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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 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 7,968 tonnes for the year ended 31 December 2017 to 10,464 tonnes for the year ended 31 December 2018 and further increased to 12,978 tonnes for the year ended 31 December 2019 and 9,456 tonnes for the nine months ended 30 September 2020. The utilisation rate of our production facilities for pearlescent pigment products improved from 68.4% for the year ended 31 December 2017 to 87.4% for the year ended 31 December 2019. Our utilisation rate had reached 103.8% for the nine months ended 30 September 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

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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 [11] patents and had submitted [27] 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 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%.

We plan to use a significant portion of the [REDACTED] from the [REDACTED] 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, such as automotive and cosmetic-grade pearlescent pigment products, with a designed annual production 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 [REDACTED]” in this document 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.

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OUR STRENGTHS

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

We are a leading pearlescent pigment producer in the PRC.

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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 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. We also produce and sell synthetic mica powder products 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.

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 7,968 tonnes for the year ended 31 December 2017 to 10,464 tonnes for the year ended 31 December 2018 and further increased to 12,978 tonnes for the year ended 31 December 2019 and 9,456 tonnes for the nine months ended 30 September 2020. Our designed annual production capacity for synthetic mica powder had remained stable during the three years ended 31 December 2019 at 4,752 tonnes and increased to 5,616 tonnes for the nine months ended 30 September 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

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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 leading 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 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%. 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 cutting-edge technologies and the use of advanced production plant and machinery in our production processes are key to ensuring our product quality.

Our cutting-edge technologies and the use of advanced 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 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

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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.

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 are well recognised in the overseas markets and can be used in the production of high-end cosmetics. Our cosmetic grade pearlescent pigment products comprise primarily synthetic mica-based pearlescent pigment product, which are free of heavy metal content, and also silicon-oxide based pearlescent pigment products and natural mica-based pearlescent pigment products, which contain low heavy metal content. 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, with high colour fidelity, colour durability, colour constancy and lasting brilliance.

We expect there would be a growing demand for high-end and high-performance automotive and cosmetic-grade pearlescent pigment products, which have witnessed the fastest growth among the downstream applications of pearlescent pigment products. According to the Frost & Sullivan Report, the market size of the global automotive pearlescent pigment market is expected to reach RMB4.1 billion by 2024 at a CAGR of 43.9% from 2020 to 2024 while the global cosmetics pearlescent pigment market is expected to reach RMB8.0 billion by 2024 at a CAGR of 29.4% from 2020 to 2024. In the PRC, the market size of the automotive pearlescent pigment market is expected to reach RMB1.6 billion by 2024 at a CAGR of 53.4% from 2020 to 2024 while the cosmetics pearlescent pigment market is expected to reach RMB1.7 billion by 2024 at a CAGR of 24.2% from 2020 to 2024.

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

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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 three years ended 31 December 2019, our research and development expenditures amounted to RMB8.5 million, RMB10.7 million and RMB23.2 million, respectively. During the nine months ended 30 September 2020, we incurred research and development expenditures of RMB16.6 million, as compared to RMB13.1 million during the nine months ended 30 September 2019. 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 4.5%, 3.4%, 5.3%, 4.1% and 4.1% of our total revenue for the three years ended 31 December 2019 and the nine months ended 30 September 2019 and 2020, respectively. Our research and development expenditures mainly include the cost of raw materials, staff costs and utensils. We currently expect that we will maintain our research and development expenditures to a level of around five per cent. of our revenue in each year following the [REDACTED].

As of 30 September 2020, we had 40 research and development team members in our research and development centre and 31 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 (馮中起先生), 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 (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 on the 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 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 (廣西大學) and Guangxi University of Science and Technology (廣西科技大學). See the paragraphs under “Research and development” below for further information.

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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珠光材料關金建技術研發及產業化). 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 [11] patents and had submitted [27] patent applications in the PRC as of the Latest Practicable Date. Our patented production technology includes inventions 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 VI to this document 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 our trading company customers.

For our sales in the PRC, we have a total of 47 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 our trading company customers, we have our dedicated sales and marketing team who pay visits to our trading company customers on a regular basis for feedback on our products, assist with the provision of after-sales services, promote our products, 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.

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During the Track Record Period, a significant proportion of our pearlescent pigment products were sold to trading company customers. During the three years ended 31 December 2019, our revenue generated from our sales to trading company customers amounted to RMB145.8 million, RMB257.6 million and RMB346.6 million, respectively, accounting for 77.3%, 80.9% and 78.7% of our total revenue. During the nine months ended 30 September 2020, revenue generated from our sales to trading company customers amounted to RMB325.6 million and accounted for 81.5% of our total revenue, as compared to RMB258.5 million and 80.6% for the nine months ended 30 September 2019. During the three years ended 31 December 2019 and the nine months ended 30 September 2020, our products were sold to 173, 212, 213 and 229 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 eight 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 document for further information.

OUR 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.

According to the Frost & Sullivan Report, the market size of the PRC pearlescent pigment market is expected to grow at a CAGR of 25.1% from RMB4.9 billion in 2020 to RMB12.0 billion in 2024 while the market size of the global pearlescent pigment product market is expected to grow at a CAGR of 21.8% from RMB19.2 billion in 2020 to RMB42.3 billion in 2024. There has been rapid growth in the demand and market of pearlescent pigment products on account of the expansion of downstream applications, in particular, automotive and cosmetics 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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In order to capture the anticipated growing demand for pearlescent pigment products, in particular, high-end and high-performance pearlescent pigment products, such as automotive and cosmetic grade pearlescent pigment products, we plan to increase our production capacity by constructing new production facilities.

Phase 2 Production Plant

We plan to allocate [REDACTED]% of the [REDACTED] from the [REDACTED] 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, such as automotive and cosmetic-grade pearlescent pigment products, with a designed annual production capacity of 30,000 tonnes. See the section headed “Future Plans and [REDACTED]” in this document for further information. Our Phase 2 Production Plant will be an industrial complex with a total gross floor area of 142,172.3 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.

We have acquired five parcels of land 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. The cost of acquiring the land parcels amounted to RMB37.4 million and is part of the total investment amount of RMB1,337.9 million. As of the Latest Practicable Date, including the cost of acquiring the land parcels in the sum of RMB37.4 million, we had incurred RMB236.3 million for the construction of our Phase 2 Production Plant.

As of the Latest Practicable Date, we have completed technical design and initial construction works including underground foundation work, 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 such 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 enable us to increase our production capacity of pearlescent pigment products, in particular, high-end pearlescent pigment products such as automotive and cosmetic-grade pearlescent pigment products with economies of scale because of the increased scale of operation.

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Luzhai Synthetic Mica Plant

We plan to allocate [REDACTED]% of the [REDACTED] from the [REDACTED] to partially finance the construction of our Luzhai Synthetic Mica Plant with a designed annual production capacity of 30,000 tonnes of synthetic mica flake. See the section headed “Future Plans and [REDACTED]” in this document 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 powder;
- (b) supply of electricity facilities;
- (c) ancillary facilities and warehouses;
- (d) staff quarters;
- (e) administrative buildings; and
- (f) sewage treatment facilities.

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 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 RMB29.1 million for the construction of our Luzhai Synthetic Mica Plant.

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 enable us to increase our production capacity of synthetic mica powder with economies of scale because of the increased scale of operation.

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 [REDACTED] will be used to increase our research and development expenditures. See the section headed “Future Plans and [REDACTED]” in this document for further information.

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The 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 especially 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 new substrates. We intend to undertake further research for the development of a new generation of intelligent production and 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 wastage. We will also develop the use of new centrifugal classification machinery that can have 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 our pearlescent pigment products and improve the glossy finish and hiding power of our 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.


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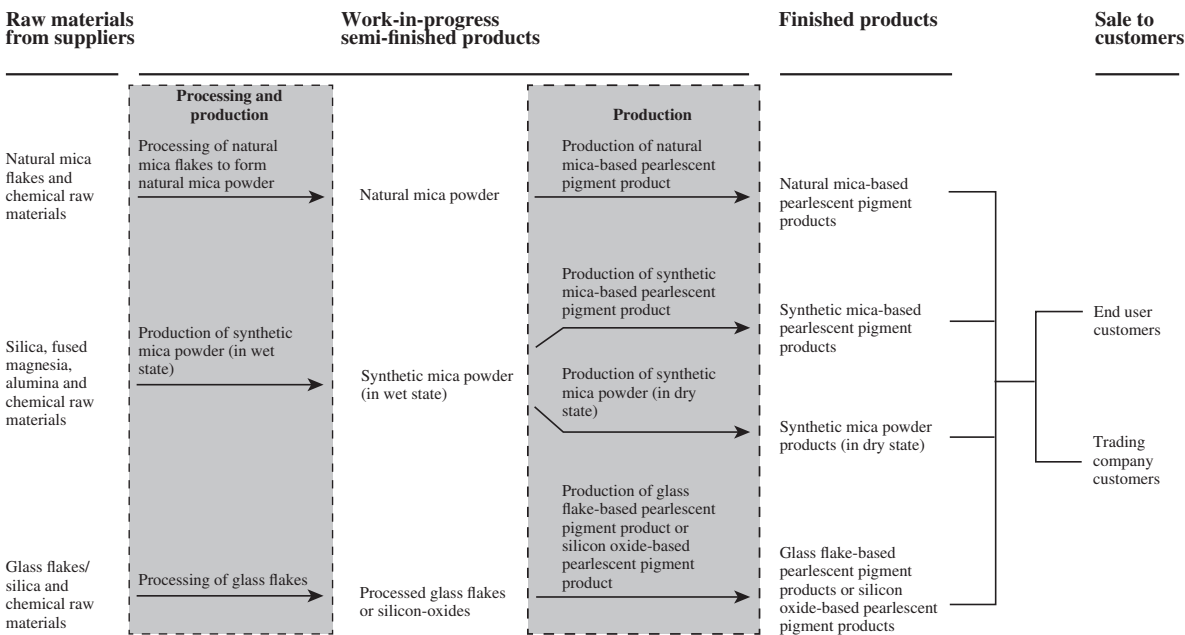
Enhance our leading position through promoting our brand recognition.

As of the Latest Practicable Date, our sales and marketing team consisted of [47] 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

We are a leading pearlescent pigment producer in the PRC. 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 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.

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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. We also produce synthetic mica powder of different granule sizes for sales to our customers.

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.

Pearlescent pigments have remarkable chemical properties such as temperature resistance, weather resistance, lightfastness, water resistance and colour fastness. Pearlescent pigments of different colours and particle sizes have different lustre, enabling a spatially and optically variable effect. Pearlescent pigments have been widely accepted by the market for its new sense of aesthetic and visual effect.

Industrial applications of our pearlescent pigment products

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.

Cosmetics

Pearlescent pigment has high colour saturation level and provide a wide array of colour, sparkle, shimmer and glitter effects to cosmetics.

Industrial coatings

Pearlescent pigment possesses physical stability and can be used in 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 in industrial coatings.

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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.

Printing

Pearlescent pigment is widely used as printing ink in the printing industry and can be used with different printing techniques, including gravure, letterpress printing, flexographic printing and screen printing and applied to various substrates including paper and cardboard, textiles, plastics, metal, glass and wood. Pearlescent pigment is used in printing for its good dispersion, consistency and viscosity. Apart from the ability to create various optical effects and pearl lustre effect, pearlescent pigment also has high water resistance, good light resistance, temperature stability and light fastness, which increase its use as printing ink for both decorative and functional purposes.

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 manufacturing of leather goods and is widely used in leather, textiles and upholstery applications.

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.

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 mica-based pearlescent pigment products. Natural mica-based pearlescent pigment products have the characteristics of pearl luster, non-conductive, non-magnetic, chemical stability to light, heat, acid and alkali. Only very limited high quality natural mica with low heavy metal content can be used for cosmetic-grade applications.

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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
	Automotive coatings	Cosmetics	Industrial coatings	Plastics	Textiles and leather	Ceramics	
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)	✓						6
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
Total							463

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 content level and are 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
	Automotive coatings	Cosmetics	Industrial coatings	Plastics	Textiles and leather	Ceramics	
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)		✓					78
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)	✓		✓				1
Total							253

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 natural mica-based pearlescent pigment products	Major applications						Number of products offered as of the Latest Practicable Date
	Automotive coatings	Cosmetics	Industrial coatings	Plastics	Textiles and leather	Ceramics	
Diamond series (鑽石系列)			✓	✓	✓	✓	22
Chameleon series (變色龍系列)			✓	✓	✓	✓	8
Total							30

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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 content 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 natural mica-based pearlescent pigment products	Major applications						Number of products offered as of the Latest Practicable Date
	Automotive coatings	Cosmetics	Industrial coatings	Plastics	Textiles and leather	Ceramics	
Blurred starry sky series (迷離星空系列)		✓	✓	✓	✓	✓	5

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, high water resistance and is free of heavy metal content, which has increasingly been used in cosmetics application.

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. Most of the synthetic mica powder produced by us are 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 (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 revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
	(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	<u>188,753</u>	<u>100.0</u>	<u>318,244</u>	<u>100.0</u>	<u>440,583</u>	<u>100.0</u>	<u>320,621</u>	<u>100.0</u>	<u>399,350</u>	<u>100.0</u>


* Value insignificant

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	
	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	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>	<i>(tonnes)</i>	<i>(RMB'000 per tonne)</i>	<i>(tonnes)</i>	<i>(RMB'000 per tonne)</i>
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>	

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Our brand

Our products have been sold under our brand of “Chesir Pearl”  since the commencement of our business. During the period between 2016 and 2019, our brand of “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 a number of industry exhibitions and trade fairs in the PRC and other countries for the purpose of promoting 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 (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>% of</i>		<i>% of</i>		<i>% of</i>		<i>% of</i>		<i>% of</i>	
	<i>RMB'000</i>	<i>revenue</i>	<i>RMB'000</i>	<i>revenue</i>	<i>RMB'000</i>	<i>revenue</i>	<i>RMB'000</i>	<i>revenue</i>	<i>RMB'000</i>	<i>revenue</i>
	(Unaudited)									
PRC										
- Eastern region ⁽¹⁾ . . .	116,769	61.8	239,526	75.2	332,282	75.4	239,992	74.9	306,480	76.7
- Western region ⁽²⁾ . . .	17,368	9.2	24,408	7.7	36,635	8.3	28,337	8.8	31,580	7.9
- Central region ⁽³⁾ . . .	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 ⁽⁴⁾	23,438	12.4	11,351	3.6	14,084	3.2	9,153	2.9	9,967	2.5
Europe ⁽⁵⁾	7,283	3.9	10,144	3.2	13,653	3.1	9,768	3.0	9,335	2.3
Africa ⁽⁶⁾	1,319	0.7	2,944	0.9	2,058	0.5	1,869	0.6	2,968	0.9
South America ⁽⁷⁾	324	0.2	602	0.2	360	0.1	289	0.1	142	—*
Total	<u>188,753</u>	<u>100.0</u>	<u>318,244</u>	<u>100.0</u>	<u>440,583</u>	<u>100.0</u>	<u>320,621</u>	<u>100.0</u>	<u>399,350</u>	<u>100.0</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, Taiwan, Korea, Kuwait, Bangladesh, Japan, Saudi Arabia, Thailand, Turkey, Israel, India, Indonesia, Jordan and Vietnam.

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- (5) European countries refer to Estonia, Belgium, Poland, Germany, Russia, 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.

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 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 eight sales personnel dedicated to managing our sales to customers in 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 to the end user customers will be provided 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.

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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 (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		
	% of			% of			% of			% of			% of		
	Number	RMB'000	revenue	Number	RMB'000	revenue	Number	RMB'000	revenue	Number	RMB'000	revenue	Number	RMB'000	revenue
<i>(Unaudited)</i>															
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	231	188,753	100.0	294	318,244	100.0	298	440,583	100.0	282	320,621	100.0	354	399,350	100.0

Trading company customers

Our pearlescent pigment products are sold 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. 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 our trading company customers in the PRC, we have entered into sales framework agreements with selected major trading companies. Pursuant to these sales framework agreements, these major trading company customers may use our brand name, i.e. “授權品牌經銷商” (Authorised Reseller), but 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 major trading company customers. If the relevant trading company customer cannot meet the minimum purchase amount, we may consider to terminate the authorisation of “授權品牌經銷商” (Authorised Reseller). 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.

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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. Furthermore, 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. Our 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 our 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 our authorised re-sellers, we normally do not accept return of non-defective product unless they are in extreme financial difficulties, under which our customers will be required to bear the transportation cost and 2% of the contract sum as the 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 RMB0.3 million, 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. Except for visits to the trading company customers for business development purpose, we do not have the right to impose any requirement or have control on the business operations of the trading company customers; nor can we impose requirements or have control on the recommended price range or packaging for on-sell of our products, inventory level, sales targets, rebates, confidentiality undertaking and non-competition undertaking. Based on the confirmations obtained from our trading company customers and the industry knowledge of our Directors, all the trading company customers and their ultimate beneficial owners are Independent Third Parties.

During the three years ended 31 December 2019 and the nine months ended 30 September 2020, our products were sold to 173, 212, 213 and 229 trading company customers. During the three years ended 31 December 2019, our revenue generated from our sales to trading company customers amounted to RMB145.8 million, RMB257.6 million and RMB346.6 million, respectively, accounting

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for 77.3%, 80.9% and 78.7%, respectively, of our total revenue. During the nine months ended 30 September 2020, revenue generated from our sales to trading company customers amounted to RMB325.6 million and accounted for 81.5% of our total revenue, as compared to RMB258.5 million and 80.6% for the nine months ended 30 September 2019.

Additional information on our trading company customers

The table below sets forth the changes in the number of trading company customers 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 2020
	2017	2018	2019	
Number of trading company customers as of the beginning of the year/period	149	173	212	213
Increase in number of trading company customers during the year/period	69	71	39	38
Amount of revenue contributed by the new trading company customers . .	RMB29.8 million	RMB15.8 million	RMB8.4 million	RMB12.8 million
Percentage of the amount of revenue contributed by the new trading company customers	15.8%	5.0%	1.9%	3.2%
Decrease in number of trading company customers during the year/period	45	32	38	22
Net increase/(decrease) in number of trading company customers during the year/period	24	39	1	16
Number of trading company customers as of the end of the year/period . . .	173	212	213	229
Amount of revenue contributed by the trading company customers.	RMB145.8 million	RMB257.6 million	RMB346.6 million	RMB325.6 million

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/period 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 our trading company customers; and
- (c) whether the prices offered by us are competitive as compared with other suppliers of the trading company customers.

BUSINESS

In light of the foregoing, we are not able to anticipate movements in the number of our trading company customers during a particular year/period. There was a net increase in the number of our trading company customers throughout the Track Record Period, and such increase was primarily due to our marketing efforts and 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.

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.

During the three years ended 31 December 2019, revenue generated from our sales to end user customers amounted to RMB42.9 million, RMB60.6 million and RMB94.0 million, respectively, accounting for 22.7%, 19.1% and 21.3%, respectively, of our total revenue. During the nine months ended 30 September 2020, revenue generated from our sales to end user customers amounted to RMB73.7 million, representing 18.5% of our total revenue, as compared to RMB62.1 million and 19.4% for the nine months ended 30 September 2019. As of 31 December 2017, 2018 and 2019 and 30 September 2020, we sold our products to 58, 82, 85 and 125 end user customers, respectively. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, all of our end user customers are Independent Third Parties.

Our five largest customers

During the three years ended 31 December 2019, sales to our five largest customers accounted for 28.4%, 20.2%, and 17.8% of our total revenue, respectively, and sales to our largest customer, accounted for 8.4%, 5.0%, and 4.2% of our total revenue, respectively. During the nine months ended 30 September 2020, sales to our five largest customers accounted for 16.3% of our total revenue, and sales to our largest customers accounted for 3.7% of our total revenue. 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 our 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 [REDACTED] has any interests in any of our five largest customers during the Track Record Period.

BUSINESS

The tables below set forth certain information on our five largest customers during the Track Record Period:

Year ended 31 December 2017

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	15,900	8.4	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. ⁽¹⁾	110 days	5
Customer H	12,531	6.6	Pearlescent pigment products	Trading company	Thailand	A limited company established in Thailand since 2016 engaging in importing and trading of textiles, clothing, footwear and pearlescent pigment materials. The registered capital of this customer is 5,000,000 baht (equivalent to RMB1.1 million). ⁽²⁾	180 days	1 ⁽³⁾
Customer G	9,412	5.0	Pearlescent pigment products	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. ⁽¹⁾	110 days	4
Customer I	8,458	4.5	Pearlescent pigment products	Trading company	Thailand	A limited company established in Thailand since 2014 engaging in importing and local retail sales. The registered capital of this customer is 3,000,000 baht (equivalent to RMB0.6 million). ⁽²⁾	180 days	1 ⁽⁴⁾
Customer D	7,355	3.9	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. ⁽¹⁾	110 days	5
Total	<u>53,656</u>	<u>28.4</u>						

Notes:

- (1) Based on the information obtained from the National Enterprise Credit Information Publicity System.
- (2) Based on the information obtained by us in public domain.
- (3) This customer has not purchased from us since May 2018 due to change of business.
- (4) This customer has not purchased from us since January 2019 due to change of business.

BUSINESS

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. ⁽¹⁾	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 RMB0.5 million. ⁽¹⁾	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. ⁽¹⁾	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. ⁽¹⁾	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. ⁽¹⁾	110 days	5
Total	<u>64,333</u>	<u>20.2</u>						

Note:

(1) Based on the information obtained from the National Enterprise Credit Information Publicity System.

BUSINESS

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. ⁽¹⁾	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 RMB0.5 million. ⁽¹⁾	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. ⁽¹⁾	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. ⁽¹⁾	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. ⁽¹⁾	90 days	5
Total	<u>78,466</u>	<u>17.8</u>						

Note:

(1) Based on the information obtained from the National Enterprise Credit Information Publicity System.

BUSINESS

Nine months ended 30 September 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 A	14,596	3.7	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. ⁽¹⁾	90-120 days	5
Customer B	13,220	3.3	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. ⁽¹⁾	90-120 days	5
Customer C	12,626	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. ⁽¹⁾	90-120 days	5
Customer D	12,574	3.1	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. ⁽¹⁾	90-120 days	5
Customer E	12,139	3.0	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 RMB0.5 million. ⁽¹⁾	90-120 days	5
Total	<u>65,155</u>	<u>16.3</u>						

Note:

(1) Based on the information obtained from the National Enterprise Credit Information Publicity System.

BUSINESS

Credit period and payments

The credit period we provided 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 (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	%
RMB	158,714	84.1	296,285	93.1	414,589	94.1	302,234	94.3	382,700	95.8
US\$	30,038	15.9	21,960	6.9	25,993	5.9	18,387	5.7	16,649	4.2
Total	<u>188,752</u>	<u>100.0</u>	<u>318,245</u>	<u>100.0</u>	<u>440,582</u>	<u>100.0</u>	<u>320,621</u>	<u>100.0</u>	<u>399,349</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 generally adopt a “cost mark-up” approach in determining the unit selling prices of our pearlescent pigment products and synthetic mica powder. We also consider the pricing strategies used by our competitors, but would not compete with our competitors in terms of pricing because our products are well-recognised by our customers and we have a leading 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.

BUSINESS

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 three years ended 31 December 2019, the transportation and packaging cost incurred by us amounted to RMB4.7 million, RMB7.1 million and RMB9.1 million, respectively, representing 40.5%, 53.4% and 39.1% of our selling expenses, respectively. During the nine months ended 30 September 2020, the transportation and package cost incurred by us amounted to RMB7.6 million, as compared to RMB6.4 million for the nine months ended 30 September 2019.

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 headed “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 request for product return due to product defects.

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.

BUSINESS

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 three years ended 31 December 2019, our marketing and promotion expenses amounted to RMB2.0 million, RMB1.2 million and RMB6.7 million, respectively, equivalent to 1.1%, 0.4% and 1.5% of our total revenue. During the nine months ended 30 September 2020, our marketing and promotion expenses amounted to RMB1.5 million, as compared to RMB2.3 million for the nine months ended 30 September 2019.

As of 30 September 2020, our sales and marketing department is led by Mr. JIN, one of our executive Directors, and consisted of 47 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 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.

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 protection” 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.

BUSINESS

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.

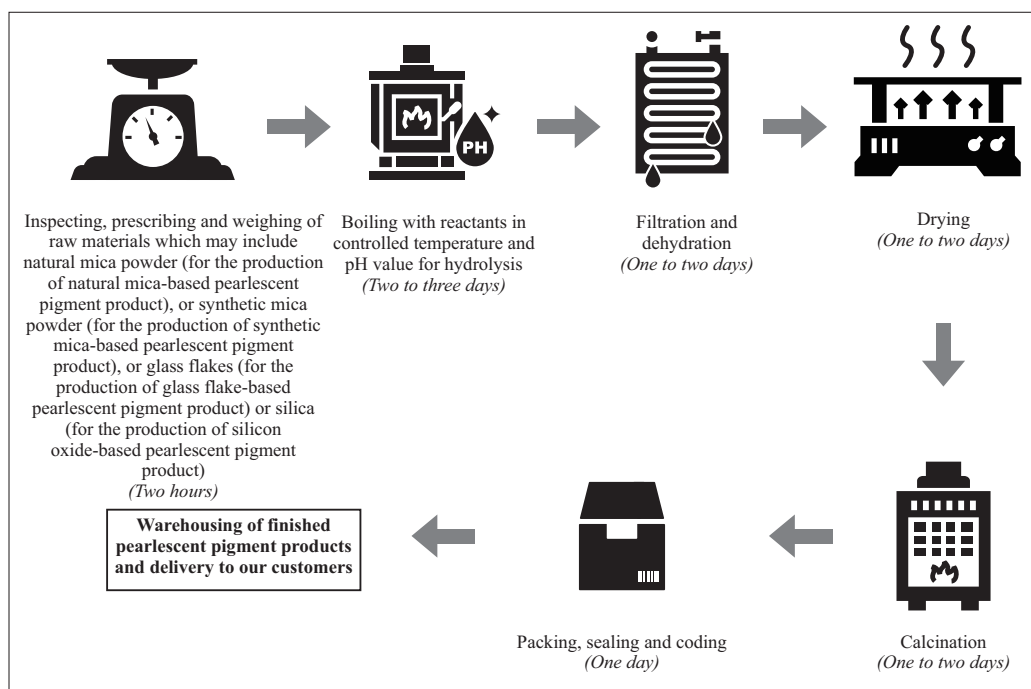
Our production facilities in our Phase 1 Production Plant are designed in a way as to allow concurrent running of our production facilities and processing facilities. Hence, the bottleneck of the entire production process lies in the processing and production of work-in-progress products of natural mica powder, synthetic mica powder and processed glass flakes.

BUSINESS

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:

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 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 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.

BUSINESS

Filtration and dehydration

Subsequent to the hydrolysis process, the acidic compounds are washed and neutralised with deionized 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.

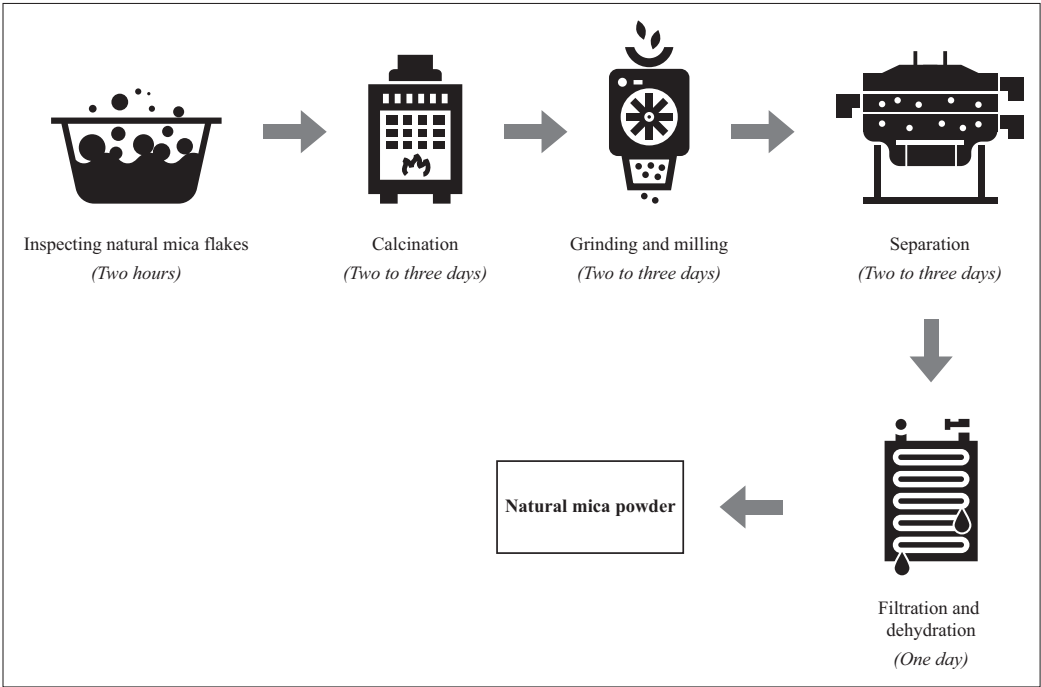
BUSINESS

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 oxidized impurities. The calcined natural mica flakes are then soaked in water for removal of surface impurities.

BUSINESS

Grinding and milling

Soaked natural mica flakes are put to 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

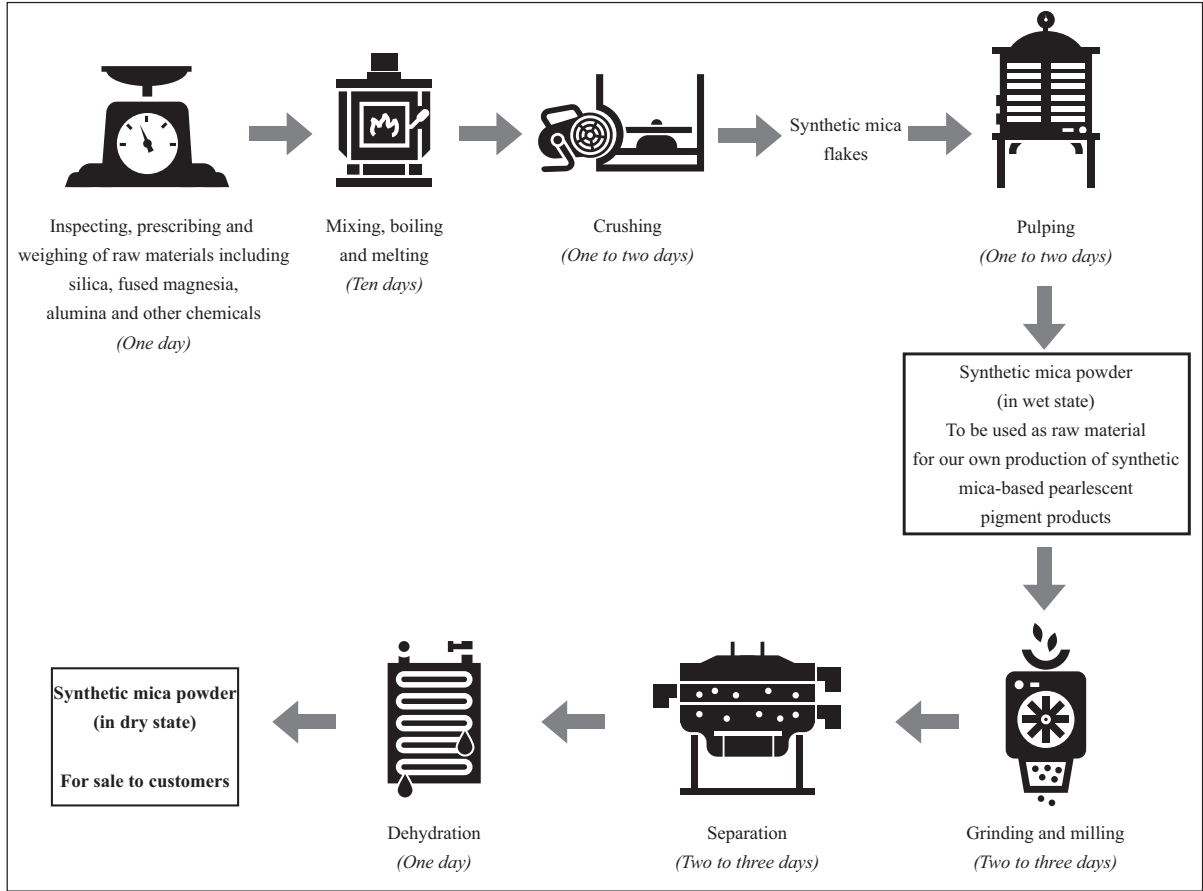
Grinded natural mica particles are sorted by sedimentation according to particle sizes into different types of natural mica powder, which are then added with additives for surface activation treatment.

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.



BUSINESS

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.

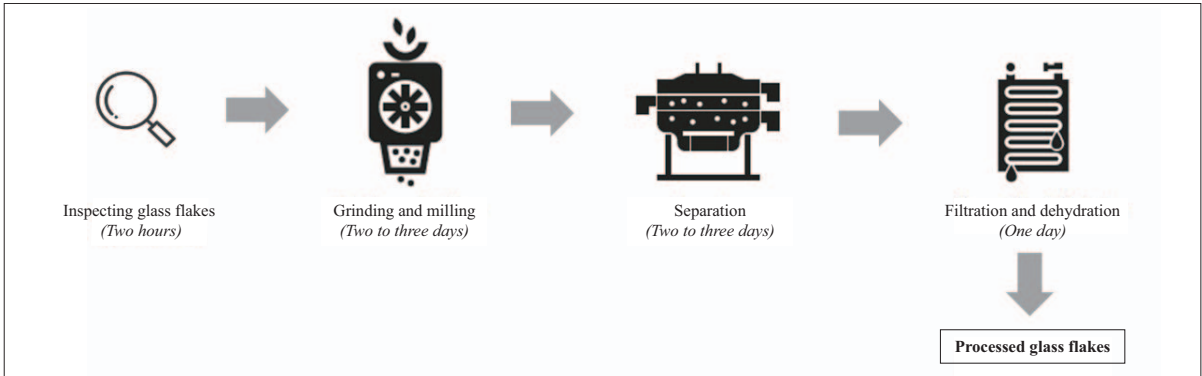
Dehydration

The synthetic mica powder undergoes further dehydration to form synthetic mica powder (in dry state).

BUSINESS

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. We ensure 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 the glass flakes 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.

BUSINESS

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 7,968 tonnes for the year ended 31 December 2017 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 three years ended 31 December 2019. The designed production capacity of pearlescent pigment products and synthetic mica powder recorded 9,456 tonnes and 5,616 tonnes, respectively, for the nine months ended 30 September 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 [REDACTED] from the [REDACTED] for the purpose. See the sections headed “Future Plans and [REDACTED] — Construction of our Phase 2 Production Plant” and “— Construction of our Luzhai Synthetic Mica Plant” in this document for further information.

Major plant and machinery

We have made significant investments in our plant and machinery. We own all plant and machinery used in our production and processing. Some of our plant and machinery are specifically built for our production and processing requirements, whether for specific functions, or to achieve better product quality and cost efficiency. We also endeavour to keep abreast of the 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 [REDACTED]” in this document, for material replacement of our major plant and processing machinery.

Our major plant and machinery generally have useful lives of around 20 years and such useful lives 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 procedures and guidelines for the operation, management and maintenance of our plant and machinery. We carry out regular inspections on our plant and machinery for regular repairs and maintenance. During the three years ended 31 December 2019, the average scheduled downtime for maintenance and repair of each of our production facilities was 30 days. Manufacturers of our 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 17 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.

BUSINESS

Our Phase 1 Production Plant operates on 24 hours every 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	37	14,715	2014-2016	15 years
Calciner (煅燒窯) . .		Calcination		8	13,002	2014-2018	14 years
Calcination rotary kiln (煅燒回轉窯) . .	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	17 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	15 years
Grinding mill (碾磨機).		Grinding		8	9,504	2015-2020	14 years

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 three years ended 31 December 2019 and the nine months ended 30 September 2020 were 52.1%, 68.2%, 84.6%, and 85.9%, 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:

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 in a given year or 273 days during the nine-month period. 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/period. No annualisation adjustment has been made for the nine-month period stated.
- (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 7,968 tonnes for the year ended 31 December 2017 to 10,464 tonnes for the year ended 31 December 2018, primarily due to (a) the installation and commencement of operation of two calcination furnaces in November 2017; and (b) upgrade of two existing calcination furnaces. The designed annual production capacity of pearlescent pigment products further increased 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 actual production volume of pearlescent pigment products increased from 5,447 tonnes for the year ended 31 December 2017 to 8,809 tonnes for the year ended 31 December 2018 and further increased 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 9,816 tonnes of pearlescent pigment products for the nine months ended 30 September 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 68.4% for the year ended 31 December 2017 to 87.4% for the year ended 31 December 2019. Such improvement was generally consistent with the increase in our actual production volume of pearlescent pigment products during the corresponding years. The utilisation rate was more than 100% for the nine months ended 30 September 2020 as only 25 days were spent on the annual maintenance of the relevant production facilities during the nine months ended 30 September 2020.

Production of synthetic mica powder

Our designed annual production capacity of synthetic mica powder had remained stable during the three years ended 31 December 2019. The designed production capacity increased from 4,752 tonnes for the year ended 31 December 2019 to 5,616 tonnes for the nine months ended 30 September 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 1,175 tonnes for the year ended 31 December 2017 to 1,564 tonnes for the year ended 31 December 2018 and further increased to 3,653 tonnes for the year ended 31 December 2019. 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

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2018, which was used for the processing of synthetic mica flakes to produce synthetic mica powder in 2019. We had actual production volume of 3,136 tonnes of synthetic mica powder for the nine months ended 30 September 2020, for use as raw material for our own production of synthetic mica-based pearlescent products and sales to our customers.

The utilisation rate of our facilities for the production of synthetic mica powder improved from 24.7% for the year ended 31 December 2017 to 32.9% during the year ended 31 December 2018 and further to 76.9% for the year ended 31 December 2019. Such increases in utilisation rate were generally consistent with the increases in the production volume of synthetic mica flakes. The utilisation rate for the production of synthetic mica powder decreased to 55.8% for the nine months ended 30 September 2020 was due to the increase in our designed annual production capacity as a result of our reallocation of four grinding machines previously used for the processing of natural mica flakes.

Processing of natural mica flakes to form natural mica powder

The designed annual processing capacity of natural mica flakes to form natural mica powder increased from 9,072 tonnes for the year ended 31 December 2017 to 14,256 tonnes for the year ended 31 December 2018. Such increase was mainly due to the commencement of operation of six additional natural mica grinding machines in September 2017. The designed annual processing capacity 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 nine months ended 30 September 2020.

The utilisation rate of our facilities for the processing of natural mica flakes into natural mica powder improved from 50.4% for the year ended 31 December 2017 to 68.2% for the nine month ended 30 September 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 2019 and the nine months ended 30 September 2020.

The actual production volume of synthetic mica flakes increased from 1,099 tonnes for the year ended 31 December 2017 to 2,097 tonnes for the year ended 31 December 2018 and further increased to 3,519 tonnes for the year ended 31 December 2019. The actual production volume of synthetic mica flakes was 3,589 tonnes for the nine months ended 30 September 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 two years ended 31 December 2018, primarily due to the gradual growth in demand for our synthetic mica-based pearlescent pigment products. The utilisation rates of our production facilities for the

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production of synthetic mica flakes increased to 69.7% during the year ended 31 December 2019 and to 97.7% during the nine months ended 30 September 2020 due to our increased production volume of synthetic-mica based pearlescent pigment products in response to increased demand for the products.

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 (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>

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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 (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	
	Quantity of purchase	Average unit purchase cost	Quantity of purchase	Average unit purchase cost	Quantity of purchase	Average unit purchase cost	Quantity of purchase	Average unit purchase cost	Quantity of purchase	Average unit purchase cost
	(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)
Natural mica flakes	3,982	3.68	10,086	3.87	9,985	4.10	7,640	4.09	9,187	3.96
Titanium tetrachloride . .	5,262	5.03	7,660	6.67	10,025	7.00	7,822	6.94	8,644	6.44

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 RMB3,680 and RMB4,100 per tonne.

The table below sets forth an analysis of our purchase cost of natural mica flakes during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Years ended 31 December						Nine months ended 30 September			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
PRC	866	5.9	23,145	59.3	14,343	35.0	11,746.	37.6	24,968	68.6
India.	13,770	94.1	15,905	40.7	26,587	65.0	19,483	62.4	11,418	31.4
Total	<u>14,636</u>	<u>100.0</u>	<u>39,050</u>	<u>100.0</u>	<u>40,930</u>	<u>100.0</u>	<u>31,229</u>	<u>100.0</u>	<u>36,386</u>	<u>100.0</u>

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

	Years ended 31 December						Nine months ended 30 September			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Fused magnesia.	2,214	42.0	5,569	53.2	9,773	52.1	5,464	41.6	8,347	45.8
Calcium carbonate	2,202	41.8	3,480	33.2	4,943	26.4	4,626	35.3	4,308	23.6
Glass flakes.	265	5.0	254	2.4	2,003	10.7	1,665	12.7	3,568	19.6
Silica	593	11.2	1,171	11.2	2,027	10.8	1,367	10.4	1,997	11.0
Total	<u>5,274</u>	<u>100.0</u>	<u>10,474</u>	<u>100.0</u>	<u>18,747</u>	<u>100.0</u>	<u>13,122</u>	<u>100.0</u>	<u>18,220</u>	<u>100.0</u>

Chemical raw materials

Titanium tetrachloride (TiCl₄)

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 RMB5,030 and RMB7,000 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.

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The table below sets forth an analysis of our purchase cost of other chemical raw materials during the Track Record Period (together with the comparative figures for the nine months ended 30 September 2019):

	Years ended 31 December						Nine months ended 30 September			
	2017		2018		2019		2019		2020	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Tin tetrachloride	5,287	46.2	5,871	34.1	8,491	32.8	8,330	37.1	12,449	39.6
Ferric chloride	2,286	20.0	3,212	18.7	6,529	25.2	6,430	28.6	5,122	16.3
Potassium fluorosilicate	1,604	14.0	3,057	17.8	4,428	17.1	2,616	11.6	4,639	14.8
Clarification agent	909	7.9	2,285	13.3	2,139	8.3	1,794	8.0	3,171	10.1
Other chemicals ⁽¹⁾	538	4.8	598	3.5	1,376	5.3	909	4.0	2,969	9.3
Alumina	457	4.0	1,237	7.2	1,044	4.0	629	2.8	1,151	3.7
Sodium hydroxide	104	0.9	158	0.9	1,185	4.6	1,174	5.2	1,083	3.4
Potassium carbonate	249	2.2	779	4.5	718	2.8	581	2.6	860	2.7
Total	11,436	100.0	17,196	100.0	25,911	100.0	22,464	100.0	31,441	100.0

Note:

- (1) Other chemicals include tetrasodium pyrophosphate decahydrate, organosilicon, sodium hydroxide, tin tetroxide, borax, ferric chloride, catalysts and other additives.

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 are imported from India and Australia, respectively. 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 our raw materials that would be sufficient for our production/processing requirement for 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 a significant price fluctuation or a 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.

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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 plants 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 will 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.

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 (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	%
PRC	49,531	78.2	110,530	87.4	139,524	84.0	110,322	85.0	141,795	92.4
India	13,770	21.8	15,905	12.6	26,587	16.0	19,483	15.0	11,418	7.4
Australia	—	—	—	—	—	—	—	—	285	0.2
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>

During the three years ended 31 December 2019, the cost of purchase from our suppliers in the PRC amounted to RMB49.5 million, RMB110.5 million and RMB139.5 million, respectively, representing 78.2%, 87.4% and 84.0%, respectively, of our total purchase. During the nine months ended 30 September 2020, the cost of purchase from our suppliers in the PRC amounted to RMB141.8 million and accounted for 92.4% of our total purchase, as compared to RMB110.3 million and 85.0% for the nine months ended 30 September 2019.

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During the three years ended 31 December 2019, the cost of purchase from our suppliers in India amounted to RMB13.8 million, RMB15.9 million and RMB26.6 million, respectively, representing 21.8%, 12.6% and 16.0%, respectively, of our total purchase. During the nine months ended 30 September 2020, the cost of purchase from our suppliers in the PRC amounted to RMB11.4 million and accounted for 7.4% of our total purchase, as compared to RMB19.5 million and 15.0% for the nine months ended 30 September 2019.

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 2017

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 J	7,077	11.2	Titanium tetrachloride	PRC	Manufacturer and supplier of chemical products, factory machines and equipment, and industrial parts with registered capital of RMB 150 million. ⁽¹⁾	60 days	3 ⁽³⁾
Supplier A	6,432	10.2	Titanium tetrachloride	PRC	Manufacturer and supplier of chemical products, synthetic mica products, and pearlescent materials with registered capital of RMB10 million. ⁽¹⁾	60 days	3
Supplier K	5,314	8.4	Natural mica flakes	India	Manufacturer and supplier of mica products established since 1953 with issued share capital of Indian Rupee 35,000 (equivalent to RMB 3,200). ⁽²⁾	60 days	4
Supplier D	4,000	6.3	Other chemical raw materials	PRC	Wholesale and retail of chemical products, chemical reagents, and glassware; provision of chemical equipment installation services with registered capital of RMB15 million. ⁽¹⁾	90 days	5
Supplier L	3,482	5.5	Titanium tetrachloride	PRC	Supplier of dangerous chemical products; import and export of goods with registered capital of RMB10 million. ⁽¹⁾	60 days	1 ⁽⁴⁾
Total	<u>26,304</u>	<u>41.6</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.
- (3) We have ceased to purchase from this supplier since January 2018 because of sourcing of titanium tetrachloride upon more favourable terms from another supplier.
- (4) We have ceased to purchase from this supplier since May 2018 because of sourcing of titanium tetrachloride upon more favourable terms from another supplier.

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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. ⁽¹⁾	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. ⁽¹⁾	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. ⁽¹⁾	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. ⁽²⁾	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. ⁽¹⁾	90 days	4
Total	<u>69,525</u>	<u>55.0</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. ⁽¹⁾	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. ⁽¹⁾	60 days	4
Supplier B	14,343	8.6	Natural mica flakes	PRC	Supplier of chemical products and raw materials; import and export of goods with registered capital of RMB5 million. ⁽¹⁾	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. ⁽¹⁾	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). ⁽²⁾	Nil	5
Total	<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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Nine months ended 30 September 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 A	26,108	17.0	Titanium tetrachloride	PRC	Manufacturer and supplier of chemical products, synthetic mica products, and pearlescent materials with registered capital of RMB10 million. ⁽¹⁾	60 days	3
Supplier B	24,968	16.2	Natural mica flakes	PRC	Import and export of goods including chemical products and raw materials with registered capital of RMB5 million. ⁽¹⁾	60 days	4
Supplier C	22,199	14.5	Titanium tetrachloride	PRC	Manufacturer and supplier of dangerous chemical products with registered capital of RMB1 million. ⁽¹⁾	60 days	4
Supplier D	7,752	5.1	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. ⁽¹⁾	90 days	5
Supplier E	5,985	3.9	Other chemical raw materials	PRC	Supplier of dangerous chemical products, factory machines and equipment, and goods with registered capital of RMB2 million. ⁽¹⁾	60 days	5
Total	<u>87,012</u>	<u>56.7</u>					

Note:

(1) Based on the information obtained from the National Enterprise Credit Information Publicity System.

During the three years ended 31 December 2019, the cost of purchase from our five largest suppliers amounted to RMB26.3 million, RMB69.5 million and RMB83.0 million, respectively, representing 41.6%, 55.0% and 49.9%, respectively, of our total purchase and the cost of purchase from our largest supplier amounted to RMB7.1 million, RMB25.9 million and RMB37.3 million, respectively, representing 11.2%, 20.5% and 22.5%, respectively, of our total purchase. During the nine months ended 30 September 2020, the cost of purchase from our five largest suppliers amounted to RMB87.0 million and accounted for 56.7% of our total purchase, and the cost of purchase from our largest suppliers amounted to RMB26.1 million and accounted for 17.0% of our total purchase.

BUSINESS

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 [REDACTED] 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 relevant and up-to-date knowledge in relation to quality control of the production process and product assessment.

As of 30 September 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.

BUSINESS

Quality control certification

Our quality control management system has been recognised with international quality management certifications. We received these certifications by way of on-site inspections by the independent accreditation bodies 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, we 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.

BUSINESS

Our production department and quality control department work together to formulate the management procedures for the inspection of production processes and also the inspection standard for ensuring 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 monitor and perform 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 the 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 the 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 in 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.

BUSINESS

Product return or refund policy

Our product return or refund policy is as follow:

- 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 our authorised re-sellers, we normally do not accept return of non-defective product unless the authorised re-sellers are in extreme financial difficulties, under which our customers will be required to bear the transportation cost and 2% of the contract sum as the 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 RMB0.3 million, 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 2017, 2018 and 2019 and 30 September 2020 is set forth in the section headed “Financial Information — Components of our current assets and current liabilities — Inventories” in this document. 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 a 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.

BUSINESS

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 [11] patents in the PRC and had also submitted [27] 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 VI to this document for additional information on our patents.

We place strong emphasis on research and development which is important to maintain our leading 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術研究中心), 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.

BUSINESS

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 content 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 application. 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 content, and also silicon-oxide based pearlescent pigment products and natural mica-based pearlescent pigment products, which contain low heavy metal content.

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.

BUSINESS

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.

BUSINESS

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.

BUSINESS

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 ⁽¹⁾	Provincial	Science and Technology Department of Guangxi Zhuang Autonomous Region (廣西壯族自治區科學技術廳)	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 ⁽¹⁾	Nil ⁽¹⁾
2.	May 2018	June 2018 — June 2020	Provincial	Science and Technology Department of Guangxi Zhuang Autonomous Region (廣西壯族自治區科學技術廳)	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

BUSINESS

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 (廣西壯族自治區科學技術廳)	Chesir Pearl and Guangxi Academy of Sciences (廣西科學院)	Research and development of key technology and industrialisation of weather-resistant pearlescent pigment products for automobiles (汽車專用耐氣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) Fulfil 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

BUSINESS

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 (廣西壯族自治區科學技術廳)	Chesir Pearl	Research and development of key technology for wet synthesis of $\text{KM}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$ crystal powder (濕法合成 $\text{KM}_3(\text{AlSi}_3\text{O}_{10})\text{F}_2$ 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) Fulfil 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; (iii) Submit two applications for invention patents; (iv) Recruit five technical specialists for 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	(i) Fulfil technical specifications of synthetic mica flakes; (ii) Provide solutions for production process of synthetic mica regarding its textures, segregation and stability on production mix and calcination	Nil ⁽²⁾

BUSINESS

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 (廣西壯族自治區工業和資訊化委員會)	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 ⁽³⁾	Nil ⁽³⁾
7.	October 2014	January 2015 — December 2015	Provincial	Science and Technology Department of Guangxi Zhuang Autonomous Region (Intellectual Property Office) (廣西壯族自治區科學技術廳(智慧財產權局))	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 key technology (合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

BUSINESS

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 (廣西壯族自治區工業和資訊化委員會)	Chesir Pearl	Research and development of key technology for the designed annual production of 300 tonnes of new pearl effect materials for 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 ⁽³⁾	Nil ⁽³⁾

Notes:

- (1) The research and development project is expected to be awarded to us and we are in the course of entering into an 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.

BUSINESS

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 (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) to carry out the research on the 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) 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 (湖北工業大學七色珠光新材料研發中心)	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

BUSINESS

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 (廣西大學產學研合作基地)	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 (廣西科技大學產學研合作基地)	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 (廣西科學院聯合實驗室)	Guangxi Academy of Sciences (廣西科學院)	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

BUSINESS

Staffing

As of 30 September 2020, we had 40 research and development team members in our research and development centre and 31 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 (馮中起先生), 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 align could with the market trend and development.

On 9 October 2016, we established our “Chesir Pearl School of Business (七色珠光商學院)” 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 a 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 three years ended 31 December 2019, our research and development expenditures amounted to RMB8.5 million, RMB10.7 million and RMB23.2 million, respectively. During the nine months ended 30 September 2020, we incurred product research and development expenditures of RMB16.6 million, as compared to RMB13.1 million during the nine months ended 30 September 2019. 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 4.5%, 3.4%, 5.3%, 4.1% and 4.1% of our total revenue for the three years ended 31 December 2019 and the nine months ended 30 September 2019 and 2020, 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.

BUSINESS

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 which are 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:

Members of our Group	Certificate/licence	Issuing authority	Date of issue	Expiry date
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	State Administration of Work Safety	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 technical director, 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 the 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) [11] patents in PRC; (b) [13] trademarks in the PRC; (c) one domain name in the PRC; (d) four software copyrights in the PRC; (e) [27] patent applications for registration in the PRC under review; and (f) one pending trademark application for registration in Hong Kong under review. See the paragraphs under “B. Further information about the business of our Group — 2. Intellectual property” in Appendix VI to this document 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 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 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
September 2020	High and New Technology Enterprise (高新技術企業)	Department of Science and Technology of Guangxi Zhuang Autonomous Region (廣西壯族自治區科技廳), Department of Finance of Guangxi Zhuang Autonomous Region (廣西壯族自治區財政廳), Guangxi Office of the State Administration of Taxation (廣西國家稅務局) and Guangxi Local Taxation Bureau (廣西地方稅務局)
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 (廣西壯族自治區工商業聯合會)
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 (廣西壯族自治區工商業聯合會)
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 (廣西壯族自治區工業和信息化廳) and Department of Finance of Guangxi Zhuang Autonomous Region (廣西壯族自治區財政廳)
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 (廣西壯族自治區工商業聯合會)

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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"> 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) 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) 	The commission of Guangxi Innovation Creation Exhibition and Trade Fair (廣西發明創造成果展覽交易會組織委員會)
December 2017	National Intellectual Property Superior Enterprises (國家知識產權優勢企業)	National Intellectual Property Administration (國家知識產權局)
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 (廣西壯族自治區科學技術廳)
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 (廣西壯族自治區工商行政管理局)
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 (廣西發明創造成果展覽交易會組織委員會)
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 (柳州市科學技術局)

BUSINESS

EMPLOYEES

As of 30 September 2020, we employed a total of 474 employees in the PRC. The table below sets forth the number of our employees by functions as of 30 September 2020:

Business functions	Number of employees as of 30 September 2020
Management	10
Human resources and office administration	44
Production	305
Sales and marketing	47
Research and development	40
Accounting and finance	16
Quality management	12
Total	474

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 three years ended 31 December 2019, we incurred total employee benefit expense of RMB38.4 million, RMB41.0 million and RMB48.9 million, respectively. During the nine months ended 30 September 2020, we incurred total employee benefit expense of RMB31.7 million, as compared to RMB31.6 million during the nine months ended 30 September 2019.

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. 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.

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.

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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.

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 V to this document 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.

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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 30 September 2020; and
- save and except for the disclosure set forth in Appendix IV to this document, 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 30 September 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 seven 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 of the buildings	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 a parcel 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.
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 142,172.3 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.

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No.	Location	Properties	Total site area	Total gross floor area of the buildings	Approved land usage	Term	Particulars of occupancy
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 2020. The total construction cost would be RMB48.0 million, of which we have settled RMB32.8 million as of 31 October 2020. In addition, we have incurred RMB333.6 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 IV to this document for further information.

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.

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Leased properties

As of the Latest Practicable Date, we leased one property in France and eight 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:

Location	Lessee	Lessor	Total gross floor area	Usage	Lease term
France					
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
PRC					
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 September 2020 to 28 February 2021
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 2020 to 4 March 2021
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 2020 to 13 May 2021
Venue No. 2-208, Dashihe Village Industrial Park, No. 17, Hecun Industrial 2nd Road, Panyu District, Guangzhou City, Guangdong Province	Chesir Pearl	Independent Third Party	300.0 sq.m.	Offices and product showroom	25 March 2020 to 24 March 2021

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Location	Lessee	Lessor	Total gross floor area	Usage	Lease term
Venue No. 1-202-10, Dashihe Village Industrial Park, No. 17, Hecun Industrial 2nd Road, Panyu District, Guangzhou City, Guangdong Province . . .	Chesir Pearl	Independent Third Party	60.0 sq.m.	Staff quarter	13 March 2020 to 12 March 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 2020 to 28 March 2021
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 three years ended 31 December 2019, the insurance premium paid by us amounted to RMB4.5 million, RMB5.2 million, and RMB6.3 million, respectively. During the nine months ended 30 September 2020, we paid insurance premium of RMB1.7 million, as compared to RMB4.8 million during the nine months ended 30 September 2019.

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 PROTECTION

Our production processes involve the discharge of waste water and solid waste and the use of various chemicals which requires proper care in storage and transportation. Our production activities in the PRC are therefore subject to national environmental laws and regulations in the PRC as well as environmental regulations promulgated by the relevant local government authorities. See the section headed “Applicable Laws and Regulations — Other laws — Environmental protection” in this document for further information.

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:

- conducting environmental impact assessments before the construction of production facilities and the commencement of commercial production;
- treatment of waste water generated from our production process in our sewage treatment plant before being discharged into the drainage network;
- recycling solid waste into clay brick;
- timely payment of pollutant discharge fees to the relevant governmental authorities; and
- we have been accredited with and operate in accordance with the standards represented by our GB/T24001-2016/ISO 14001:2015 (environmental management system) certification issued by China Quality Mark Certification Group. Our current certification is valid from 24 April 2018 through 22 September 2021.

Our expenses incurred for environmental protection during the three years ended 31 December 2019 was RMB1.9 million, RMB2.4 million and RMB4.2 million, respectively. During the nine months ended 30 September 2020, our expenses amounted to RMB3.0 million, as compared to RMB2.9 million during the nine months ended 30 September 2019. The increase in the environmental protection expenses during the year ended 31 December 2019 was mainly due to the depreciation charged to our environmental-related improvements of RMB1.2 million.

As advised by our PRC Legal Advisers, to the best of their knowledge, we have not been subject to any punishment as a result of a breach of the applicable environmental laws and regulations in the PRC and we have been in compliance in all material respects with applicable environmental laws during the Track Record Period, save for matters as disclosed in the paragraphs under “Non-compliance matters” below.

BUSINESS

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>As a result, NEEQ conducted a regulatory meeting (約見談話) with Chesir Pearl on 18 August 2015 and determined that the proceeds from the share issue was not used in a manner that was in full compliance with relevant regulatory guidelines.</p> <p>On 8 October 2015, Chesir Pearl received a letter of registration of new shares from NEEQ. China Securities Depository and Clearing Co., Ltd completed the registration of new shares on 5 November 2015.</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 System (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 the 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.</p> <p>As a result of the enhanced internal control policy, such non-compliance had not reoccurred for the share issuance of Chesir Pearl during 2019.</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 (國家稅務局鹿寨縣稅務局) for claiming of 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 (稅務行政處罰決定書) issued by Liuzhou City Taxation Bureau of State Administration of Taxation (國家稅務總局柳州市) 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 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 (中華人民共和國稅收徵收管理法), 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 rectification steps to be made within a fixed period of time.</p>	<p>As advised by our PRC Legal Advisers, other than the payment of the administrative penalty, there will be no other legal ramification as a result of the submission of claims of over-stated amount of input VAT.</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.	During the Track Record Period and up to the Latest Practicable Date, Chesir Pearl and Luzhai Chesir did not pay social insurance contributions in full and housing provident fund contributions in full for all of our employees as the payment basis of social insurance contributions and housing provident fund contributions of employees were not determined with reference to the actual salary level of employees as prescribed under the relevant PRC laws and regulations.	Failure to pay the social insurance contributions in full and make housing fund contributions in full occurred mainly due to administrative oversight of the handling person of the human resources department of Chesir Pearl.	<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 during the Track Record Period was RMB2.8 million, RMB3.1 million, RMB2.9 million and RMB0.4 million, respectively. The aggregate amount of housing provident fund contributions that we failed to make during the Track Record Period was RMB0.9 million, RMB0.9 million, RMB1.2 million and RMB0.9 million, respectively.</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 competent governmental authorities 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.</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 RMB13.3 million as of 30 September 2020 in respect of the non-compliances based on the likelihood of being fined as set forth above</p>
				<p>We had 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 undertake to adjust the payment of social insurance contributions and housing provident fund contributions according to the relevant PRC laws and regulations on the upcoming adjustable date. 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>

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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 eight properties with an aggregate gross floor area of 2,294.1 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 of 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 three leased properties with an aggregate gross floor area of 410.5 sq.m. Such properties are currently used by us offices, showroom 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 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 fine 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 amount of administrative penalty for the non-registration would be in the range between RMB9,000 to RMB90,000.</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> <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, product showroom and warehouse, and we could relocate our offices should the landlord required us to vacate the premises. Regard the lease within our Group, we has arranged the registration of the lease agreement.</p> <p>For the three 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 us and whether the leased properties are subject to mortgage or other encumbrances. The lease agreements are nevertheless 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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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, our trading company customers included companies and entities in countries like Russia, Tunisia, Serbia and Egypt, but the aggregate sales to these customers in each year/period was less than one per cent. of our revenue. Our Directors believe that such sales were immaterial to our business, and we have no intention to proactively expand our sales coverage to countries or territories which are subject to international sanctions programmes. Our Directors, having considered the advice to our Company from our legal advisers as to international sanctions law, is of the view that we did not violate any United Nations, United States, European Union and Australian sanctions.

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 [REDACTED], 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,

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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.

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 document 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 [REDACTED] on the Stock Exchange.

Prohibition on sales to customers in sanctioned countries

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.

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. 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.