This summary aims to give you an overview of the information contained in this prospectus. As the following is only a summary, it does not contain all the information that may be important to you. You should read the whole prospectus in its entirety before you decide whether to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this summary are defined in the section headed "Definitions" in this prospectus.

OVERVIEW

We principally engage in the design, manufacture and sales of papermaking felts under the brands of VANOV and Gobear. According to the Frost & Sullivan Report, we ranked fourth of the leading papermaking felts manufacturers in the PRC in 2020 in terms of revenue with an approximate market share of 5.8%. Papermaking felts are fabrics used in the papermaking machines for dewatering, pressing, forming and drying of paper in the papermaking process and are consumables with a replacement cycle of approximately 30 to 180 days. We provide comprehensive papermaking felts services to our customers, from conducting on-site visits and advising our customers on the types and specifications of papermaking felts, to sourcing suitable raw materials for our production, conducting quality control, delivering papermaking felts to customers and providing after-sales services.

We are qualified as high and new technology enterprise. As at the Latest Practicable Date, we had 99 patents registered in the PRC. For details of our intellectual property rights, please refer to the paragraph headed "Statutory and General Information — B. Further information about the business — 2. Intellectual property rights" in Appendix V to this prospectus.

Our papermaking felts can be categorised into five types according to the type of papermaking machines that the papermaking felts are applied to: packaging papermaking felts, specialty papermaking felts, printing papermaking felts, household papermaking felts and pulp papermaking felts. For the three years ended 31 December 2020 and the six months ended 30 June 2021, our revenue amounted to approximately RMB159.4 million, RMB167.3 million, RMB182.8 million and RMB76.5 million, respectively. The following table sets forth the breakdown of our revenue, sales volume, average selling price, gross profit and gross profit margin by type of papermaking felts during the Track Record Period:

	Year ended 31 December																	
	2018						2019						2020					
	RMB'000	*% of total revenue*	*Sales Volume (tonnes)*	*Average selling price (RMB per tonne)*	*Gross Profit (RMB'000)*	*Gross Profit Margin (%)*	*RMB'000*	*% of total revenue*	*Sales Volume (tonnes)*	*Average selling price (RMB per tonne)*	*Gross Profit (RMB'000)*	*Gross Profit Margin (%)*	*RMB'000*	*% of total revenue*	*Sales Volume (tonnes)*	*Average selling price (RMB per tonne)*	*Gross Profit (RMB'000)*	*Gross Profit Margin (%)*
Packaging papermaking felts	106,027	66.5	728.9	145,000	52,991	50.0	114,670	68.6	744.5	154,000	61,764	53.9	124,863	68.3	821.3	152,000	67,609	54.1
Specialty papermaking felts	25,755	16.2	169.0	152,000	13,580	52.7	26,951	16.1	168.5	160,000	15,178	56.3	32,090	17.6	191.8	167,000	18,674	58.2
Printing papermaking felts	14,859	9.3	130.8	114,000	6,147	41.4	11,451	6.8	93.3	123,000	5,272	46.0	10,732	5.9	87.0	123,000	4,996	46.6
Household papermaking felts	9,975	6.3	94.2	106,000	3,775	37.8	10,600	6.3	88.7	120,000	5,085	48.0	9,490	5.2	71.4	133,000	5,095	53.7
Pulp papermaking felts	2,740	1.7	19.0	144,000	1,391	50.8	3,642	2.2	22.5	162,000	2,030	55.7	5,584	3.0	31.8	176,000	3,245	58.1
Total	159,356	100.0	1,141.9	140,000	77,884	48.9	167,314	100.0	1,117.5	150,000	89,329	53.4	182,759	100.0	1,203.3	152,000	99,619	54.5

	Six months ended 30 June											
	2020						2021					
	RMB'000 (unaudited)	*% of total revenue*	*Sales Volume (tonnes)*	*Average selling price (RMB per tonne)*	*Gross Profit (RMB'000)*	*Gross Profit Margin (%)*	*RMB'000*	*% of total revenue*	*Sales Volume (tonnes)*	*Average selling price (RMB per tonne)*	*Gross Profit (RMB'000)*	*Gross Profit Margin (%)*
Packaging papermaking felts	44,017	66.5	292.0	151,000	23,114	52.5	52,661	68.8	348.4	151,000	27,390	52.0
Specialty papermaking felts	11,496	17.4	68.1	169,000	6,484	56.4	12,709	16.6	76.2	167,000	6,903	54.3
Printing papermaking felts	4,193	6.3	34.1	123,000	1,791	42.7	4,958	6.5	41.3	120,000	1,991	40.2
Household papermaking felts	4,225	6.4	32.3	131,000	2,161	51.1	4,364	5.7	36.4	120,000	1,914	43.9
Pulp papermaking felts	2,274	3.4	11.5	198,000	1,304	57.3	1,823	2.4	12.0	152,000	879	48.2
Total	66,205	100	438.0	151,000	34,854	52.6	76,515	100.0	514.3	149,000	39,077	51.1

Note:

The slightly higher sales volume than the actual production volume in 2018 was due to the sales of prior year inventories.

COMPETITIVE STRENGTHS

Our Directors believe that our success and potential growth are attributable to the following competitive strengths.

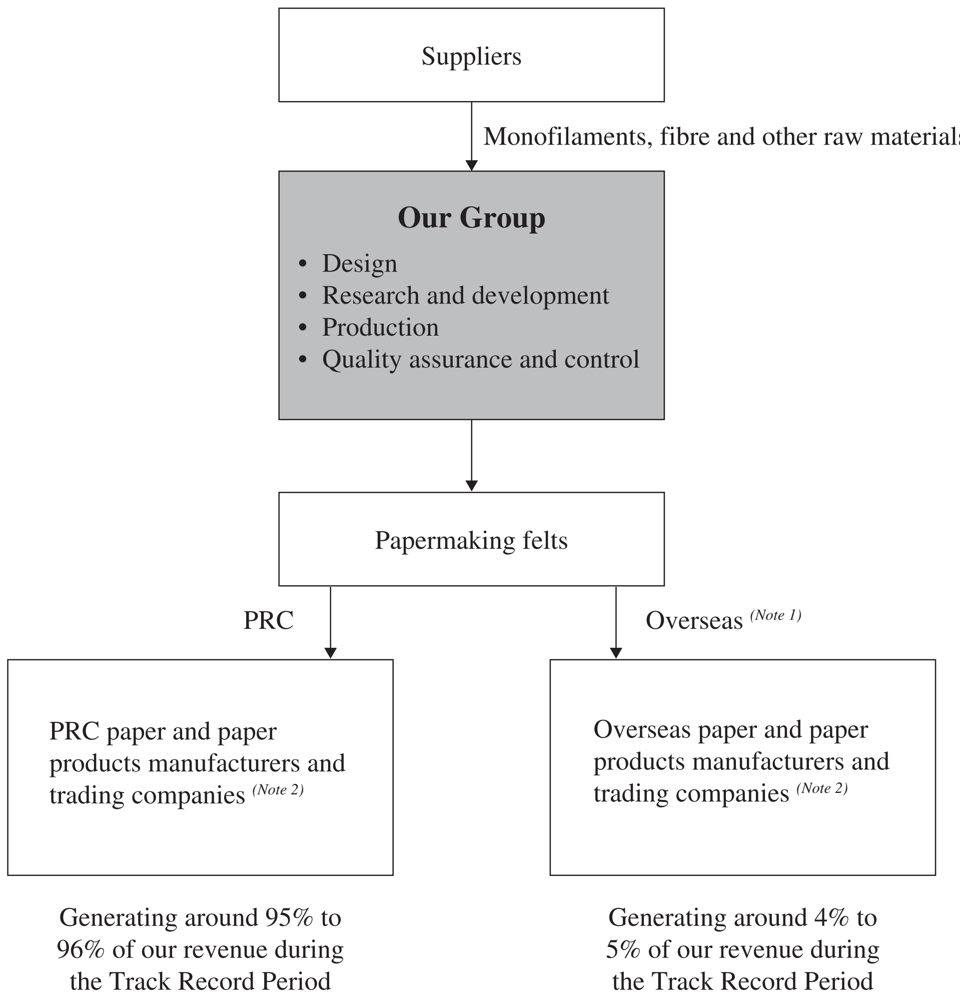
- We have research and development capabilities which enable us to enhance our customers' operational efficiency
- We have well-established reputation and proven track record in the papermaking felts manufacturing industry in the PRC with a long history of operation and brand recognition
- We have established strong business relationships with our key customers and suppliers
- We have a group of experienced and high calibre professional team led by a stable and dedicated management team

BUSINESS STRATEGIES

We plan to achieve our business objectives by expanding our production capacity, further strengthening our research and development capabilities, and pursuing strategic acquisitions.

OUR BUSINESS MODEL

The diagram below provides a simplified presentation of our business model:



Notes:

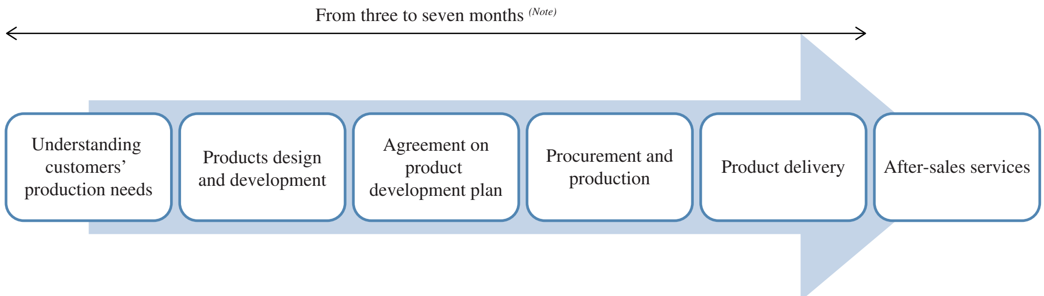
1. Overseas mainly include Singapore, Brazil, Pakistan, Colombia, India and Uzbekistan.

2. To the best knowledge of our Directors, the trading companies will further sell our products to third parties paper and paper products manufacturers overseas.

During the Track Record Period, we generally approach our customers directly, and to a much lesser extent, we engaged several independent service providers to provide services in relation to our customers' matters such as receiving purchase orders, handling export tax rebate applications, promoting our brands and identifying potential customers.

New customers

The following diagram illustrates our operation flow when we are engaged by our new customers:



Note: The time span from the receipt of a product request from our customers to the provision of after-sales services to our customers ranges from three to seven months. The actual duration for us to process a product request may vary from case to case depending on the type, quantity, customer's special requirement, complexity of the design of the papermaking felts, our production capacity and delivery location and schedule.

Existing customers

For recurring purchase orders received from our existing customers, adjustment on the product development plan previously agreed by them is generally not required because, as confirmed by our Directors, the same machinery is often used in our customers' production process for a certain period of time. Therefore, the time span from the receipt of a product request from our existing customers to the delivery of our products to them is normally shorter than that of our new customers.

OUR PRODUCTS

Our products are sold under our two brands, namely VANOV and Gobear, and can be classified into five categories according to the type of papermaking machines that the papermaking felts are applied to: packaging papermaking felts, specialty papermaking felts, printing papermaking felts, household papermaking felts and pulp papermaking felts. During the Track Record Period, based on the operating speed of the applicable papermaking machines, our papermaking felts can mainly be categorised into (i) high-speed papermaking felts; (ii) medium-speed papermaking felts; and (iii) low-speed papermaking felts. According to our Directors, high-speed papermaking felts are generally applied in papermaking machine with operating speed of 700 metres or above per minute for packaging papermaking felts and printing papermaking felts and 600 metres or above per minute for our other products; while low-speed papermaking felts are generally applied in papermaking machine with operating speed of 300 metres or below per minute for packaging papermaking felts and printing papermaking felts and 200 metres or below per minute for our other products. Medium-speed papermaking felts are generally applied in papermaking machine with operating speed other than high-speed and low-speed. The following table sets out a breakdown of our revenue, gross profit and gross profit margin of our papermaking felts during the Track Record Period based on the operating speed of the applicable papermaking machine:

	Year ended 31 December									Six months ended 30 June					
	2018			2019			2020			2020			2021		
	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin
	RMB '000	*RMB '000*	%	*RMB '000*	*RMB '000*	%	*RMB '000*	*RMB '000*	%	*RMB '000* (unaudited)	*RMB '000*	%	*RMB '000*	*RMB '000*	%
High-speed papermaking felts	31,770	19,709	62.0	39,093	25,772	65.9	54,952	36,208	65.9	18,338	11,964	65.2	23,709	15,184	64.0
Medium-speed papermaking felts	90,433	43,895	48.5	92,940	48,958	52.7	91,429	46,635	51.0	32,222	16,043	49.8	36,914	17,832	48.3
Low-speed papermaking felts	37,153	14,280	38.4	35,281	14,599	41.4	36,378	16,776	46.1	15,645	6,847	43.8	15,892	6,061	38.1
Total	159,356	77,884	48.9	167,314	89,329	53.4	182,759	99,619	54.5	66,205	34,854	52.6	76,515	39,077	51.1

PRODUCTION

As at 30 June 2021, we manufactured our products in our production facilities in Chengdu and Shanghai, the PRC, which together housed our major production machines with a total of eight production lines.

Chengdu Production Site

Our Chengdu Production Site was established in 2008 and is situated in Wenjiang District, Chengdu, Sichuan, the PRC. The effective utilisation rates of our Chengdu Production Site were approximately 92.7%, 88.9%, 92.1% and 83.8% for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively.

Shanghai Production Site

Our Shanghai Production Site is situated in Fengjing Town, Jinshan District, Shanghai, the PRC. We commenced our production in Shanghai Production Site after the acquisition of Shanghai Jinxiong in 2010. The effective utilisation rates of our Shanghai Production Site were approximately 99.6%, 103.3%, 97.3% and 83.5% for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. For the year ended 31 December 2019, the Shanghai Production Site recorded effective utilisation rate of over 100% because it had operated longer than our assumption that our key production facilities operate for 287 days for each calendar year.

Please refer to the paragraph headed “Business — Production” in this prospectus for more information.

OUR CUSTOMERS

Our customers are primarily paper and paper products manufacturers and trading companies, which can be categorised by geographical region, including: (i) PRC paper and paper products manufacturers and trading companies, from which we derived around 95% to 96% of our revenue during the Track Record Period; and (ii) overseas paper and paper products manufacturers and trading companies, from which we derived around 4% to 5% of our revenue during the Track Record Period. According to the Frost & Sullivan Report, nine out of the top ten papermaking companies in the PRC in 2020 are our Group’s customers. For the three years ended 31 December 2020 and the six months ended 30 June 2021, sales to our five largest customers amounted to approximately RMB25.5 million, RMB25.1 million, RMB27.8 million and RMB12.5 million, respectively, representing approximately 16.0%, 15.0%, 15.2% and 16.4% of our total revenue for the same periods, respectively, while sales to our largest customer in each year/period during the Track Record Period amounted to approximately RMB7.1 million, RMB5.8 million, RMB7.2 million and RMB3.2 million, respectively, representing approximately 4.5%, 3.5%, 3.9% and 4.1% of our total revenue for the same periods, respectively.

PRICING POLICY

Save for the long-term agreements, we generally determine the price of our products on an order-by-order basis and will set the unit prices of our products with reference to the market trends and price references set out in our pricing policy. We also take reference to the prices offered by our competitors and we may offer price adjustments on a case-by-case basis to enhance our competitiveness. We generally do not offer discounts to our customers under normal circumstances as the final quotations of our products are provided after revisions and negotiations with our customers, taking into consideration of the market trends, product requirements, supply and demand for comparable products and the price of the comparable products in the market.

OUR SUPPLIERS AND RAW MATERIALS

Our cost of sales consisted of raw materials, direct labour costs, manufacturing overhead, utilities, depreciation and provision for warranty. Monofilaments and fibre which are mainly made from nylon are our major raw materials. The following table sets forth a breakdown of our cost of sales during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2018		2019		2020		2020		2021	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Raw materials										
— Monofilaments	20,232	24.8	17,301	22.2	17,734	21.3	6,386	20.4	7,915	21.1
— Fibre	29,716	36.5	28,233	36.2	30,235	36.4	10,265	32.7	10,848	29.0
— Other raw materials	3,187	3.9	3,605	4.6	3,561	4.3	835	2.7	1,849	4.9
Direct labour costs	11,827	14.5	11,808	15.1	12,882	15.5	5,987	19.1	7,065	18.9
Manufacturing overhead	6,082	7.5	6,405	8.2	6,482	7.8	3,031	9.6	3,386	9.0
Utilities	3,436	4.2	3,625	4.7	3,679	4.4	1,721	5.5	2,092	5.6
Depreciation	3,876	4.8	4,645	6.0	4,639	5.6	2,310	7.4	2,270	6.1
Provision for warranty	3,116	3.8	2,363	3.0	3,928	4.7	816	2.6	2,013	5.4
Total	81,472	100.0	77,985	100.0	83,140	100.0	31,351	100.0	37,438	100.0

Our suppliers, who are mainly based in the PRC, provide us with raw materials, some of which were imported from Germany and Switzerland. For the three years ended 31 December 2020 and the six months ended 30 June 2021, the total purchases from our five largest suppliers amounted to approximately RMB45.1 million, RMB48.0 million, RMB49.8 million and RMB24.0 million, respectively, representing approximately 81.0%, 83.5%, 80.8% and 83.3% of our total purchase of raw materials for the same periods, respectively, while total purchases from our largest supplier amounted to approximately RMB24.3 million, RMB29.1 million, RMB30.8 million and RMB14.1 million, respectively, representing approximately 43.6%, 50.7%, 50.0% and 48.9% of our total purchase of raw materials for the same periods, respectively.

RESEARCH AND DEVELOPMENT

As at the Latest Practicable Date, we have established a dedicated research and development department comprising 15 staff, some of whom had over 10 years of experience in the production of papermaking felts. Our research and development facilitated the successful development and invention which were subsequently registered as patents. As at the Latest Practicable Date, we had registered 99 patents. Please refer to the paragraphs headed "Business — Research and development" and "Statutory and General Information — B. Further information about the business — 2. Intellectual property rights" in Appendix V to this prospectus for more information.

As advised by Frost & Sullivan, technology and market know-how serve as key barriers for new market entrants as paper and paper products manufacturers have shown a strong preference of sourcing from papermaking felts manufacturers with distinctive product development capability and technology in design and production of high-speed papermaking felts. For further details, please refer to "Industry Overview — Overview of papermaking felts manufacturing industry in the PRC — Market challenges and constraints" in this prospectus. We have around 14 years of experience in the papermaking felts manufacturing industry and we are committed to continuously innovate in industrial technologies within the papermaking felts manufacturing industry.

During the Track Record Period, we received government subsidies of approximately RMB5.9 million, RMB2.9 million, RMB3.5 million and RMB133,000 which represented subsidies from local governmental authorities for the purpose of supporting our operations, in particular, for the recognition of our research projects. Please refer to the paragraph headed "Financial Information — Discussion of major items from the consolidated statements of profit or loss and other comprehensive income — Other income" in this prospectus for more information.

COMPETITIVE LANDSCAPE

Overall, the papermaking felts manufacturing industry in the PRC is relatively concentrated comprising a limited number of market participants. According to Frost & Sullivan, there were approximately 20 notable local enterprises and approximately 10 foreign invested enterprises engaging in manufacturing and sale of papermaking felts in the PRC. Please refer to the paragraph headed "Industry Overview — Competitive landscape of papermaking felts manufacturing industry in the PRC" in this prospectus for further details of the competitive landscape of our business.

KEY FINANCIAL INFORMATION

The following table sets forth our key operational and financial data during the Track Record Period.

Summary of consolidated statements of profit or loss

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	159,356	167,314	182,759	66,205	76,515
Cost of sales	(81,472)	(77,985)	(83,140)	(31,351)	(37,438)
Gross profit	77,884	89,329	99,619	34,854	39,077
Other income	8,083	4,761	6,025	1,527	1,264
Selling and distribution expenses	(12,587)	(14,855)	(17,764)	(6,340)	(7,083)
Administrative and other operating expenses	(22,437)	(31,088)	(32,145)	(12,142)	(12,998)
Finance costs	(7,483)	(6,669)	(7,241)	(3,640)	(3,803)
Profit before income tax	43,460	41,478	48,494	14,259	16,457
Income tax expense	(6,254)	(6,401)	(7,481)	(2,747)	(2,171)
Profit and total comprehensive income for the year/period	37,206	35,077	41,013	11,512	14,286
Profit and total comprehensive income attributable to					
Equity holders of the Company	34,366	34,633	40,517	11,379	14,134
Non-controlling interest	2,840	444	496	133	152
	37,206	35,077	41,013	11,512	14,286

Non-HKFRS measures

We recognised non-recurring items such as listing expenses during the Track Record Period and therefore we also present the adjusted profit and total comprehensive income for the year, which is a non-HKFRS measure, to supplement our consolidated financial information which are presented in accordance with HKFRS.

We present such additional financial measure as it was used by our management to evaluate our financial performance by eliminating the impact of listing expenses, which are with one-off nature and were considered not indicative for evaluation of the actual performance of our business. Our Directors believe that such non-HKFRS measure provides additional information to investors and others in understanding and evaluating our results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

The following table sets forth our adjusted profit and the total comprehensive income for each respective year/period during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Profit for year/period	37,206	35,077	41,013	11,512	14,286
Add: Listing expenses	3,782	8,751	6,394	1,434	470
Adjusted profit and total comprehensive income for the year/period	40,988	43,828	47,407	12,946	14,756

Revenue

Our revenue increased from approximately RMB159.4 million for the year ended 31 December 2018 to approximately RMB167.3 million for the year ended 31 December 2019. This increase was mainly attributable to (i) the increase in revenue of our packaging papermaking felts by approximately RMB8.7 million or 8.2% from approximately RMB106.0 million for the year ended 31 December 2018 to approximately RMB114.7 million for the year ended 31 December 2019, mainly due to the increase in its average selling price from approximately RMB145,000 per tonne to approximately RMB154,000 per tonne; and (ii) the increase in revenue generated from the sales of our high-speed papermaking felts which generally command a relatively higher selling price during the period. Despite the decrease in our overall sales volume, our sales volume of high-speed papermaking felts increased which resulted in higher average selling price of our papermaking felts. According to the Frost & Sullivan Report, papermaking felts are commonly classified into high-speed, medium-speed and low-speed based on the operating speed of papermaking machine and high-quality papermaking felts are generally required for high-speed papermaking machine. The prices of medium-speed and high-speed papermaking felts are relatively higher as they are of better quality. As our Group has allocated more resources to focus on enhancing research and development and production capacity to produce high-speed papermaking felts, both our production volume and sales volume of high-speed papermaking felts increased.

Our revenue increased from approximately RMB167.3 million for the year ended 31 December 2019 to approximately RMB182.8 million for the year ended 31 December 2020. This increase was mainly attributable to (i) the increase in revenue generated from the sales of our high-speed papermaking felts which generally command a relatively higher selling price during the period; (ii) the increase in sales volume of high-speed papermaking felts from approximately 177.9 tonnes for the year ended 31 December 2019 to approximately 256.5 tonnes for the year ended 31 December 2020, as a result of the Group allocated more resources to focus on enhancing research and development and production capacity to produce high-speed papermaking felts; and (iii) the growing demand for packaging paper with the surge in e-commerce due to the change in consumption pattern of the public and bolstered the demand for packaging paper in the PRC, as a result of the COVID-19 outbreak.

Our revenue increased from approximately RMB66.2 million for the six months ended 30 June 2020 to approximately RMB76.5 million for the six months ended 30 June 2021. This increase was mainly attributable to (i) the increase in revenue of our packaging papermaking felts by approximately RMB8.7 million or 19.8% from approximately RMB44.0 million for the six months ended 30 June 2020 to approximately RMB52.7 million for the six months ended 30 June 2021, mainly due to the increase in its sales volume from approximately 292.0 tonnes to approximately 348.4 tonnes; (ii) the increase in revenue generated from the sales of our high-speed papermaking felts which generally command a relatively higher selling price during the period; and (iii) the growing demand for packaging paper with the surge in e-commerce due to the change in consumption pattern of the public which bolstered the demand for packaging paper in the PRC.

Gross profit and gross profit margin

During the Track Record Period, our overall gross profit and gross profit margin were affected by the following: (i) the type of products sold; (ii) costs of raw materials; (iii) the demand in paper industries and overall product's market trend; (iv) the prevailing market prices of products; and (v) the bargaining power of our customers.

Our overall gross profit increased from approximately RMB77.9 million for the year ended 31 December 2018 to approximately RMB89.3 million for the year ended 31 December 2019 mainly due to the combined effect of the increase in our revenue as a result of the reasons as discussed above, and the decrease in our cost of sales from approximately RMB81.5 million for the year ended 31 December 2018 to approximately RMB78.0 million for the year ended 31 December 2019. Our gross profit margin increased from approximately 48.9% for the year ended 31 December 2018 to approximately 53.4% for the year ended 31 December 2019 which was mainly due to the decrease in our cost of sales.

Our overall gross profit increased from approximately RMB89.3 million for the year ended 31 December 2019 to approximately RMB99.6 million for the year ended 31 December 2020, representing an increase of approximately RMB10.3 million or 11.5%. The increase in gross profit was mainly due to the increases in our revenue due to the reasons as discussed above. Our gross profit margin increased from approximately 53.4% for the year ended 31 December 2019 to approximately 54.5% for the year ended 31 December 2020 mainly due to the increase in the sale of our high speed papermaking felts which generally command a relatively higher selling price and factored in a higher profit margin.

Our overall gross profit increased from approximately RMB34.9 million for the six months ended 30 June 2020 to approximately RMB39.1 million for the six months ended 30 June 2021, representing an increase of approximately RMB4.2 million. The increase in gross profit was mainly due to the increases in our revenue during the same period as a result of the reasons as discussed above. Our gross profit margin slightly decreased for approximately 1.5% from approximately 52.6% for the six months ended 30 June 2020 to approximately 51.1% for the six months ended 30 June 2021 mainly due to (i) the decrease in the average selling prices of high-speed and low-speed papermaking felts during the same period as we provided competitive price to our existing customers in respect of our new types of papermaking felts products and new customers to attract them to purchase our products; and (ii) the temporary change in our product mix, especially the increase in sales of household papermaking felts and pulp papermaking felts with lower average selling prices, which is mainly attributable to (a) we provided competitive price to our existing customers in respect of our new types of household papermaking felts products and pulp papermaking felts products and new customers to attract them to purchase our product; and (b) as per the request of our existing customers on the specification, function and the raw material of our products, we offered more products to customers with lower selling price that were matching and fitting their production schedule in the first half of 2021 as compared to first half of 2020.

Profit and total comprehensive income for the year/period and net profit margin

Our profit and total comprehensive income for the year decreased from approximately RMB37.2 million for the year ended 31 December 2018 to approximately RMB35.1 million for the year ended 31 December 2019. Our net profit margin decreased from approximately 23.3% for the year ended 31 December 2018 to 21.0% for the year ended 31 December 2019. The decrease of the profit and total comprehensive income for the year and net profit margin were mainly due to the net effect of (i) the increase in gross profit and gross profit margin; (ii) the increase in selling and distribution expenses; and (iii) the increase in administrative and other operating expenses mainly because of the increase of listing expenses of approximately RMB5.0 million.

Our profit and total comprehensive income for the year increased from approximately RMB35.1 million for the year ended 31 December 2019 to approximately RMB41.0 million for the year ended 31 December 2020, representing an increase of approximately RMB5.9 million or

16.8% while our net profit margin increased from approximately 21.0% for the year ended 31 December 2019 to approximately 22.4% for the year ended 31 December 2020, which was mainly due to the increase in gross profit and gross profit margin.

Our profit and total comprehensive income for the period increased from approximately RMB11.5 million for the six months ended 30 June 2020 to approximately RMB14.3 million for the six months ended 30 June 2021, representing an increase of approximately RMB2.8 million or 24.3% while our net profit margin increased from approximately 17.4% for the six months ended 30 June 2020 to approximately 18.7% for the six months ended 30 June 2021.

Summary of the consolidated statements of financial position

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	119,238	118,557	155,437	200,855
Current assets	139,693	172,976	182,125	174,099
Current liabilities	170,832	168,129	171,118	176,383
Non-current liabilities	1,838	125	2,152	19,993
Net current (liabilities)/assets	(31,139)	4,847	11,007	(2,284)
Net assets	86,261	123,279	164,292	178,578
Non-controlling interests	7,612	1,383	1,879	2,031

Note: Represent amount less than RMB1,000.

We recorded net assets of approximately RMB86.3 million as at 31 December 2018, RMB123.3 million as at 31 December 2019, RMB164.3 million as at 31 December 2020 and RMB178.6 million as at 30 June 2021. Such increase was mainly due to the accumulation of net profits throughout the Track Record Period.

We recorded net current assets of approximately RMB4.8 million as at 31 December 2019 as compared to the net current liabilities of approximately RMB31.1 million as at 31 December 2018. Such change in net current assets was mainly due to the net effect of (i) the increase in cash and cash equivalents by approximately RMB13.6 million due to the net effect of the decrease of net cash used in investing activities of RMB20.1 million and the increase of net cash used in financing activities of RMB5.3 million for the year ended 31 December 2019; and (ii) increase of trade and other receivables by approximately RMB21.4 million mainly because of the higher revenue at the end of the year ended 31 December 2019 as compared to the year ended 31 December 2018, mainly due to the earlier Chinese New Year holidays in January 2020 when compared to the Chinese New Year holidays of 2019 in February, while our customers generally placed orders prior to the Chinese New Year holidays. It results in the increase of outstanding amount of trade receivables as at 31 December 2019 as we usually grant our customers a credit period of up to 180 day.

We recorded net current assets of approximately RMB11.0 million as at 31 December 2020 compared to that of approximately RMB4.8 million as at 31 December 2019. Such increase was mainly due to (i) the increase in trade and other receivables by approximately RMB12.2 million due to the increase in revenue; and (ii) the increase in cash and cash equivalents by approximately RMB1.3 million.

We recorded net current liabilities of approximately RMB2.3 million as at 30 June 2021 as compared to the net current assets of approximately RMB11.0 million as at 31 December 2020. Such change was mainly due to (i) the other borrowing of approximately RMB7.9 million which will be settled within one year incurred during the six months ended 30 June 2021, which was the sale and lease back obligation in relation to the acquisition of a set of production machinery under phase one of our production capacity expansion plan; and (ii) the additions to the property, plant and equipment of approximately RMB63.3 million, which was mainly for the construction costs of factory building two.

Notwithstanding the net current liabilities of approximately RMB2.3 million as at 30 June 2021, which is mainly arisen from our production capacity expansion plan as our Group has made significant capital expenditure in property, plant and equipment during the six months ended 30 June 2021, in order to improve the net current liabilities position and taking into account the following: (i) we recorded net cash generated from operating activities of approximately RMB45.5 million, RMB42.9 million, RMB54.6 million and RMB35.7 million for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively, and we expect to further improve our operating cash flow and net current liabilities position as a result of the enhancement of production capacity, in which our annual production capacity is expected to increase by approximately 150 tonnes upon completion of phase one of our production capacity expansion plan and increase by approximately 400 tonnes upon completion of phase two of our production capacity expansion plan; (ii) we have been able to refinance our short-term bank borrowings at maturity if needed, which we do not foresee any impediment in continuing to do so in the future, and we plan to obtain additional long-term financing facilities for working capital purposes and to finance our purchases of property, plant and equipment under our production capacity expansion plan; (iii) as at 30 June 2021, we had cash and cash equivalents of approximately RMB37.7 million and restricted bank deposit of approximately RMB1.0 million; and (iv) we expect to receive net proceeds from the Global Offering of approximately HK$90.6 million (equivalent of approximately RMB76.1 million) based on the low end of the Offer Price range set out in this prospectus and assuming the Over-allotment Option is not exercised, we believe that we are able to improve our net current liabilities position and possess sufficient working capital to meet our present requirements that is at least 12 months from the date of publication of this prospectus. Going forward, we believe our liquidity requirements will be satisfied by using funds from a combination of cash flows from operations, our cash and cash equivalents, bank borrowings and net proceeds from the Global Offering.

Intangible assets

Our intangible assets mainly included trademarks, computer software, capitalised development costs which arise from research and development costs in respect of papermaking felts production technique after relevant trial operation and inspection, and construction in progress which arise from research and development costs in respect of papermaking felts production technique before relevant trial operation and inspection, and amounted to approximately RMB39.9 million, RMB44.2 million, RMB51.1 million and RMB55.7 million as at 31 December 2018, 2019 and 2020 and 30 June 2021, respectively. During the Track Record Period, there were no impairment loss on our intangible assets incurred.

For details in relation to the risks associated with the intangible assets, please refer to paragraph headed "Risk Factors — We may incur impairment losses for intangible assets, which may adversely affect our results of operations" in this prospectus.

Summary of the consolidated statements of cash flows

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cash and cash equivalents at the beginning of the year/period	13,382	14,851	28,439	28,439	29,775
Operating cash flows before working capital changes	63,491	60,669	71,843	26,175	28,666
Change in working capital	(12,298)	(12,479)	(12,228)	939	11,459
Tax paid	(5,666)	(5,310)	(4,984)	(3,941)	(4,423)
Net cash generated from operating activities	45,527	42,880	54,631	23,173	35,702
Net cash used in investing activities	(28,258)	(8,191)	(38,247)	(8,581)	(19,964)
Net cash used in financing activities	(15,800)	(21,101)	(15,048)	(11,897)	(7,811)
Net increase in cash and cash equivalents	1,469	13,588	1,336	2,695	7,927
Cash and cash equivalents at the end of year/period	14,851	28,439	29,775	31,134	37,702

Key financial ratios

	Year ended or as at 31 December 2018	Year ended or as at 31 December 2019	Year ended or as at 31 December 2020	Six months ended or as at 30 June 2021
Revenue growth	N/A	5.0%	9.3%	15.6%
Net profit growth	N/A	(5.7)%	16.8%	24.3%
Gross profit margin	48.9%	53.4%	54.5%	51.1%
Net profit margin	23.3%	21.0%	22.4%	18.7%
Return on equity	43.7%	28.4%	24.9%	N/A *(Note 1)*
Return on total assets	14.4%	12.0%	12.1%	N/A *(Note 1)*
Current ratio	0.8 times	1.0 times	1.1 times	1.0 times
Quick ratio	0.7 times	1.0 times	1.0 times	0.9 times
Inventory turnover days	65.9 days	55.2 days	46.9 days	52.1 days
Trade receivables turnover days	174.9 days	198.1 days	209.7 days	257.8 days
Trade payables turnover days	81.7 days	94.0 days	86.3 days	86.5 days
Gearing ratio *(Note 2)*	145.9%	96.4%	71.8%	80.4%
Net debt to equity ratio	128.7%	73.3%	53.6%	59.3%
Interest coverage ratio	6.8 times	7.2 times	7.7 times	5.3 times

Notes:

1. The semi-annual number is not meaningful as it is not comparable to annual number.

2. Gearing ratio is calculated as total borrowings (including discounted bills financing, bank borrowings, other borrowing and lease liabilities) divided by the total equity as at the respective reporting dates.

Our trade receivables turnover days for each of the three years ended 31 December 2020 and the six months ended 30 June 2021 were approximately 174.9 days, 198.1 days, 209.7 days and 257.8 days, respectively. Our trade receivables turnover days were generally high during the Track Record Period as our revenue is subject to seasonal fluctuations. Our sales order during the months of January and September to December are generally higher than that of other months. In particular, our sales for the last quarter for each year during the three years ended 31 December 2020 represented approximately 34%, 42% and 42% of our total sales of the relevant year. Our trade receivables turnover days for the year ended 31 December 2020 increased to approximately 209.7 days mainly because of the higher revenue at the end of the year ended 31 December 2020 as compared to the year ended 31 December 2019, mainly due to the increase in revenue from approximately RMB167.3 million for the year ended 31 December 2019 to approximately RMB182.8 million for the year ended 31 December 2020. It results in the increase of outstanding amount of trade receivables as at 31 December 2020 as we usually grant our customers a credit period of up to 180 days. The trade receivables turnover days for the six months ended 30 June 2020 and 2021 remained relatively stable at approximately 264.8 days and 257.8 days respectively. The fluctuation of trade receivables turnover days of approximately 209.7 days for the year ended 31 December 2020 and approximately 257.8 days for the six months ended 30 June 2021 was mainly attributable to (a) the fact that more customers settled their trade receivables during the second half of the calendar year during the Track Record Period, therefore the trade receivables of approximately RMB106.9 million as at 30 June 2021 is at a similar level as compared to that of approximately RMB111.1 million as at 31 December 2020; and (b) our sales for the first half of the year is normally lower than that for the second half of the year due to the seasonal fluctuation as mentioned above. With such relatively higher level of trade receivables balance as at 30 June 2021 and relatively low level of revenue for the six months ended 30 June 2021, the trade receivables turnover days of approximately 257.8 days for the six months ended 30 June 2021 was therefore higher than that of approximately 209.7 days for the year ended 31 December 2020.

Our gearing ratio of approximately 145.9%, 96.4%, 71.8% and 80.4% during the Track Record Period was mainly due to the bank borrowings of RMB122.5 million, RMB117.0 million, RMB115.0 million and RMB115.0 million for each of the respective year/period, while our total equity was amounted to approximately RMB86.3 million, RMB123.3 million, RMB164.3 million and RMB178.6 million for each of the respective year/period. The bank borrowings were mainly for working capital in relation to our business operations.

LISTING EXPENSES

Our Directors estimate that the total amount of expenses in relation to the Listing is approximately RMB41.6 million (equivalent to approximately HK$49.5 million) based on an Offer Price of HK$1.33 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), of which (i) underwriting-related expenses, including underwriting commission and other expenses are approximately RMB8.1 million (equivalent to approximately HK$9.6 million) and (ii) non-underwriting-related expenses are approximately RMB33.5 million (equivalent to approximately HK$39.9 million), comprising (a) fees and expenses of legal advisers and accountants of approximately RMB17.2 million (equivalent to approximately HK$20.5 million) and (b) other fees and expenses, including sponsor fee, of approximately RMB16.3 million (equivalent to approximately HK$19.4 million). Out of the amount of approximately RMB41.6 million, approximately RMB14.2 million is directly attributable to the issue of the Listing and is expected to be accounted for as a deduction from equity upon Listing. The remaining amount of approximately RMB27.4 million, which cannot be so deducted, shall be charged to profit or loss. Of the approximately RMB27.4 million that shall be charged to profit or loss, approximately RMB19.4 million has been charged during the Track Record Period and approximately RMB8.0 million is expected to be incurred for the years ending 31 December 2021 and 2022. Expenses in relation to the Listing are non-recurring in nature. Our financial performance and results of operations for the years ending 31 December 2021 and 2022 will be adversely affected by the estimated expenses in relation to the Listing. Based on an Offer Price of HK$1.33 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), the gross proceeds of the

Global Offering are expected to be approximately HK$151.9 million (equivalent to approximately RMB127.6 million). The estimated expenses in relation to the Listing represents approximately 32.6% of the gross proceeds of the Global Offering.

DIVIDENDS

For the three years ended 31 December 2020 and the six months ended 30 June 2021, members of our Group declared dividends of approximately RMB20.0 million, nil, nil and nil, respectively. The RMB20.0 million dividends declared in the year ended 31 December 2018 were settled with funds generated from our business operations. The declaration and payment of future dividends will be subject to the decision of the Board having regard to various factors, including but not limited to our operation and financial performance, profitability, business development, prospects, capital requirements, and economic outlook. It is also subject to any applicable laws. The historical dividend payments may not be indicative of future dividend trends. We do not have any pre-determined dividend pay-out ratio.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Ms. Shen and Mr. Zhou, both being our Controlling Shareholders, are married to each other. Each of them has transferred their equity interest in our Group to, respectively, the SGL Trust and the ZJ Trust, two separate irrevocable discretionary trusts with Ms. Shen and Mr. Zhou being the respective beneficiary, while the children of Ms. Shen being beneficiaries of both the SGL Trust and ZJ Trust. Vistra Trust and Ms. Shen act as, respectively, the trustee and the protector for both trusts. On 31 December 2018, Ms. Shen, via Fame Attain, transferred 75% of the then entire issued share capital of our Company to Perfect Angle, a company incorporated in the BVI and wholly owned by Vistra Trust in its capacity as trustee. On even day, Mr. Zhou, via South Source, transferred 25% of the then entire issued share capital of our Company to Wonderful Advisor, a company incorporated in the BVI and wholly owned by Vistra Trust in its capacity as trustee.

Immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares to be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), our immediate Controlling Shareholders, Perfect Angle and Wonderful Advisor, will directly hold approximately 74.99% of the issued share capital of our Company. Accordingly, we consider Ms. Shen, Mr. Zhou, Perfect Angle, and Wonderful Advisor as our Controlling Shareholders for the purpose of the Listing Rules. Please refer to the sections headed "History, Reorganisation and Corporate Structure" and "Directors and Senior Management" in this prospectus for their backgrounds. Please refer to note 30 of the Accountants' Report set out in Appendix I to this prospectus for details of our related party transactions and the section headed "Connected Transactions" in this prospectus for details of our connected transactions.

PRE-IPO INVESTMENT

On 26 April 2019, a capital increase agreement was entered into between Chengdu Huanlong and Marvel Dragon, pursuant to which the registered capital of Sichuan Huanlong was increased and that Marvel Dragon subscribed for approximately 1.6% of the enlarged registered capital of Sichuan Huanlong. The capital contribution was settled by Marvel Dragon on 11 June 2019. Marvel Dragon was indirectly wholly owned by Mr. Leung at that time. Please refer to the paragraph headed "History, Reorganisation and Corporate Structure — Pre-IPO Investment" in this prospectus for more information.

FUTURE PLANS AND USE OF PROCEEDS

Based on an Offer Price of HK$1.33 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), the net proceeds of the Global Offering are expected to be approximately HK$102.4 million after deducting the underwriting fees and commissions and estimated total listing expenses and assuming that the Over-allotment Option is not exercised. Our Directors currently intend to apply such net proceeds in the following manner:

(i) approximately HK$41.0 million (equivalent to approximately RMB34.4 million) or 40.0% of the total net proceeds from the issue of new Shares under the Global Offering will be used to purchase machinery in order to upgrade our Shanghai Production Site and to upgrade the production lines of our Chengdu Production Site for phase two of our production capacity expansion plan.

(ii) approximately HK$20.5 million (equivalent to approximately RMB17.2 million) or 20.0% of the total net proceeds from the issue of new Shares under the Global Offering, will be used for strengthening our research and development capabilities.

(iii) approximately HK$10.2 million (equivalent to approximately RMB8.6 million) or 10.0% of the total net proceeds from the issue of new Shares under the Global Offering, will be used for pursuing strategic acquisitions.

(iv) approximately HK$20.5 million (equivalent to approximately RMB17.2 million) or 20.0% of the total net proceeds from the issue of new Shares under the Global Offering, will be used to reduce our indebtedness.

(v) the remaining amount of approximately HK$10.2 million (equivalent to approximately RMB8.6 million) or 10.0% of the net proceeds from the issue of new Shares under the Global Offering, will be used for our working capital and other general corporate purposes.

For details, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

OFFERING STATISTICS

	Based on an Offer Price of HK$1.10 per Offer Share, after Downward Offer Price Adjustment of 10%	**Based on the minimum Offer Price of HK$1.22 per Offer Share**	**Based on the maximum Offer Price of HK$1.44 per Offer Share**
Market capitalisation at Listing *(Note 1)*	HK$528,000,000	HK$585,600,000	HK$691,200,000
Number of Shares in issue after completion of the Global Offering and the Capitalisation Issue	480,000,000	480,000,000	480,000,000
Unaudited pro forma adjusted combined net tangible assets *(Note 2)*	HK$0.51 per Offer Share	HK$0.54 per Offer Share	HK$0.59 per Offer Share
Board lot	2,000	2,000	2,000

Notes:

1. The calculation of the market capitalisation of our Shares is based on 480,000,000 Shares in issue immediately after completion of the Global Offering but does not take into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option, or any Shares which may be allotted or repurchased by our Company pursuant to the issue mandate and the repurchase mandate.

2. The unaudited pro forma adjusted combined net tangible assets of our Group per share has been prepared with reference to certain estimation and adjustment. Please see the section headed "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus for further details.

LEGAL PROCEEDINGS AND COMPLIANCE

We were involved in certain legal proceeding and regulatory non-compliance incidents during the Track Record Period and up to the Latest Practicable Date. Please refer to the paragraph headed "Business — Legal proceedings and compliance" in this prospectus for more information.

RISK FACTORS

You should read the section headed "Risk Factors" in this prospectus carefully before you decide to invest in our Shares. The material risks relating to our businesses include the following:

- The demand for paper products and our papermaking felts may be affected by paperless and environmental-friendly initiatives

- We may not be able to sustain our growth by taking advantage of the expected growth in sales value and sales volume of papermaking felts in the PRC due to the high utilisation rates of our production facilities and our development and manufacturing capabilities may not be able to keep pace with our customers' demands

- We are exposed to credit risk of our customers and we may experience delays or defaults in our trade and other receivables

- We are subject to risks in relation to our intellectual property rights as we may not be able to adapt quickly to developments in the papermaking felts manufacturing industry and we may not be able to prevent others from misappropriating our intellectual properties

- We did not enter into long-term supply contracts with our suppliers and our production cost and schedule may be adversely affected if we fail to secure supply

- We are exposed to disruptions to the delivery of our products and raw materials

- We have limited control over the practice and manner of sales by our trading company customers and we may not have sufficient measures to minimise the risk of cannibalisation between our trading company customers and our Group and/or between our trading company customers and our direct customers and/or among our trading company customers

- We may from time to time become a party to litigation and other legal proceedings that may adversely affect us

- Our borrowing levels, net current liabilities and uncertainty in obtaining external financing could limit funds available to us for business purposes and increases in interest rates could materially affect our business, financial conditions and results of operations

- Disruptions, damages or destructions to our production facilities, machinery and equipment may materially and adversely affect our business, financial condition and results of operations

- Rising operating costs, including the costs of raw materials and direct labour costs, may increase our costs and reduce our profitability

- If we are unable to continue to receive government subsidies from local governmental authorities or quality for preferential income tax rates, our margins and profitability may be materially and adversely affected

- We may be subject to liability under, and may take expenditures to comply with environmental laws and regulations

- We may incur impairment losses for intangible assets, which may adversely affect our results of operations

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Subsequent to 30 June 2021, being the latest date of the consolidated financial information of our Group as set out in Appendix I to this prospectus and up to the Latest Practicable Date, we continued our focus on the design, manufacture and sales of papermaking felts. Our business model, revenue structure, cost structure, and the industry, market and regulatory environment in which we operate remained substantially unchanged since 30 June 2021 and up to the Latest Practicable Date.

Prospective investors should note that our financial results for the year ending 31 December 2021 will be materially and adversely affected by the non-recurring listing expenses described above and the decrease in government subsidies granted to us in relation to our research projects, which are non-recurring in nature. The financial results for the year ending 31 December 2021 may not be comparable to the financial performance of our Group in the past. Save as disclosed in the paragraphs headed "Recent development and no material adverse change" and "Listing expenses" in this section, our Directors confirm that, up to the date of this prospectus, there had been no material adverse change in our financial or trading position or prospects since 30 June 2021, being the date on which our latest audited combined financial information was prepared and there had been no event since 30 June 2021 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

Impact of outbreak of COVID-19 on our business

The outbreak of pneumonia-like illness named COVID-19 has been spreading globally. COVID-19 is highly infectious and has resulted in deaths in the PRC and other countries. On 30 January 2020, the World Health Organisation declared the outbreak of COVID-19 as a public health emergency of international concern and subsequently characterised COVID-19 as a pandemic on 11 March 2020. The PRC authorities have taken various measures, such as mandatory quarantine for residents and travelers, lockdown of certain cities and postponement of business units operation following the Chinese New Year holidays until mid of February 2020.

Since late July 2021, the delta variant of COVID-19 has recurred in several provinces across China (the "**Recurrence**"). Our Directors believe that, the Recurrence did not have any material impact on the Group's business operation and financial performance, mainly because (i) the Recurrence is far less severe in terms of the number of suspected or confirmed cases than the COVID-19 outbreak in early 2020; (ii) the Recurrence was effectively controlled thanks to the quick response of the relevant authorities, and substantially all of the Chinese cities had eased or lifted domestic travel restrictions and resumed normal social activities, work and production as at the Latest Practicable Date; and (iii) the government authorities, our customers and suppliers, and our Company have developed corresponding systems in response to COVID-19 to relieve its potential impact based on past experience.

Our Directors believe that, based on information as at the Latest Practicable Date, the impact of the COVID-19 outbreak on us was temporary and it would not result in any material disruption to our production and business operations in the long term due to the fact that (i) none of our production facilities are located in the cities or regions affected by lockdowns as at the Latest Practicable Date which would cause material operational disruption; (ii) most of our major customers are not from the cities or regions affected by lockdowns; (iii) our major suppliers are not located in the cities or regions affected by lockdowns, and we have not experienced any material difficulties in making procurement of materials as at the Latest Practicable Date; (iv) as at the Latest Practicable Date, none of our employees had failed to report duty as a result of the COVID-19 outbreak; (v) none of our customers who had placed orders with us before the outbreak of COVID-19 have cancelled their orders and we have been able to perform our contracts with our customers; (vi) based on information as at the Latest Practicable Date, there was no sign of deterioration in the outbreak of COVID-19 in the PRC; and (vii) according to the Frost & Sullivan Report, given that some paper products such as household and specialty papers are considered essential, the impact of COVID-19 outbreak in overseas markets on papermaking felts manufacturers in the PRC is expected to recover in a long term when the outbreak is effectively controlled.

Notwithstanding our business operation had been temporarily affected by the outbreak of COVID-19 in the first two months of 2020, our Group was able to achieve an overall growth in revenue for the year ended 31 December 2020 as compared to the year ended 31 December 2019. Notwithstanding that our gross profit margin decreased slightly in the six months ended 30 June 2021 as compared to the six months ended 30 June 2020, our overall revenue and gross profit increased from approximately RMB66.2 million and RMB34.9 million for the six months ended 30 June 2020 to approximately RMB76.5 million and RMB39.1 million for the six months ended 30 June 2021, respectively. Based on the aforesaid, our executive Directors consider that the outbreak of COVID-19 has not resulted in material adverse impact on our business, financial conditions, results of operations and growth prospects.

For further details on the impact of outbreak of COVID-19 on our business, please refer to the paragraph headed "Business — Health and workplace safety — Impact of outbreak of COVID-19 on our business" in this prospectus.

Progress of our production capacity expansion plan

In order to cater for the expected increasing demand in our high-speed papermaking felts, we have a three-phase production capacity expansion plan, of which we have commenced phase one in the fourth quarter of 2020 and completed this phase after the Track Record Period. Such phase one of our production capacity expansion plan involves the acquisition of a set of production machinery including carding machine, cross-forming machine, pre-needling machine, setting machine and other supplemental equipment for our Chengdu Production Site and was financed by internal resources and an other borrowing, in total of which was approximately RMB41.1 million and such amount has been capitalised as the fixed assets in the consolidated statements of financial position. For the details of our production capacity expansion plan, please refer to the paragraph headed "Business — Our business strategies — Expanding our production capacity" in this prospectus.

Implementation of the new electricity tariffs mechanism by the PRC government

Since September 2021, as affected by the control of national energy consumption and the shortage of coal, the three north-eastern provinces in PRC and some provinces in eastern PRC have experienced power restrictions, in particular, on reducing the production in the industries of chemicals, steels, non-ferrous metals and non-metallic building materials. The PRC government has further announced to implement a new electricity tariffs mechanism in October 2021.

Our Directors believe that the new electricity tariffs mechanism does not have any material impact on our production and operation due to: (i) our Group has not received any notice regarding the new electricity tariffs mechanism or electricity restriction; (ii) the operation of the two Production Sites of our Company have not been disrupted or affected by the new electricity tariffs mechanism; (iii) the monthly electricity consumption, electricity unit cost and expenses are relatively stable for our two Production Sites subsequent to the Track Record Period and up to the Latest Practicable Date; and (iv) our Chengdu Production Site is located in the Cross-Straits IT Industry Development Zone (海峽兩岸科技產業開發園) in Wenjiang District, and our Shanghai Production Site is located in the Zhangjiang High-tech Industrial Development Zone (張江高新科技產業開發區), and the industry which we operate in does not belong to the high-polluting and high-energy-consuming enterprises under the current draft energy control policy (《關於加強高耗能、高排放項目生態環境源頭防控的指導意見(徵求意見稿)》), in which our Directors believe that we are less likely to be affected by electricity tariffs mechanism or electricity restriction compared to those enterprises which are not located in industrial development zone and high-polluting and high-energy-consuming.

All our five largest suppliers accounting for approximately 80.8% to 83.3% of our total purchase of raw materials during the Track Record Period are all located in the PRC. Among our five largest suppliers, part of the raw materials was manufactured in their manufacturing plants in the PRC, while part of which are mainly sourced from overseas. We maintained close communication with our suppliers to understand the impact of the recent power shortage and new electricity tariffs mechanism on their business and operation, which those with sources from overseas remained unaffected. After the Track Record Period and up to the Latest Practicable Date, we had not received any notice from our suppliers informing us that the recent power shortage and new electricity tariffs mechanism has any negative impact on their business and operation and there was no interruption of the supply of raw materials by our suppliers to us.

In view of the above, our Directors are of the view that our operation has not been materially impacted by the implementation of the new electricity tariffs mechanism.

For the risks associated with the above, please refer to the paragraph headed "Risk Factors — Our operations may be interrupted by production difficulties due to mechanical failures or utility shortages or control" in this prospectus.