new funding into Chesir Luzhai, among which, RMB41.9 million was accounted as registered capital and RMB108.0 million was accounted as capital reserve.
Shareholdings following the capital investment:	Chesir Pearl to be interested in 60.04% shares of Chesir Luzhai; and Liuzhou Industrial Investment to be interested in 39.96% shares of Chesir Luzhai. Following the transfer of equity interest by Liuzhou Industrial Investment to Guangxi Industrial Investment, since 13 September 2018, Chesir Luzhai is owned as to 60.04% by Chesir Pearl and 39.96% by Guangxi Industrial Investment.
Use of funds:	The capital contribution shall be used for enhancement of production facilities for the purpose of achieving an annual production of 5,000 tonnes of synthetic mica and 10,000 tonnes of pearlescent pigment products. The capital contribution shall not be used in financial investments, pledges, sponsors, gifts, loans, or investment in restricted business.
Responsibilities of the parties:	Chesir Luzhai is responsible for achieving an annual production of 5,000 tonnes of synthetic mica and 10,000 tonnes of pearlescent pigment products within five years from the date of capital contribution.
Board of directors:	The board of directors of Chesir Luzhai comprises three directors, of which Liuzhou Industrial Investment shall appoint one director.
Supervisors:	Chesir Luzhai shall have three supervisors, of which Liuzhou Industrial Investment shall appoint one supervisor.
Reserved matters:	The following matters, among others, shall require unanimous approval of the shareholders:  (i) increasing or reducing the registered capital;

- (ii) amendment of the articles of association;
- (iii) changing or addition of the principal business;
- (iv) deciding on purchasing of assets existing 5% of the existing assets;
- (v) deciding on Chesir Luzhai as guarantee or in providing any forms of financial assistance to any third party; or withdraw on rights of intellectual properties;
- (vi) connected transactions of more than RMB30,000; and
- (vii) deciding on annual financial budgets.

Distribution of profits: After this capital contribution, Chesir Luzhai's newly formed profits and losses shall be shared or borne by each Chesir Luzhai's shareholders in proportion to their shareholdings.

During the investment period, if Chesir Luzhai has distributable profits for cash dividend distribution, it shall be calculated on pro rata basis of shareholdings.

Transfer of equity interest Without the prior written consent of Liuzhou Industrial Investment, Chesir Pearl shall not transfer any of its equity interest in Chesir Luzhai, or create or permit to create any pledge, guarantee or any encumbrances over any of its equity interest in Chesir Luzhai.

Information rights: Chesir Luzhai shall provide updates to Liuzhou Industrial Investment on the below matters:

- (i) quarter, interim and annual financial statements;
- (ii) investment returns;
- (iii) within three business days of occurrence and upon any material updates, legal proceedings or arbitrations;
- (iv) within three business days of occurrence on any incidents that may cause harm to the interest of Liuzhou Industrial Investment.

### C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND OUR SUBSTANTIAL SHAREHOLDERS

#### 1. Disclosure of interests

##### (a) *Disclosure of interests of Directors and chief executive*

Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into consideration our Shares subscribed for under the Global Offering and that may be issued and allotted or sold pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme), the interests and short positions of our Directors and the chief executive of our Company in our Shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules (the “**Model Code**”), will be as follows:

##### *Interest in our Company*

Name of Director	Capacity	Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme) <sup>(1)</sup>	
		Number of Shares held	Percentage of Shareholding (%)
Mr. SU Ertian . . . . .	Interest in controlled corporation <sup>(2)</sup>	298,546,800	25.68
	Interest in controlled corporation <sup>(3)</sup>	44,958,828	3.87
	Interest in controlled corporation <sup>(4)</sup>	27,041,172	2.33
	Interest in controlled corporation <sup>(5)</sup>	1,368,000	0.12
	Interest in controlled corporation <sup>(6)</sup>	27,307,200	2.35
	Interest in controlled corporation <sup>(7)</sup>	26,988,948	2.32
Mr. ZHENG Shizhan . . . . .	Interest in controlled corporation <sup>(2)</sup>	298,546,800	25.68
Mr. JIN Zengqin . . . . .	Interest in controlled corporation <sup>(6)</sup>	27,307,200	2.35
	Interest in controlled corporation <sup>(7)</sup>	26,988,948	2.32
Mr. HU Yongxiang . . . . .	Interest in controlled corporation <sup>(8)</sup>	19,285,200	1.66

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*Notes:*

- (1) Assuming the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme are not exercised.
- (2) Hongzun Investment is owned as to 51.0% and 49.0% by Mr. SU and Mr. ZHENG, respectively. Therefore, Mr. SU and Mr. ZHENG is deemed to be interested in all the Shares held by Hongzun Investment for the purpose of the SFO. Mr. SU and Mr. ZHENG are also chairman and vice chairman of Hongzun Investment, respectively.
- (3) Ertian International is wholly-owned by Mr. SU. Therefore, Mr. SU is deemed to be interested in all the Shares held by Ertian International for the purpose of the SFO. Mr. SU is the sole director of Ertian International.
- (4) Seven Color Pearl Investment is wholly-owned by Mr. SU. Therefore, Mr. SU is deemed to be interested in all the Shares held by Seven Color Pearl Investment for the purpose of the SFO. Mr. SU is the sole director of Seven Color Pearl Investment.
- (5) The general partner of Liuzhou Lianrun LP is Mr. SU who owns 11,000 shares of Liuzhou Lianrun LP. The original 24 individual equity holders of Chesir Pearl, who are limited partners and Independent Third Parties, own 217,000 shares of Liuzhou Lianrun LP. Therefore, Mr. SU is deemed to be interested in all the Shares held by Liuzhou Lianrun LP for the purpose of the SFO. For the avoidance of doubt, there is no individual limited partner contributed more than one-third of the capital contribution of Liuzhou Lianrun LP.
- (6) The general partner of Liuzhou Qise LP is Mr. SU who owns 10,000 shares of Liuzhou Qise LP. Mr. JIN, being one of the limited partners, owns 1,565,200 shares of Liuzhou Qise LP and the original 18 individual equity holders of Chesir Pearl, who are limited partners and Independent Third Parties, own 2,976,000 shares of Liuzhou Qise LP. Therefore, Mr. SU and Mr. JIN are deemed to be interested in all the Shares held by Liuzhou Qise LP for the purpose of the SFO. For the avoidance of doubt, there is no individual limited partner (except Mr. JIN) contributed more than one-third of the capital contribution of Liuzhou Qise LP.
- (7) The general partner of Liuzhou Colorful LP is Mr. SU who owns 10,000 shares of Liuzhou Colorful LP. Mr. JIN, being one of the limited partners, owns 1,500,000 shares of Liuzhou Colorful LP and the original 18 individual equity holders of Chesir Pearl, who are limited partners and Independent Third Parties, own 2,988,158 shares of Liuzhou Colorful LP. Therefore, Mr. SU and Mr. JIN are deemed to be interested in all the Shares held by of Liuzhou Colorful LP for the purpose of the SFO. For the avoidance of doubt, there is no individual limited partner (except Mr. JIN) contributed more than one-third of the capital contribution of Liuzhou Colorful LP.
- (8) Mr. HU Yongxiang is the sole director of China Banyan Capital INT Holdings Limited who owns 50 shares of China Banyan Capital INT Holdings Limited. The original 12 individual equity holders of Chesir Pearl, who are Independent Third Parties, hold 49,950 shares of China Banyan Capital INT Holdings Limited. Therefore, Mr. HU Yongxiang is deemed to be interested in the Shares held by China Banyan Capital INT Holdings Limited.

*(b) Disclosure of interests under the provisions of Divisions 2 and 3 of Part XV of the SFO*

Save as disclosed in the section headed “Controlling Shareholders and Substantial Shareholders” in this prospectus, each of the following persons will, immediately following completion of the Global Offering and Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme) fall to disclose its interests (or short positions, if applicable) in our Shares or underlying shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of Interest	Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme)	
		Number of Shares held	%
Hongzun International . . . . .	Beneficial owner	298,546,800	25.68
Hongzun Investment . . . . .	Interest in controlled corporation <sup>(1)</sup>	298,546,800	25.68
Guidong Electric . . . . .	Beneficial owner <sup>(2)</sup>	108,000,000	9.29
Guangxi Zhengrun Development Group Co., Ltd. . . . .	Interest in controlled corporation <sup>(2)</sup>	108,000,000	9.29
Guangxi Investment Group Co., Ltd. . . . .	Interest in controlled corporation <sup>(2)(3)</sup>	184,762,344	15.89
GX Land & Sea . . . . .	Beneficial owner <sup>(3)</sup>	76,726,344	6.60
Guangxi Land & Sea Connectivity Fund (Limited Partnership) . . . . .	Interest in controlled corporation <sup>(3)</sup>	76,726,344	6.60
Guangtou Capital Management Group Co., Ltd. . . . .	Interest in controlled corporation <sup>(3)</sup>	76,726,344	6.60
China Development Bank Capital Co., Ltd. . . . .	Interest in controlled corporation <sup>(3)</sup>	76,726,344	6.60
Guangxi Luhai New Channel Equity Investment Management Center (Limited Partnership) . . . . .	Interest in controlled corporation <sup>(3)</sup>	76,726,344	6.60
Yououbi Investment Management (Shanghai) Co., Ltd. . . . .	Interest in controlled corporation <sup>(3)</sup>	76,726,344	6.60

Name of Shareholder	Nature of Interest	Immediately following completion of the Global Offering and the Capitalisation Issue (without taking into consideration any Shares which may be issued upon the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme)	
		Number of Shares held	%
Guangxi Luhai New Channel Equity Investment Management Co., Ltd. . . . .	Interest in controlled corporation <sup>(3)</sup>	76,726,344	6.60
Guangxi Financial Investment Group Co., Ltd. . . . .	Interest in controlled corporation <sup>(3)</sup>	76,726,344	6.60
China Development Bank . . . . .	Interest in controlled corporation <sup>(3)</sup>	76,726,344	6.60
Central Huijin Investment Ltd. . .	Interest in controlled corporation <sup>(3)</sup>	76,726,344	6.60

## Notes:

- (1) Hongzun International is wholly-owned by Hongzun Investment. Therefore, Hongzun Investment is deemed to be interested in all the Shares held by Hongzun International for the purpose of the SFO. Mr. SU is the sole director of Hongzun International.
- (2) Guidong Electric is a listed company on the Shanghai Stock Exchange (stock code: 600310) and is owned as to 39.96% by Guangxi Zhengrun Development Group Co., Ltd. (which in turn is owned by Guangxi Investment Group Co., Ltd. as to 85.0%) as of the Latest Practicable Date. Therefore, Guangxi Zhengrun Development Group Co., Ltd and Guangxi Investment Group Co., Ltd are deemed to be interested in all the Shares held by Guidong Electric. Guangxi Investment Group Co., Ltd. is wholly-owned by the PRC Government.
- (3) GX Land & Sea is wholly-owned by Guangxi Land & Sea Connectivity Fund (Limited Partnership), which is a limited partnership established in the PRC. Guangxi Land & Sea Connectivity Fund (Limited Partnership) is owned as to 49.5% by Guangtuo Capital Management Group Co., Ltd. and 49.5% by China Development Bank Capital Co., Ltd. and its general partner is Guangxi Luhai New Channel Equity Investment Management Center (Limited Partnership). Guangxi Luhai New Channel Equity Investment Management Center (Limited Partnership) is owned as to 39.6% by Yououbi Investment Management (Shanghai) Co., Ltd. and its general partner is Guangxi Luhai New Channel Equity Investment Management Co., Ltd., which in turn is owned as to 35.0% by China Development Bank Capital Co., Ltd. and 35.0% by Guangtuo Capital Management Group Co., Ltd. Guangtuo Capital Management Group Co., Ltd. is owned as to 51.0% by Guangxi Financial Investment Group Co., Ltd. and 49.0% by Guangxi Investment Group Co., Ltd. Guangxi Investment Group Co., Ltd is also the sole shareholder of Guangxi Financial Investment Group Co., Ltd, and is wholly-owned by the PRC government. China Development Bank Capital Co., Ltd. is wholly-owned by China Development Bank, which is owned as to 36.5% by the Ministry of Finance of the PRC and 34.7% by Central Huijin Investment Ltd. Central Huijin Investment Ltd. is wholly-owned by China Investment Co., Ltd., which in turn is wholly-owned by the PRC government. Therefore, Guangxi Land & Sea Connectivity Fund (Limited Partnership), Guangtuo Capital Management Group Co., Ltd., China Development Bank Capital Co., Ltd., Guangxi Luhai New Channel Equity Investment Management Center (Limited Partnership), Yououbi Investment Management (Shanghai) Co., Ltd., Guangxi Luhai New Channel Equity Investment Management Co., Ltd., Guangxi Investment Group Co., Ltd., Guangxi Financial Investment Group Co., Ltd., China Development Bank, Central Huijin Investment Ltd. and China Investment Co., Ltd. are deemed to be interested in all the Shares held by GX Land & Sea.

## 2. Further information about our Directors

### (a) Particulars of the service contracts with our executive Directors

Each of the executive Directors has entered into a service contract with our Company for an initial term of three years commencing on the Listing Date. The service contract shall continue thereafter and may only be terminated in accordance with the provisions therein contained by either party giving to the other not less than three months' prior notice in writing.

The service agreement may be renewed in accordance with the Articles and the applicable laws and regulations.

Each executive Director will receive director fee in addition to his annual basic salary. The maximum annual basic salary of each executive Director under his service contract with our Company in 2021 is as follows:

<u>Name of the executive Directors</u>	<u>Maximum annual basic salary (including director fee)</u>
	<i>HK\$</i>
Mr. SU Ertian . . . . .	900,000
Mr. ZHENG Shizhan . . . . .	600,000
Mr. JIN Zengqin . . . . .	600,000
Mr. ZHOU Fangchao . . . . .	700,000

### (b) Particulars of the letters of appointment with our non-executive Directors and independent non-executive Directors

Each of the non-executive Directors and independent non-executive Directors has entered into a letter of appointment with our Company. The terms and conditions of each of such letter of appointment are similar in all material respects. Each of them is appointed with an initial term of three years commencing from the Listing Date (subject to termination in certain circumstances as stipulated in the relevant letter of appointment). Our non-executive Directors, Mr. QIN Min and Mr. HU Yongxiang will not receive any director fee from the Company. The annual director fee for each independent non-executive Director is as follows:

<u>Name of the independent non-executive Directors</u>	<u>Annual Director's fee</u>
	<i>HK\$</i>
Mr. MAK Hing Keung, Thomas . . . . .	180,000
Professor HAN Gaorong . . . . .	180,000
Mr. LEUNG Kwai Wah Alex . . . . .	180,000

As the appointment of the independent non-executive Directors is effective from the Listing Date, their entitlement to the annual Director fee during the year ending 31 December 2021 would be made on a pro rata basis.



Save as disclosed above, none of our Directors has entered or has proposed to enter into any service agreements with our Company or any other member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

### **3. Directors' remuneration**

The aggregate amount of fees, salaries, contributions to retirement benefits, discretionary bonuses, allowances, and other benefits in kind granted to our Directors (in a capacity as directors or employees of any subsidiary of our Group) for the Track Record Period were RMB2.0 million, RMB2.3 million and RMB2.5 million, respectively. There has been no arrangement under which a Director has waived or agreed to waive any remuneration or benefits in kind during the Track Record Period.

Under the current arrangements, the aggregate amount of remuneration of our Directors for the year ending 31 December 2021 is expected to be HK\$3.3 million (equivalent to RMB2.8 million), excluding the discretionary bonus payable to our executive Directors.

### **4. Fees or commission received**

Save as disclosed in connection with the Underwriting Agreements, none of the Directors or any of the persons whose names are listed in the paragraphs under "E. Other information — 8. Consents of experts" below had received any commissions, discounts, agency fee, brokerage or other special terms in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

### **5. Disclaimers**

- (a) Save as disclosed in the paragraphs under "C. Further information about our Directors and our Substantial Shareholders — 1. Disclosure of interests" above, none of our Directors or chief executives has any interests and short positions in our Shares, underlying shares and debentures of our Company or its associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to 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 SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code to be notified to us and the Stock Exchange, in each case once our Shares are listed on the Stock Exchange;
- (b) so far as is known to any of our Directors or chief executives, no person has an interest or short position in our Shares and underlying shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;

- (c) none of our Directors nor any of the parties listed in the section headed “E. Other information — 8. Consents of experts” below is interested in our promotion, 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 us;
- (d) except for in connection with the Underwriting Agreements, none of our Directors nor any of the parties listed in the section headed “E. Other information — 8. Consents of experts” below is materially interested in any contract or arrangement subsisting at the date in this prospectus which is significant in relation to the business of our Group;
- (e) except for in connection with the Underwriting Agreements, none of the parties listed in the paragraph under “E. Other information — 8. Consents of experts” below (i) is interested legally or beneficially in any of our Shares or any share in any of our subsidiaries or (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (f) none of our Directors or their respective associates (as defined under the Listing Rules) or any of our Shareholders (who to the knowledge of our Directors owns more than 5% of our issued Share capital) has any interest in our five largest suppliers or customers during the Track Record Period; and
- (g) none of the Directors or any past Directors of any members of our Group has been paid any sum of money for the Track Record Period (i) as an inducement to join or upon joining us or (ii) for loss of office as a Director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

#### D. POST-IPO SHARE OPTION SCHEME

Our Company conditionally adopted the Post-IPO Share Option Scheme on 2 June 2021 (the “**Adoption Date**”). The following is a summary of principal terms of the Post-IPO Share Option Scheme. The terms of the Post-IPO Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

Our Company will disclose details of the Post-IPO Share Option Scheme in its annual and interim reports including but not limited to the number of options, date of grant, exercise price, exercise period and vesting period during the financial year in the annual/interim reports in accordance with the Listing Rules in force from time to time.

As of the Latest Practicable Date, no option had been granted or agreed to be granted under the Post-IPO Share Option Scheme.

Application has been made to the Listing Committee for the listing of and permission to deal in our Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Post-IPO Share Option Scheme, being 116,269,558 Shares in total.

### 1. Purpose

The purpose of the Post-IPO Share Option Scheme is to enable our Company to grant Options (as defined below) to Eligible Participants (as defined below) as incentives or rewards for their contribution or potential contribution to our Group and to provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (a) motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group;
- (b) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group; and/or
- (c) for such purposes as our Board may approve from time to time.

### 2. Conditions of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

- (a) subject to (b) and (c) below, the approval of our Shareholders for the adoption of the Post-IPO Share Option Scheme;
- (b) the approval of the Stock Exchange for the listing of and permission to deal in, on the Stock Exchange a maximum of 116,269,558 Shares to be allotted and issued pursuant to the exercise of the options (the “**Options**”) in accordance with the terms and conditions of the Post-IPO Share Option Scheme;
- (c) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with its terms or otherwise; and
- (d) the commencement of dealing of our Shares on the Stock Exchange.

### 3. Who may join

Our Board may, at its absolute discretion, offer Options to subscribe for such number of Shares in accordance with the terms set forth in the Post-IPO Share Option Scheme to:

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (the “**Executive**”), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group (the “**Employee**”);
- (b) a director or proposed director (including an independent non-executive director) of any member of our Group;

- (c) a direct or indirect shareholder of any member of our Group;
- (d) a supplier of goods or services to any member of our Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and
- (g) an associate of any of the persons referred to in paragraphs (a) to (c) above.

(the persons referred above are the “**Eligible Participants**”)

#### 4. Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all Options to be granted under the Post-IPO Share Option Scheme and any other schemes of our Group shall not in aggregate exceed 10% of our Shares in issue as of the Listing Date, i.e. 116,269,558 Shares, excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option (the “**Scheme Mandate Limit**”), provided that:

- (a) Our Company may at any time as our Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all Options to be granted under the Post-IPO Share Option Scheme and any other schemes of our Company shall not exceed 10% of our Shares in issue as of the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Post-IPO Share Option Scheme and any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Post-IPO Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules.
- (b) Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by our Company before such approval is obtained. Our Company shall issue a circular to our Shareholders containing the details and information required under the Listing Rules.
- (c) The maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other schemes of our Group shall not exceed 30% of our Shares in issue from time to time. No Options may be granted under the Post-IPO Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

**5. Maximum number of Option to each participant**

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of our Shares in issue from time to time. Where any further grant of Options to such an Eligible Participant would result in our Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Participant (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of our Shares in issue, such further grant shall be separately approved by our Shareholders in general meeting with such Eligible Participant and his close associates (or his associates if the Eligible Participant is a connected person) abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Participant, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Participant, and containing the details and information required under the Listing Rules. The number and terms (including the exercise price) of the Options to be granted to such Eligible Participant must be fixed before the approval of our Shareholders and the date of our Board meeting proposing such grant shall be taken as the date of grant for the purpose of calculating the subscription price of those Options.

**6. Offer and grant of Options**

Subject to the terms of the Post-IPO Share Option Scheme, our Board shall be entitled at any time within 10 years from the date of adopting the Post-IPO Share Option Scheme to offer the grant of an Option to any Eligible Participant as our Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as our Board may (subject to the terms of the Post-IPO Share Option Scheme) determine (provided the same shall be a board lot for dealing in our Shares on the Stock Exchange or an integral multiple thereof).

**7. Granting Options to connected persons**

Subject to the terms in the Post-IPO Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a director, chief executive or a substantial shareholder (as defined in the Listing Rules) of our Company, or any of their respective associates, such offer must first be approved by the independent non-executive Directors (excluding the independent non-executive Director who or whose associates is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and

- (b) (where the securities are listed on the Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million, such further grant of Options must be approved by our Shareholders (voting by way of a poll). Our Company shall send a circular to our Shareholders containing the information required under the Listing Rules. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting.

Approval from our Shareholders is required for any change in the terms of Options granted to a Eligible Participant who is a substantial shareholder or an independent non-executive Director, or any of their respective associates. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting.

#### **8. Offer period and number accepted**

An offer of the grant of an Option shall remain open for acceptance by the Eligible Participant concerned for a period of 28 days from the offer date (the “**Offer Date**”), provided that no such grant of an Option may be accepted after the expiry of the effective period of the Post-IPO Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Participant and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Participant, being a date not later than 28 days after the Offer Date (the “**Acceptance Date**”). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered, provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

#### **9. Restriction on the time of grant of Options**

Our Board shall not grant any Option under the Post-IPO Share Option Scheme after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of 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 any other interim period (whether or not required under the Listing Rules); and the deadline for our Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements.

**10. Minimum holding period, vesting and performance target**

Subject to the provisions of the Listing Rules, our Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Post-IPO Share Option Scheme as our Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of all or any of our Shares shall vest, provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Post-IPO Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as our Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

**11. Amount payable for Options**

The amount payable on acceptance of an Option is HK\$1.00.

**12. Subscription price**

The subscription price of a Share in respect of any particular Option shall be such price as our Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days (as defined in the Listing Rules) immediately preceding the date of grant.

**13. Exercise of Option**

- (i) An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the Option period in the manner as set forth in this Post-IPO Share Option Scheme by the grantee by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given. Within 30 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Post-IPO Share Option Scheme, our Company shall accordingly allot

and issue the relevant number of Shares to the grantee (or his legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the grantee (or his legal personal representative(s)) share certificate(s) in respect of our Shares so allotted.

- (ii) The exercise of any Option may be subject to a vesting schedule to be determined by our Board in its absolute discretion, which shall be specified in the offer letter.
- (iii) The exercise of any Option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised Share capital of our Company.
- (iv) Subject as hereinafter provided:
  - (a) in the case of the grantee ceasing to be an Eligible Participant by reason of death or permanent disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with our Group under paragraph 16(e) below has occurred, the grantee or the personal representative(s) of the grantee shall be entitled within a period of 12 months (or such longer period as our Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the Option in full (to the extent not already exercised);
  - (b) in the event that the grantee ceases to be an Eligible Participant for any reason (including his employing company ceasing to be a member of our Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his employment to an affiliate company or the termination of his employment with the relevant member of our Group by resignation or termination on the ground
  - (c) if a general offer is made to all Shareholders and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of our Shareholders (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;
  - (d) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the grantees who have Options unexercised at the same time as it despatch notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each grantee (or his legal representatives or receiver) may until the expiry of the earlier of:
    - (i) the Option period (in respect of any particular Option, the period commencing immediately after the business day (as defined in the Listing Rules) on which the Option is deemed to be granted and accepted in accordance with the Post-IPO Share



Option Scheme and expiring on a date to be determined and notified by our Directors to each grantee, provided that such period shall not exceed the period of 10 years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Post-IPO Share Option Scheme);

(ii) the period of two months from the date of such notice; or

(iii) the date on which such compromise or arrangement is sanctioned by the court,

exercise in whole or in part his Option;

- (e) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatch such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his Options at any time not later than two business days (as defined in the Listing Rules) 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 (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

#### **14. Ranking of Shares**

Our Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the memorandum and articles of association of our Company and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

A Share issued upon the exercise of an Option shall not carry rights until the registration of the grantee (or any other person) as the holder thereof.

**15. Life of Post-IPO Share Option Scheme**

Subject to the terms of the Post-IPO Share Option Scheme, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further Options will be granted or offered but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme.

**16. Lapse of Option**

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry date relevant to that Option;
- (b) the expiry of any of the period referred to paragraphs related to exercise of Option;
- (c) the date of the commencement of the winding-up of our Company;
- (d) the date on which the scheme of arrangement of our Company becomes effective;
- (e) the date on which the grantee ceases to be an Eligible Participant by reason of the termination of his relationship with our Group on any one or more of the following grounds:
  - (i) that he has been guilty of serious misconduct;
  - (ii) that he has been convicted of any criminal offence involving his integrity or honesty or in relation to an employee of our Group;
  - (iii) that he has become insolvent, bankrupt or has made arrangements or compositions with his creditors generally; or
  - (iv) on any other ground as determined by our Board that would warrant the termination of his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group. A resolution of our Board or our board of directors of the relevant subsidiary to the effect that the relationship of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; and
- (f) the date on which our Board shall exercise our Company's right to cancel the Option at any time after the grantee commits a breach of the restriction on transferability of Option or the Options are cancelled.

No compensation shall be payable upon the lapse of any Option, provided that our Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

## 17. Adjustment

In the event of any capitalisation issue, rights issue, sub-division or consolidation of Shares or reduction of the share capital of our Company in accordance with applicable laws and regulatory requirements, such corresponding alterations (if any) shall be made (except on an issue of securities of our Company as consideration in a transaction which shall not be regarded as a circumstance requiring alteration or adjustment) in:

- (a) the number of our Shares subject to any outstanding Options;
- (b) the subscription price of each Option;
- (c) our Shares to which the Option relates;
- (d) the method of exercise of the Option; and/or
- (e) any combination thereof,

as the auditors or an approved independent financial adviser shall at the request of our Company or any grantee, certify in writing either generally or as regards any particular grantee, to be fair and reasonable, provided that any such alterations shall be made on the basis that a grantee shall have the same proportion of the equity capital of our Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option scheme) as that to which he was entitled to subscribe had he exercised all the Options held by him immediately before such adjustments and the aggregate exercise price payable by a grantee on the full exercise of any Option shall remain as nearly as possible the same as (but shall not be greater than) it was before such event and that no such alterations shall be made if the effect of such alterations would be to enable a Share to be issued at less than its nominal value. The capacity of the auditors or the independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on our Company and the grantees. The costs of the auditors or the independent financial adviser to our Company shall be borne by our Company. Notice of such adjustment shall be given to the grantees by our Company.

## 18. Cancellation of Options

Our Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the “**Cancellation Date**”):

- (a) the grantee commits or permits or attempts to commit or permit a breach of the restriction on transferability of Option or any terms or conditions attached to the grant of the Option;
- (b) the grantee makes a written request to our Board for the Option to be cancelled; or
- (c) if the grantee has, in the opinion of our Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as of the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that our Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

#### **19. Termination**

Our Company may by resolution in general meeting or the Board may at any time terminate the operation of the Post-IPO Share Option Scheme. Upon termination of the Post-IPO Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Post-IPO Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior to the termination or otherwise as may be required in accordance with the provisions of the Post-IPO Share Option Scheme. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Post-IPO Share Option Scheme.

#### **20. Transferability of Options**

The Option or an offer (the “**Offer**”) of the grant of an Option shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option held by him or any Offer made to him or attempt so to do (save that the grantee may nominate a nominee in whose name our Shares issued pursuant to the Post-IPO Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding Option or part thereof granted to such grantee.

#### **21. Amendment**

The Post-IPO Share Option Scheme may be altered in any respect by a resolution of our Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of our Shareholders in general meeting, provided always that the amended terms of the Post-IPO Share Option Scheme shall comply with the applicable requirements of the Listing Rules: (i) any material alteration to its terms and conditions of the Post-IPO Share Option Scheme or any change to the terms of Options granted (except where the alterations take effect automatically under the terms of the Post-IPO Share Option Scheme); (ii) any alteration to the provisions of the Post-IPO Share Option Scheme in relation to the matters set forth in Rule 17.03 of the Listing Rules to the advantage of grantees or the Eligible Participants (as the case may be); and (iii) any alteration to the aforesaid termination provisions.

**E. OTHER INFORMATION****1. No estate duty**

Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands and Hong Kong.

**2. Litigation**

Save as disclosed in the “Business” section of this prospectus, no member of our Group is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened against any member of our Group that would have a material adverse effect on our Group’s results of operations or financial condition.

**3. Sole Sponsor**

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set forth in Rule 3A.07 of the Listing Rules.

The Sole Sponsor, has made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, our Shares in issue, Shares to be issued pursuant to the Global Offering, the Capitalisation Issue and our Shares which may be issued pursuant to the exercise of the Over-allotment Option and any option that may be granted under the Post-IPO Share Option Scheme.

The Sole Sponsor is entitled to an aggregate sponsor fee of HK\$6.0 million.

**4. Compliance adviser**

Our Company has appointed Essence Corporate Finance (Hong Kong) Limited as the compliance adviser upon Listing in compliance with Rule 3A.19 of the Listing Rules.

**5. Preliminary expenses**

No preliminary expenses have been incurred or are proposed to be incurred by our Company.

**6. Promoter**

We have no promoter for the purpose of the Listing Rules. Within two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

## 7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
Essence Corporate Finance (Hong Kong) Limited . . . . .	A corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
RSM Hong Kong . . . . .	Certified public accountants
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. . . . .	Independent industry consultant
Conyers Dill & Pearman . . . . .	Legal advisers as to Cayman Islands law
AllBright Law Offices Fuzhou Office . . . . .	Legal advisers as to PRC law
Squire Patton Boggs (UK) LLP . . . . .	Legal advisers as to French law
Jones Lang LaSalle Corporate Appraisal and Advisory Limited . . . . .	Independent property valuer

## 8. Consents of experts

Each of the experts named in paragraph 7 has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or legal opinion (as the case may be) and references to its name included in the form and context in which it appears.

As of the Latest Practicable Date, none of the experts named in the paragraphs under “E. Other information — 7. Qualifications of experts” above has any shareholding interests in our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

## 9. Binding effect

This prospectus shall have the effect if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance insofar as applicable.

**10. Miscellaneous**

- (a) Save as disclosed in the section headed “History, Development and Reorganisation” in this prospectus, within two years immediately preceding the date of this prospectus:
- (i) no share or loan capital of our Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no founders, management or deferred shares of our Company or, any of its subsidiaries have been issued or agreed to be issued; and
  - (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of our Share or any share in any of our subsidiaries.
- (b) No member of our Group is presently listed on any stock exchange or traded on any trading system.
- (c) Our Directors confirm that:
- (i) there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2020 (being the date to which the latest audited consolidated financial statements of our Group were prepared);
  - (ii) there is no arrangement under which future dividends are waived or agreed to be waived; and
  - (iii) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the twelve (12) months immediately preceding the date of this prospectus.
- (d) The principal register of members of our Company is maintained in the Cayman Islands by the Cayman Principal Registrar and the branch register of members of our Company is maintained in Hong Kong by our Hong Kong Share Registrar. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Share Registrar and may not be lodged in the Cayman Islands.
- (e) All necessary arrangements have been made to enable our Shares to be admitted into CCASS for clearing and settlement.
- (f) Our Company had not issued any debentures nor did it have any outstanding debentures or any convertible debt securities.

**11. Bilingual prospectus**

The English and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).



**A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) the written consents set forth in the paragraphs under “E. Other information — 8. Consents of experts” in Appendix V to this prospectus; and
- (c) copies of the material contracts set forth in the paragraphs under “B. Further information about the Business of our Group — 1. Summary of material contracts” in Appendix V to this prospectus.

**B. DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION IN HONG KONG**

Copies of the following documents will be available for inspection at the offices of Squire Patton Boggs at 29th Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles and the Memorandum;
- (b) the Accountants’ Report;
- (c) the letter from RSM Hong Kong relating to the unaudited pro forma financial information, the text of which is set forth in Appendix II to this prospectus;
- (d) the audited financial statements of members of our Group during the Track Record Period;
- (e) the rules of the Post-IPO Share Option Scheme;
- (f) the Frost & Sullivan Report;
- (g) the letter and valuation report relating to the property interests of our Group prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the texts of which are set forth in Appendix III to this prospectus;
- (h) the material contracts set forth in the paragraphs under “B. Further information about the Business of our Group — 1. Summary of material contracts” in Appendix V to this prospectus;

- (i) the service agreements and the letters of appointment referred to in the paragraphs under “C. Further information about our Directors and our Substantial Shareholders — 2. Further information about our Directors — (a) Particulars of the service contracts with our executive Directors” and “(b) Particulars of the letters of appointment with our non-executive Directors and independent non-executive Directors” in Appendix V to this prospectus;
- (j) the written consents referred to in the paragraphs under “E. Other information — 8. Consents of experts” in Appendix V to this prospectus;
- (k) the legal opinions issued by our PRC Legal Advisers in respect of, amongst other things, on various matters in relation to our subsidiaries in the PRC, property interests, and taxation matters of our company in the PRC and the applicable laws and regulations;
- (l) the legal opinion issued by Squire Patton Boggs (UK) LLP on various matters in relation to Chesir France;
- (m) the letter of advice provided by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law as referred to in Appendix IV to this prospectus; and
- (n) the Cayman Companies Act.

**GLOBAL NEW MATERIAL  
INTERNATIONAL HOLDINGS LIMITED**

**环球新材国际控股有限公司**