

SUMMARY AND HIGHLIGHTS

This section aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to [REDACTED] in our [REDACTED].

There are risks associated with any investment. Some of the particular risks in [REDACTED] in our [REDACTED] are set forth in the section headed “Risk Factors” in this document. You should read that section carefully before you decide to [REDACTED] in our [REDACTED].

OVERVIEW

We are a leading pearlescent pigment producer in the PRC. According to the Frost & Sullivan Report, we are the largest synthetic mica-based pearlescent pigment producer in the PRC as measured by revenue in 2019 with a market share of 22.3% and the largest pearlescent pigment producer in the PRC as measured by revenue in 2019 with a market share of 10.0%. According to the Frost & Sullivan Report, we are the largest synthetic mica-based pearlescent pigment producer in the global market as measured by revenue in 2019 with a market share of 7.2% and the fourth largest pearlescent pigment producer in the global market as measured by revenue in 2019 with a market share of 2.6%.

Our business principally focuses on the production and sales of a comprehensive portfolio of pearlescent pigment products covering diverse applications and industries, including automotive coatings, cosmetics, industrial coatings, plastics, textile and leather and ceramics. We also produce and sell synthetic mica powder of different granule sizes which can be used for the production of automotive and cosmetic-grade pearlescent pigment products and also as raw materials for the production of functional fillers, insulating materials, refractory materials and nickel-hydrogen batteries. Our products are sold to customers in the PRC and to more than 30 countries and territories in Asia (excluding the PRC), Europe, Africa and South America under our brand of “Chesir Pearl”



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 463 natural mica-based pearlescent pigment products, 253 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 three years ended 31 December 2019 and the nine months ended 30 September 2020. Our revenue increased significantly by 68.6% from RMB188.8 million in 2017 to RMB318.2 million in 2018 and increased further by 38.4% to RMB440.6 million in 2019. Our revenue increased by 24.6% from RMB320.6 million during the nine months ended 30 September 2019 to RMB399.4 million during the nine months ended 30 September 2020.

According to the Frost & Sullivan Report, the market size of the global pearlescent pigment market is expected to reach RMB42.3 billion by 2024 at a CAGR of 21.8% from 2020 to 2024, among which synthetic mica-based pearlescent pigment is expected to account for a market share of 24.8%. The PRC pearlescent pigment market is also in a state of rapid development and is expected to reach RMB12.0 billion by 2024 at a CAGR of 25.1% from 2020 to 2024, among which synthetic mica-based pearlescent pigment products market is expected to reach RMB3.7 billion, accounting for a market share of 30.5%.

See page 83 to 95 of this document for further information.

SUMMARY AND HIGHLIGHTS

STRENGTHS

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

- We are a leading pearlescent pigment product producer.
- Our cutting-edge technologies and the use of advanced production plant and machinery in our production processes 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 page 143 to 148 of this document for further information.

STRATEGIES

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

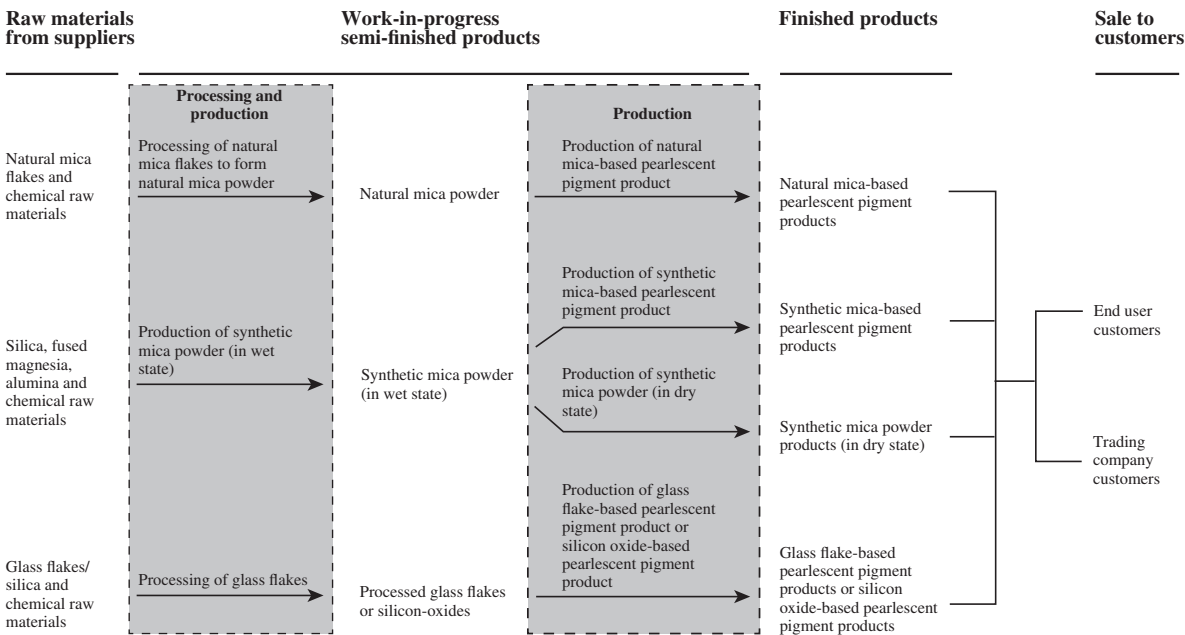
- Expand our production capacity for the production of pearlescent pigment products.
- Further strengthen our research and development capability.
- Enhance our leading position through promoting our brand recognition.

See page 148 to 152 of this document 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 page 152 of this document for further information.

SUMMARY AND HIGHLIGHTS

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 pigments 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 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. We also produce synthetic mica powder of different granule sizes for sales to our customers. We offer different series of pearlescent pigment products under these four principal categories with different colours and particle sizes have different lustre. As of the Latest Practicable Date, we offered to our customers:

- (a) 463 natural mica-based pearlescent pigment products under 16 series of different colours, texture and glossiness;
- (b) 253 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.

The above pearlescent pigment products can be used in different downstream applications, including automotive coatings, cosmetics, industrial coatings, plastics, textile and leather and ceramics.

The table below sets forth an analysis of our revenue by products for the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December						Nine months ended 30 September			
	2017		2018		2019		2019		2020	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
(Unaudited)										
Pearlescent pigment products	186,433	98.8	314,976	99.0	434,155	98.5	317,820	99.1	396,548	99.3
- Natural mica-based	143,136	75.9	245,321	77.1	295,510	67.1	225,615	70.3	230,954	57.8
- Synthetic mica-based	42,861	22.7	68,280	21.5	124,705	28.3	86,901	27.1	141,179	35.4
- Glass flakes-based	436	0.2	1,375	0.4	13,865	3.1	5,304	1.7	22,670	5.7
- Silicon oxide-based	—	—	—	—	75	—*	—	—	1,745	0.4
Synthetic mica powder	2,320	1.2	3,268	1.0	6,428	1.5	2,801	0.9	2,802	0.7
Total	188,753	100.0	318,244	100.0	440,583	100.0	320,621	100.0	399,350	100.0

* Value insignificant

SUMMARY AND HIGHLIGHTS

The table below sets forth the sales volume and the average unit selling prices by products for the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December						Nine months ended 30 September			
	2017		2018		2019		2019		2020	
	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume	Average unit selling price	Sales volume
	(tonnes)	(RMB'000 per tonne)	(tonnes)	(RMB'000 per tonne)	(tonnes)	(RMB'000 per tonne)	(tonnes)	(RMB'000 per tonne)	(tonnes)	(RMB'000 per tonne)
Pearlescent pigment products										
- Natural mica-based . . .	4,551.5	31.5	7,217.9	34.0	8,822.4	33.5	6,536.4	34.5	7,404.3	31.2
- Synthetic mica-based . .	772.8	55.5	1,228.8	55.6	2,231.8	55.9	1,592.8	54.6	2,798.5	50.5
- Glass flakes-based. . .	1.0	436.0	4.4	312.6	42.4	327.0	20.7	256.1	83.1	272.8
- Silicon oxide-based . . .	—	—	—	—	0.1	750.0	—	—	3.6	484.7
	5,325.3	35.0	8,451.1	37.3	11,096.7	39.1	8,149.9	39.0	10,289.5	38.5
Synthetic mica powder . .	59.1	39.3	84.4	38.7	167.8	38.3	67.7	41.4	65.7	42.7
Total	<u>5,384.4</u>		<u>8,535.5</u>		<u>11,264.5</u>		<u>8,217.6</u>		<u>10,355.2</u>	

See page 153 to 157 of this document for further information.

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. 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 (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December									Nine months ended 30 September					
	2017			2018			2019			2019			2020		
	Number	RMB'000	% of revenue	Number	RMB'000	% of revenue	Number	RMB'000	% of revenue	Number	RMB'000	% of revenue	Number	RMB'000	% of revenue
	(Unaudited)														
Trading company customers															
- PRC	153	118,467	62.8	190	241,028	75.7	185	325,628	73.9	175	243,682	76.0	204	310,235	77.7
- International . .	20	27,352	14.5	22	16,579	5.2	28	20,981	4.8	25	14,817	4.6	25	15,404	3.9
	173	145,819	77.3	212	257,607	80.9	213	346,610	78.7	200	258,499	80.6	229	325,639	81.5
End user customers															
- PRC	52	37,922	20.1	69	52,175	16.4	77	84,800	19.2	75	55,860	17.4	115	66,704	16.7
- International . .	6	5,011	2.7	13	8,462	2.7	8	9,173	2.1	7	6,262	2.0	10	7,007	1.8
	58	42,933	22.7	82	60,637	19.1	85	93,973	21.3	82	62,122	19.4	125	73,711	18.5
Total	<u>231</u>	<u>188,753</u>	<u>100.0</u>	<u>294</u>	<u>318,244</u>	<u>100.0</u>	<u>298</u>	<u>440,583</u>	<u>100.0</u>	<u>282</u>	<u>320,621</u>	<u>100.0</u>	<u>354</u>	<u>399,350</u>	<u>100.0</u>

SUMMARY AND HIGHLIGHTS

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 (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December						Nine months ended 30 September			
	2017		2018		2019		2019		2020	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
	(Unaudited)									
PRC										
- Eastern region	116,769	61.8	239,526	75.2	332,282	75.4	239,992	74.9	306,480	76.7
- Western region	17,368	9.2	24,408	7.7	36,635	8.3	28,337	8.8	31,580	7.9
- Central region.	22,252	11.8	29,269	9.2	41,511	9.4	31,213	9.7	38,878	9.7
	156,389	82.8	293,203	92.0	410,428	93.1	299,542	93.4	376,938	94.3
Asia.	23,438	12.4	11,351	3.6	14,084	3.2	9,153	2.9	9,967	2.5
Europe	7,283	3.9	10,144	3.2	13,653	3.1	9,768	3.0	9,335	2.3
Africa	1,319	0.7	2,944	0.9	2,058	0.5	1,869	0.6	2,968	0.9
South America	324	0.2	602	0.2	360	0.1	289	0.1	142	—*
Total	188,753	100.0	318,244	100.0	440,583	100.0	320,621	100.0	399,350	100.0

* Value insignificant

See page 158 to 170 of this document for further information.

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 on 24 hours every day supported by three working shifts of labour.

SUMMARY AND HIGHLIGHTS

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						Nine months ended 30 September					
	2017			2018			2019			2020		
	Designed production/ processing capacity	Actual production/ processing volume	Utilisation rate	Designed production/ processing capacity	Actual production/ processing volume	Utilisation rate	Designed production/ processing capacity	Actual production/ processing volume	Utilisation rate	Designed production/ processing capacity	Actual production/ processing volume	Utilisation rate
	(tonnes)	(tonnes)	(%)	(tonnes)	(tonnes)	(%)	(tonnes)	(tonnes)	(%)	(tonnes)	(tonnes)	(%)
Finished products												
Pearlescent pigment products	7,968	5,447	68.4	10,464	8,809	84.2	12,978	11,348	87.4	9,456	9,816	103.8
Synthetic mica powder	4,752	1,175	24.7	4,752	1,564	32.9	4,752	3,653	76.9	5,616	3,136	55.8
Total	12,720	6,622		15,216	10,373		17,730	15,001		15,072	12,952	

See page 179 to 184 of this document for further information.

SUMMARY AND HIGHLIGHTS

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 are imported from India and Australia, respectively. The table below sets forth an analysis of our purchase cost of raw materials during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December						Nine months ended 30 September			
	2017		2018		2019		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>	<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	14,636	23.1	39,050	30.9	40,930	24.6	31,229	24.1	36,386	23.7
— Other raw materials	5,274	8.3	10,474	8.3	18,747	11.3	13,122	10.1	18,220	11.9
	<u>19,911</u>	<u>31.5</u>	<u>49,523</u>	<u>39.2</u>	<u>59,677</u>	<u>35.9</u>	<u>44,352</u>	<u>34.2</u>	<u>54,605</u>	<u>35.6</u>
Chemical raw materials										
— Titanium tetrachloride . . .	26,464	41.8	51,100	40.4	70,158	42.2	54,290	41.8	55,658	36.3
— Other chemical raw materials	11,436	18.1	17,196	13.6	25,911	15.6	22,464	17.3	31,441	20.5
	<u>37,899</u>	<u>59.9</u>	<u>68,296</u>	<u>54.0</u>	<u>96,068</u>	<u>57.8</u>	<u>76,754</u>	<u>59.1</u>	<u>87,100</u>	<u>56.7</u>
Packaging materials	4,829	7.6	6,518	5.2	8,092	4.9	7,054	5.4	8,259	5.4
Furnace materials and utensils	661	1.0	2,098	1.7	2,274	1.4	1,645	1.3	3,533	2.3
Total	<u>63,301</u>	<u>100.0</u>	<u>126,435</u>	<u>100.0</u>	<u>166,111</u>	<u>100.0</u>	<u>129,804</u>	<u>100.0</u>	<u>153,498</u>	<u>100.0</u>

See page 184 to 193 of this document 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 (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Revenue	188,753	318,244	440,583	320,621	399,350
Cost of goods sold	(103,459)	(166,917)	(218,222)	(156,381)	(206,252)
Sales related tax and auxiliary charges	(4,050)	(4,380)	(4,084)	(3,248)	(4,009)
Gross profit.	81,244	146,947	218,277	160,992	189,089
Other income and other gains and losses.	4,326	4,971	5,295	3,368	10,571
Reversals of impairment losses on trade and other receivables/(Impairment losses for trade and other receivables)	14,481	612	208	(1,146)	(4,064)
Selling expenses	(11,574)	(13,347)	(23,292)	(13,703)	(15,281)
Administrative and other operating expenses	(34,283)	(35,568)	(56,712)	(33,310)	(41,621)
Profit from operations	54,194	103,615	143,776	116,201	138,694
Finance costs.	(14,057)	(15,869)	(18,475)	(12,618)	(15,828)
Profit before tax	40,137	87,746	125,301	103,583	122,866
Income tax credit/(expense).	44	(6,382)	(17,968)	(15,359)	(18,186)
Profit for the year/period	40,181	81,364	107,333	88,224	104,680
Attributable to					
Owners of our Company	39,028	77,400	102,806	84,211	101,303
Non-controlling interests	1,153	3,964	4,527	4,013	3,377
	40,181	81,364	107,333	88,224	104,680

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 2017, 2018 and 2019 and 30 September 2020:

	As of 31 December			As of 30 September 2020
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Non-current assets	283,180	340,185	411,717	432,269
Current assets	208,337	404,928	766,024	858,057
Total assets	<u>491,517</u>	<u>745,113</u>	<u>1,177,741</u>	<u>1,290,326</u>
Equity				
Equity attributable to owners of our Company . .	220,369	298,101	712,208	813,511
Non-controlling interests	2,894	156,858	161,385	164,762
	<u>223,263</u>	<u>454,959</u>	<u>873,593</u>	<u>978,273</u>
Liabilities				
Non-current liabilities	193,163	15,341	222,984	99,375
Current liabilities	75,091	274,813	81,164	212,678
Total equity and liabilities	<u>491,517</u>	<u>745,113</u>	<u>1,177,741</u>	<u>1,290,326</u>

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 (together with the comparative figures for the nine months ended 30 September 2019):

	Year ended 31 December			Nine months ended 30 September	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Net cash generated from operating activities	43,884	26,019	163,544	116,801	74,155
Net cash used in investing activities . .	(48,625)	(72,386)	(90,071)	(11,223)	(37,193)
Net cash generated from financing activities	38,011	151,563	314,514	318,453	9,148
Net increase in cash and cash equivalents	33,270	105,196	387,987	424,031	46,110
Cash and cash equivalents at beginning of year/period	33,372	66,656	171,854	171,854	559,839
Effect of foreign exchange rate changes	14	2	(2)	—	—
Cash and cash equivalents at end of year/period	<u>66,656</u>	<u>171,854</u>	<u>559,839</u>	<u>595,885</u>	<u>605,949</u>

See page 271 to 345 of this document for further information.

SUMMARY AND HIGHLIGHTS

KEY FINANCIAL RATIOS

		Year ended 31 December				Nine months ended 30 September 2020	
		Numerator	Denominator	2017	2018	2019	(annualised)
Gross profit margin	(%)			43.0%	46.2%	49.5%	47.3%
Net profit margin	(%)			21.3%	25.6%	24.4%	26.2%
Return on equity	(%)	Profit for the year	Equity	18.0%	17.9%	12.3%	N/A
Return on total assets	(%)	Profit for the year	Total assets	8.2%	10.9%	9.1%	N/A
Gearing ratio ⁽¹⁾	(%)	Total liabilities	Equity	120.2%	63.8%	34.8%	31.9%
Current ratio	Times	Current assets	Current liabilities	2.77	1.47	9.44	4.03
Quick ratio	Times	Current assets-Inventories	Current liabilities	2.04	1.20	8.45	3.67
Net debt to equity ratio ⁽²⁾	Times	Bank loans and other borrowings net of bank and cash balances	Equity	52.7%	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/period 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/period and multiplied by 100%.

See page 346 to 348 of this document for further information.

PROPOSED USE OF THE [REDACTED] FROM THE [REDACTED]

The table below sets forth the estimate of [REDACTED] from the [REDACTED] which we will receive after deduction of [REDACTED] and estimated expenses in connection with the [REDACTED] and the [REDACTED]:

	Assuming the [REDACTED] is not exercised	Assuming the [REDACTED] is exercised in full
	HK\$'million	HK\$'million
Assuming an [REDACTED] of HK\$[REDACTED] (being the low-end of the indicative range of the [REDACTED])	HK\$[REDACTED]	HK\$[REDACTED]
Assuming an [REDACTED] of HK\$[REDACTED] (being the mid-point of the indicative range of the [REDACTED])	HK\$[REDACTED]	HK\$[REDACTED]
Assuming an [REDACTED] of HK\$[REDACTED] (being the high-end of the indicative range of the [REDACTED])	HK\$[REDACTED]	HK\$[REDACTED]

Assuming that the [REDACTED] would be HK\$[REDACTED], being the mid-point of the indicative range of the [REDACTED], we intend to use the [REDACTED] from the [REDACTED] for the following purposes:

- (1) [REDACTED]% of the [REDACTED] from the [REDACTED], or HK\$[REDACTED] (equivalent to RMB[REDACTED]), will be used for partial financing of the construction of our Phase 2 Production Plant, of which (a) HK\$[REDACTED] (equivalent to RMB[REDACTED]) will be used for the construction of various buildings and facilities for our Phase 2 Production Plant and (b) HK\$[REDACTED] (equivalent to RMB[REDACTED]) will be used for the purchase and installation of production plant and machinery, installation of intelligent control system, equipment installation, testing and commission.
- (2) [REDACTED]% of the [REDACTED] from the [REDACTED], or HK\$[REDACTED] (equivalent to RMB[REDACTED]), will be used for partial financing of the construction of our Luzhai Synthetic Mica Plant, of which (a) HK\$[REDACTED] (equivalent to RMB[REDACTED]) will be used for the construction of various building and facilities for our Luzhai Synthetic Mica Plan and (b) HK\$[REDACTED] (equivalent to RMB[REDACTED]) will be used for the purchase and installation of 60 synthetic mica melting furnaces and the intelligent control system.

SUMMARY AND HIGHLIGHTS

- (3) [REDACTED]%, or HK\$[REDACTED] (equivalent to RMB[REDACTED]), will be used to increase our investment in research and development facilities and testing equipment of our research and development centre.
- (4) [REDACTED]%, or HK\$[REDACTED] (equivalent to RMB[REDACTED]), will be used for sales and marketing activities and building sales network to enhance our brand recognition in the PRC and overseas.
- (5) [REDACTED]%, or HK\$[REDACTED] (equivalent to RMB[REDACTED]), will be used as our working capital and other general corporate purposes.

See page 353 to 364 of this document 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 [REDACTED] and the [REDACTED] (without taking into consideration any Shares which may be issued upon the exercise of the [REDACTED] any option that may be granted under the [REDACTED] Share Option Scheme), our Controlling Shareholders will beneficially own an aggregate of [REDACTED]% of our Shares in issue.

See page 249 to 251 of this document for further information.

[REDACTED] INVESTMENTS

For the purpose of the [REDACTED] and as part of the Reorganisation, we have received equity investments from three [REDACTED] 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 [REDACTED]. Their equity investments constitute our [REDACTED] 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 Acquisition 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 [REDACTED] Investors as they acquire the issued share of Chesir Pearl in contemplation of the [REDACTED].

See page 133 to 140 of this document for further information.

[REDACTED]

SUMMARY AND HIGHLIGHTS

[REDACTED]

[REDACTED] EXPENSES

Assuming the [REDACTED] of HK\$[REDACTED], being the mid-point of the indicative range of the [REDACTED], the total amount of [REDACTED] expenses and [REDACTED] in connection with the [REDACTED] is estimated to be RMB[REDACTED]. Out of this amount, RMB[REDACTED] will be accounted for as a deduction from equity upon the [REDACTED]. [REDACTED] expenses of RMB[REDACTED] were charged to the profit or loss during the nine months ended 30 September 2020. We expect that an additional amount of [REDACTED] expenses of RMB[REDACTED] and RMB[REDACTED] would be charged to the profit or loss for the year ended 31 December 2020 and for the year ending 31 December 2021, respectively. [REDACTED] 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 [REDACTED] expenses may differ from the above estimated amount. We do not expect [REDACTED] expenses to have a material impact on our operating results for the year ended 31 December 2020.

DIVIDENDS

During the Track Record Period, we did not declare and pay any dividend to our Shareholders. Following the [REDACTED], 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 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.

PRINCIPAL RISK FACTORS

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

- Risk relating to COVID-19.
- 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.
- Our performance could be adversely affected by any decrease in our sales to our key customers.
- We do not have long-term purchase commitments from our customers and our performance may be subject to volatility and uncertainty in our revenue.
- Our business performance is dependent upon adequate supply of natural mica flakes at reasonable price. Any significant disruption in the supply or significant fluctuation in the price of natural mica flakes may affect our results of operations.
- 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, keep pace with and respond to technological changes and evolving industry standards in an efficient and timely manner, which may adversely affect our business and results of operation.
- 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.

SUMMARY AND HIGHLIGHTS

- 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 page 20 to 52 of this document for further information.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

There was no interruption to our business that has have or may have a significant effect on our financial position in the last 12 months. Except to the extent disclosed in this document and the [REDACTED] expenses in connection with the [REDACTED], our Directors confirm that there has been no material adverse change in our financial, operational or trading position since 30 September 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 document.

COVID-19 IMPACT

Since early 2020, the outbreak of 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 such outbreak. We are not in the industries which are severely affected by the COVID-19. In around February 2020, our business was slightly affected as a lockdown was imposed by the PRC Government in Hubei Province in response to the COVID-19. We were affected temporarily then as we were unable to deliver our products to our customers and our production activities had to be suspended until the middle of February 2020. As a result, our operating results during the first quarter of 2020 were adversely affected due to the combined impact 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 third quarters of 2020. Our revenue during the nine months ended 30 September 2020 bounced back with increases in ours sales to customers in the PRC and other countries, as a result our profitability had also improved, as compared to the amounts of revenue and profit during the nine months ended 30 September 2019.

Our sales in the PRC during the nine months ended 30 September 2020 grew by 25.8% as compared to our sales in the PRC during the nine months ended 30 September 2019, with insignificant impact on our sales in the PRC market caused by COVID-19. 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 in not in the industries which are severely hit by the pandemic.

Our sales to overseas customers during the nine months ended 30 September 2020 recorded a modest growth of 6.3% as compared to our overseas sales during the nine months ended 30 September 2019. Sales to almost all international markets (other than Europe and South America) had increased primarily due to our effective marketing campaigns during the period. Our Directors have not noticed that the COVID-19 pandemic has created any imminent and adverse impact on our sales to the international markets.

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 nine months ended 30 September 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 30 September 2020, but there was no significant increase in the impairment loss as of 30 September 2020. Our travelling and business development expenses had also increased during the same period as a result of more frequent customers’ visits made by our sales personnel after the lifting of the lockdown measures in the PRC.

According to the Frost & Sullivan Report, with gradual recovery from COVID-19, the PRC’s pearlescent pigment market will maintain its further growth.