VANOV

VANOV HOLDINGS COMPANY LIMITED
環龍控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 2260

GLOBAL OFFERING

Sole Sponsor

民銀資本
CMBC CAPITAL HOLDINGS LIMITED

Sole Global Coordinator

民銀資本
CMBC CAPITAL HOLDINGS LIMITED

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

Vanov Holdings Company Limited
環龍控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares	:	**114,200,000 Shares (subject to the Over-allotment Option)**
Number of Hong Kong Public Offer Shares	:	**11,420,000 Shares (subject to reallocation)**
Number of International Placing Shares	:	**102,780,000 Shares (subject to reallocation and the Over-allotment Option)**
Offer Price (subject to a Downward Offer Price Adjustment)	:	**Not more than HK$1.44 per Offer Share and expected to be not less than HK$1.22 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027%, FRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund) (If the Offer Price is set at 10% below the bottom end of the indicative Offer Price range after making a Downward Offer Price Adjustment, the Offer Price will be HK$1.10 per Offer Share)**
Nominal Value	:	**HK$0.01 per Share**
Stock Code	:	**2260**

Sole Sponsor

民銀資本
CMBC CAPITAL HOLDINGS LIMITED

Sole Global Coordinator, Joint Bookrunner and Joint Lead Manager

民銀資本
CMBC CAPITAL HOLDINGS LIMITED

Other Joint Bookrunners and other Joint Lead Managers

農銀國際 ABC INTERNATIONAL
建银国际 CCB International
安信國際 ESSENCE INTERNATIONAL
光銀國際 CEB INTERNATIONAL
國信證券(香港) GUOSEN SECURITIES (HK)
光大证券 EVERBRIGHT SECURITIES
兴证国际 INDUSTRIAL SECURITIES INTERNATIONAL
利弗莫尔证券
華福國際 HUAFU INTERNATIONAL
軟庫中華 SBI China Capital
中國通海證券 CHINA TONGHAI SECURITIES
中泰國際 ZHONGTAI INTERNATIONAL

Other Joint Lead Managers

Forwin Securities Group 富榮證券集團
一盈證券有限公司 I WIN SECURITIES LTD.
中天證券 CHINA SKY SECURITIES
EDDID Eddid Securities and Futures 艾德證券期貨

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

The Offer Price is expected to be determined by agreement between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or around Monday, 3 January 2022, and in any event, not later than Tuesday, 4 January 2022. The Offer Price will be not more than HK$1.44 per Offer Share and is currently expected to be not less than HK$1.22 per Offer Share (subject to a reduction of up to 10% below the bottom end of the indicative Offer Price range through making a Downward Offer Price Adjustment as set out in the Prospectus). If the Offer Price is set after making a 10% Downward Offer Price Adjustment, the Offer Price will be HK$1.10 per Offer Share. Investors applying for Hong Kong Public Offer Shares must pay, on application, the maximum Offer Price of HK$1.44 per Offer Share, together with brokerage of 1%, SFC transaction levy of 0.0027%, FRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK$1.44 per Offer Share.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may extend or reduce the number of the Offer Shares and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, a notice of the reduction of the number of the Offer Shares and/or the indicative Offer Price range will be published on the websites of the Stock Exchange at ***www.hkexnews.hk*** and our Company at ***www.vanov.cn*** as soon as practicable but in any event, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Tuesday, 4 January 2022, the Global Offering will not proceed and will lapse.

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

Pursuant to certain provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Sole Global Coordinator (for itself and on behalf of the Underwriters) has the right in certain circumstances, in its absolute discretion, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the day on which dealings in the Shares first commence on the Stock Exchange. Further details of the terms of such provisions are set out in the paragraph headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

No information on any website forms part of this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged, or transferred within the United States or to, or for the account or benefit of, U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

ATTENTION

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the websites of the Stock Exchange at ***www.hkexnews.hk*** and our Company at ***www.vanov.cn***. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

29 December 2021

**IMPORTANT NOTICE TO INVESTORS:
FULLY ELECTRONIC APPLICATION PROCESS**

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the website of the Stock Exchange at *www.hkexnews.hk* under the "*HKEXnews > New Listings > New Listing Information*" section, and our website at *www.vanov.cn*. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

To apply for the Hong Kong Public Offer Shares, you may:

- apply online through the **White Form eIPO** service at ***www.eipo.com.hk***;
- apply through the **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:

1. instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf; or
2. (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (***https://ip.ccass.com***) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you have any question about the application for the Hong Kong Public Offer Shares, you may call the enquiry hotline of our Hong Kong Branch Share Registrar and **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited, both at +852 2862 8600 on the following dates:

Wednesday, 29 December 2021	**—**	**9:00 a.m. to 9:00 p.m.**
Thursday, 30 December 2021	**—**	**9:00 a.m. to 9:00 p.m.**
Friday, 31 December 2021	**—**	**9:00 a.m. to 9:00 p.m.**
Saturday, 1 January 2022	**—**	**9:00 a.m. to 6:00 p.m.**
Sunday, 2 January 2022	**—**	**9:00 a.m. to 6:00 p.m.**
Monday, 3 January 2022	**—**	**9:00 a.m. to 12:00 noon**

We will not provide any physical channels to accept any application for the Hong Kong Public Offer Shares by the public. The contents of the electronic version of this prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

If you are an **intermediary**, **broker** or **agent**, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

Please refer to the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus for further details of the procedures through which you can apply for the Hong Kong Public Offer Shares electronically.

Your application must be for a minimum of 2,000 Hong Kong Public Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Public Offer Shares applied for	Amount payable on application	No. of Hong Kong Public Offer Shares applied for	Amount payable on application	No. of Hong Kong Public Offer Shares applied for	Amount payable on application	No. of Hong Kong Public Offer Shares applied for	Amount payable on application
	HK$		*HK$*		*HK$*		*HK$*
2,000	2,909.02	40,000	58,180.53	350,000	509,079.57	2,500,000	3,636,282.60
4,000	5,818.06	50,000	72,725.65	400,000	581,805.21	3,000,000	4,363,539.12
6,000	8,727.07	60,000	87,270.78	450,000	654,530.87	3,500,000	5,090,795.64
8,000	11,636.11	70,000	101,815.91	500,000	727,256.52	4,000,000	5,818,052.16
10,000	14,545.13	80,000	116,361.04	600,000	872,707.83	4,500,000	6,545,308.68
12,000	17,454.16	90,000	130,906.17	700,000	1,018,159.13	5,000,000	7,272,565.20
14,000	20,363.18	100,000	145,451.31	800,000	1,163,610.43	5,710,000[1]	8,305,269.45
16,000	23,272.20	150,000	218,176.95	900,000	1,309,061.73		
18,000	26,181.24	200,000	290,902.61	1,000,000	1,454,513.04		
20,000	29,090.26	250,000	363,628.26	1,500,000	2,181,769.56		
30,000	43,635.39	300,000	436,353.91	2,000,000	2,909,026.08		

Note:

(1) Maximum number of Hong Kong Public Offer Shares you may apply for.

No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

*If there is any change in the following expected timetable of the Hong Kong Public Offering, our Company will issue a separate announcement on the websites of the Stock Exchange (**www.hkexnews.hk**) and of our Company (**www.vanov.cn**).*

Hong Kong Public Offering commences . . . . 9:00 a.m. on Wednesday, 29 December 2021

Latest time to complete electronic applications under the **White Form eIPO** service through the designated website at ***www.eipo.com.hk***[2] . . . . 11:30 a.m. on Monday, 3 January 2022

Application lists of the Hong Kong Public Offering open[3] . . . . 11:45 a.m. on Monday, 3 January 2022

Latest time to (a) complete payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s) and (b) give **electronic application instructions** to HKSCC[4] . . . . 12:00 noon on Monday, 3 January 2022

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Application lists of the Hong Kong Public Offering close[3] . . . 12:00 noon on Monday, 3 January 2022

Expected Price Determination Date[5]. . . . . Monday, 3 January 2022

Where applicable, announcement of the Offer Price being set below the bottom end of the indicative Offer Price range after making a Downward Offer Price Adjustment to be published (a) on the website of our Company at ***www.vanov.cn***[6] ; and (b) on the website of the Stock Exchange at ***www.hkexnews.hk*** on or before . . . . Monday, 3 January 2022

Irrespective of whether a Downward Offer Price Adjustment is made, the announcement of the final Offer Price, the indication of levels of interest in the International Placing, the level of applications in the Hong Kong Public Offering, the basis of allotment of the Hong Kong Public Offer Shares under the Hong Kong Public Offering and the number of Offer Shares reallocated, if any, between the Hong Kong Public Offering and the International Placing to be published (a) on the website of our Company at ***www.vanov.cn***[6]; and (b) on the website of the Stock Exchange at ***www.hkexnews.hk*** on or before. . . . . Monday, 10 January 2022

Announcement of results of allocations in the Hong Kong Public Offering (with successful applicants' identification documents numbers, where appropriate) to be available through a variety of channels as described in the paragraph headed "How to Apply for Hong Kong Public Offer Shares — 11. Publication of results" in this prospectus from. . . . . Monday, 10 January 2022

Results of allocations in the Hong Kong Public Offering will be available at ***www.iporesults.com.hk*** (alternatively: English ***https://www.eipo.com.hk/en/Allotment***; Chinese ***https://www.eipo.com.hk/zh-hk/Allotment***) with a "search by ID Number/Business Registration Number" function from . . . . 8:00 a.m. on Monday, 10 January 2022 to 12:00 midnight on Sunday, 16 January 2022

The allocation results telephone enquiry by calling +852 2862 8555 between. . . . . 9:00 a.m. and 6:00 p.m. from Monday, 10 January 2022 to Thursday, 13 January 2022

Despatch/Collection of share certificates or deposit of the share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before[7][9]. . . . . Monday, 10 January 2022

Despatch/Collection of **White Form** e-Refund payment instructions/refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the maximum Offer Price per Hong Kong Public Offer Share initially paid on application (if applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before[8][9]. . . . . Monday, 10 January 2022

Dealing in the Shares on the Stock Exchange expected to commence at 9:00 a.m. on . . . . Tuesday, 11 January 2022

Notes:

1. All times and dates refer to Hong Kong local times and dates except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering in this prospectus. If there is any change in this expected timetable, an announcement will be published on the websites of the Stock Exchange (***www.hkexnews.hk***) and of our Company (***www.vanov.cn***).

2. You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website at ***www.eipo.com.hk*** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

3. If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 3 January 2022, the application lists will not open and close on that day. Please refer to the paragraph headed "How to Apply for Hong Kong Public Offer Shares — 10. Effect of bad weather on the opening of the application lists" in this prospectus. If the application lists do not open and close on Monday, 3 January 2022, the dates mentioned in this section may be affected. A press announcement will be made by us in such event.

4. Applicants who apply for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the paragraph headed "How to Apply for Hong Kong Public Offer Shares — 6. Applying through **CCASS IPO** service" in this prospectus.

5. The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or around Monday, 3 January 2022 and in any event, not later than Tuesday, 4 January 2022. If, for any reason, the Offer Price is not agreed by Tuesday, 4 January 2022 between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

6. None of the information contained on any website forms part of this prospectus.

7. Share certificates will only become valid at 8:00 a.m. on the Listing Date provided that the Global Offering has become unconditional and the right of termination described in the paragraph headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination" has not been exercised. Investors who trade Shares on the basis of publicly available allocation details or prior to the receipt of Share certificates or the Share certificates becoming valid do so entirely at their own risk.

8. e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful application and also in respect of successful applications in the event that the final Offer Price is less than the initial price per Hong Kong Public Offer Share payable on application. Part of your Hong Kong identity card number/passport number or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

9. Applicants who have applied on **White Form eIPO** for 1,000,000 or more Hong Kong Public Offer Shares may collect any refund checks (where applicable) and/or share certificates in person from our Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, 10 January 2022 or such other date as notified by us as the date of despatch/collection of share certificates/e-Refund payment instructions/refund checks. Applicants being individuals who are eligible for personal collection may not authorise any other person to collect on their behalf. Individuals must produce evidence of identity acceptable to our Hong Kong Branch Share Registrar at the time of collection.

   Applicants who have applied for Hong Kong Public Offer Shares through **CCASS EIPO** service should refer to the paragraph headed "How to Apply for Hong Kong Public Offer Shares — 14. Despatch/collection of share certificates and refund monies — Personal collection — (ii) If you apply through **CCASS EIPO** service" in this prospectus for details.

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

   Share certificates (if applicable) and/or refund checks for applicants who have applied for less than 1,000,000 Hong Kong Public Offer Shares and any uncollected share certificates (if applicable) and/or refund checks will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

   Further information is set out in the paragraph headed "How to Apply for Hong Kong Public Offer Shares — 13. Refund of application monies" and "How to Apply for Hong Kong Public Offer Shares — 14. Despatch/collection of share certificates and refund monies" in this prospectus.

Share certificates will only become valid evidence of title provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms at any time prior to 8:00 a.m. on the Listing Date. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid evidence of title do so entirely at their own risk.

You should read carefully the sections headed "Underwriting", "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this prospectus for additional information regarding the Global Offering, including the conditions to the Global Offering, how to apply for the Hong Kong Public Offer Shares, the expected timetable, the effects of bad weather and/or extreme conditions and the despatch/collection of share certificates and refund of your application monies.

IMPORTANT NOTICE TO INVESTORS

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

You should rely only on the information contained in this prospectus to make your investment decision. Our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained nor not made in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors, employees, agents, representatives or professional advisers or any other person or party involved in the Global Offering. Information contained in our website, located at *www.vanov.cn*, does not form part of this prospectus.

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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.

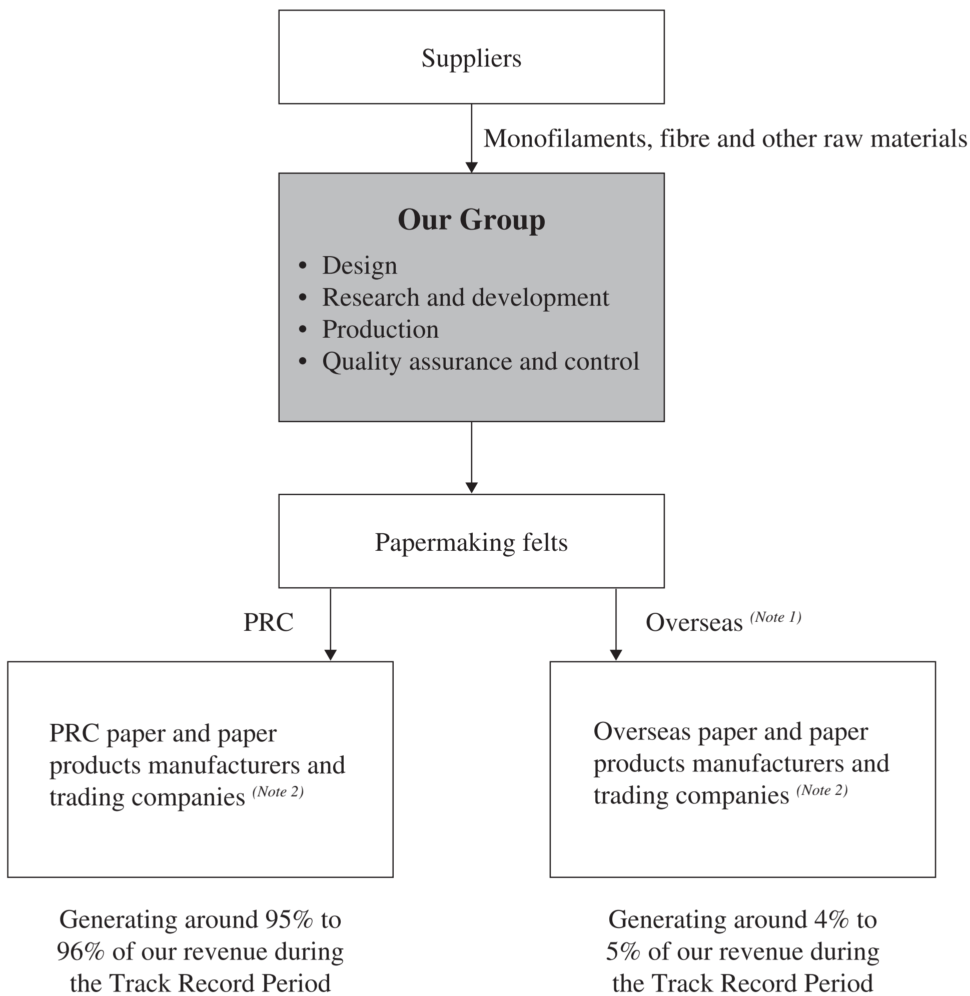
- We have research and development capabilities which enable us to enhance our customers' operational efficiency
- We have well-established reputation and proven track record in the papermaking felts manufacturing industry in the PRC with a long history of operation and brand recognition
- We have established 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:

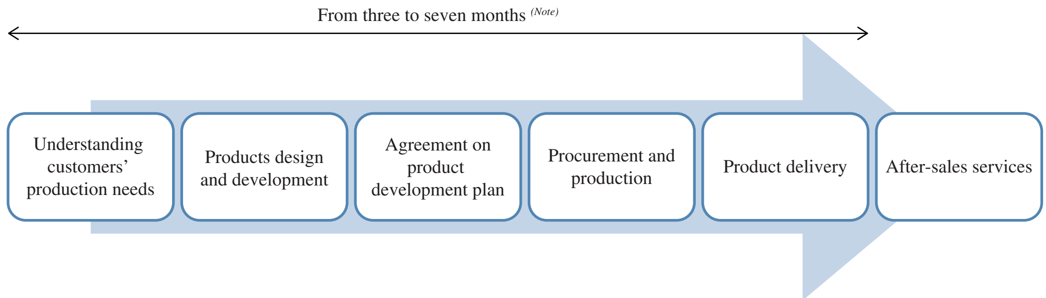
1. Overseas mainly include Singapore, Brazil, Pakistan, Colombia, India and Uzbekistan.

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.

In this prospectus, the following expressions shall have the meanings set out below, unless the context otherwise requires:

"Accountants' Report"	the accountants' report of our Group for the Track Record Period set out in Appendix I to this prospectus
"Articles of Association" or "Articles"	the amended and restated articles of association of our Company conditionally adopted on 22 December 2021, which will be effective upon the Listing and as amended from time to time, a summary of which is set out in Appendix IV to this prospectus
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of our Board
"Board"	the board of Directors
"business day"	a day on which banks in Hong Kong are generally open for normal banking business and which is not a Saturday, Sunday or public holiday in Hong Kong
"BVI"	the British Virgin Islands
"Capitalisation Issue"	the issue of 365,788,000 new Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company as detailed in the paragraph headed "Statutory and General Information — A. Further Information about Our Company — 3. Written resolutions of our Shareholders passed on 9 December 2021 and 22 December 2021" in Appendix V to this prospectus
"Companies Act"	the Companies Act, Cap. 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant(s)"	person(s) admitted to participate in CCASS as direct clearing participant(s) or general clearing participant(s)

"CCASS Custodian Participant(s)"	person(s) admitted to participate in CCASS as custodian participant(s)
"**CCASS EIPO**"	the application for the Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account through causing HKSCC Nominees to apply on your behalf, including by (i) instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf, or (ii) if you are an existing CCASS Investor Participant, giving **electronic application instructions** through the CCASS Internet System (***https://ip.ccass.com***) or through the CCASS Phone System (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Centre by completing an input request
"CCASS Investor Participant(s)"	person(s) admitted to participate in CCASS as investor participant(s) who may be individual(s) or joint individual(s) or corporation(s)
"CCASS Operational Procedures"	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
"CCASS Participant(s)"	CCASS Clearing Participant(s), CCASS Custodian Participant(s) or CCASS Investor Participant(s)

"Chengdu Huanlong"	Huanlong Industrial Group Co., Ltd.* (環龍工業集團有限公司), formerly known as Chengdu Huanlong Industrial Felt Group Co., Ltd.* (成都環龍工業用呢集團有限公司) and Chengdu Huanlong Industrial Felt Co., Ltd.* (成都環龍工業用呢有限責任公司), a company established in the PRC with limited liability on 10 December 2001, which is principally engaged in investment holding and the equity interest of which was held as to 75% by Ms. Shen and 25% by Mr. Zhou, respectively
"Chengdu Production Site"	our production base located at No. 519, Section 2, Xinhua Avenue, Chengdu Strait Science and Technology Industry Development Park, Wenjiang District, Chengdu, Sichuan Province, the PRC
"China" or "PRC"	the People's Republic of China, excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"ChiNext"	the growth enterprise board launched by the Shenzhen Stock Exchange
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Companies (Winding up and Miscellaneous Provisions) Ordinance"	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our", "our Company", "we" or "us"	Vanov Holdings Company Limited (環龍控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 5 November 2018 with the immediate former name of Vanov Technology Company Limited (環龍科技股份有限公司) and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 18 March 2020

"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"connected transactions"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholders"	has the meaning ascribed thereto in the Listing Rules and, unless the context otherwise requires, refers to Ms. Shen, Mr. Zhou, Perfect Angle and Wonderful Advisor; and "Controlling Shareholder" shall mean any one of them
"Countries subject to International Sanctions"	countries regarding which governments such as the United States or Australia, or governmental organisations, such as the European Union or the United Nations, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries
"COVID-19"	the novel coronavirus (2019-nCOV)
"Deed of Indemnity"	the deed of indemnity dated 9 December 2021 executed by Ms. Shen and Mr. Zhou in favour of our Company (for ourselves and as trustee for each member of our Group) to provide certain indemnities, particulars of which are set out in the paragraph headed "Statutory and General Information — E. Other information — 1. Tax and other indemnities" in Appendix V to this prospectus
"Deed of Non-Competition"	the deed of non-competition dated 9 December 2021 and executed by Ms. Shen and Mr. Zhou in favour of our Company, particulars of which are set out in the paragraph headed "Relationship with Controlling Shareholders — Non-competition undertakings" in this prospectus
"Director(s)"	the director(s) of our Company
"Downward Offer Price Adjustment"	an adjustment that has the effect of setting the final Offer Price up to 10% below the low end of the indicative Offer Price range

"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
"Fame Attain"	Fame Attain Limited (譽致有限公司), a company incorporated in the BVI with limited liability on 4 July 2018 and wholly-owned by Ms. Shen
"FRC"	Financial Reporting Council
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc. Shanghai Branch Co., an independent market research agency
"Frost & Sullivan Report"	a market research report commissioned by us and prepared by Frost & Sullivan on the overview of the industries in which our Group operates
"General Rules of CCASS"	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
"Global Offering"	the Hong Kong Public Offering and the International Placing
"**GREEN** Application Form(s)"	the application form(s) to be completed by **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited
"Group", "our Group", "we" or us"	our Company and its subsidiaries, or where the context refers to any time prior to our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company and the business operated by such subsidiaries or their predecessors (as the case may be)
"High Resource"	High Resource Holdings Limited (峻源控股有限公司), a company incorporated in the BVI with limited liability on 25 October 2018 and directly and wholly-owned by Mr. Leung

"high-speed papermaking felts"	the category of papermaking felts based on the operating speed of papermaking machine which, according to our Directors, generally refers to 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
"HKFRSs"	Hong Kong Financial Reporting Standards
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Branch Share Registrar"	Computershare Hong Kong Investor Services Limited, the branch share registrar and transfer office of our Company in Hong Kong
"Hong Kong dollars", "HK$" or "HKD"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong Public Offer Shares"	the 11,420,000 Shares being initially offered by our Company for subscription pursuant to the Hong Kong Public Offering, subject to reallocation as described in the section headed "Structure and Conditions of the Global Offering" in this prospectus
"Hong Kong Public Offering"	the offer for subscription of the Hong Kong Public Offer Shares to the public in Hong Kong at the Offer Price (plus brokerage fee of 1%, SFC transaction levy of 0.0027%, FRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.005%), payable in full on application, and subject to the terms and conditions described in this prospectus
"Hong Kong Underwriter(s)"	the underwriter(s) of the Hong Kong Public Offering whose names are set forth in the paragraph headed "Underwriting — Hong Kong Underwriters" in this prospectus

"Hong Kong Underwriting Agreement"	the conditional Hong Kong underwriting agreement dated 28 December 2021 relating to the Hong Kong Public Offering entered into by, among others, our Company, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters, particulars of which are summarised in the paragraph headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering" in this prospectus
"Huanlong Funeng"	Chengdu Huanlong Funeng Technology Co., Ltd* (成都環龍賦能科技有限公司), a company established in the PRC with limited liability on 28 February 2019 and an indirect wholly owned subsidiary of our Company, the equity interest of which is wholly owned by Vanov Tianhe
"Huanlong Lixin"	Chengdu Huanlong Lixin Technology Co., Ltd.* (成都環龍立欣科技有限公司), a company established in the PRC with limited liability on 27 March 2019 and an indirect non-wholly owned subsidiary of our Company, the equity interest of which is held as to 99% by Huanlong Funeng and 1% by Chengdu Huanlong, respectively
"Independent Third Party(ies)"	an individual(s) or a company(ies) who/which is/are not connected person(s) (as defined in the Listing Rules) of our Company
"International Placing"	the conditional placing of the International Placing Shares at the Offer Price to selected professional, institutional and other investors as set forth in the section headed "Structure and Conditions of the Global Offering" in this prospectus
"International Placing Agreement"	the conditional underwriting agreement relating to the International Placing expected to be entered into on or about the Price Determination Date by, among others, our Company, the Sole Sponsor, the Sole Global Coordinator and the International Underwriters, particulars of which are summarised in the section headed "Underwriting" in this prospectus

"International Placing Shares"	the 102,780,000 Shares being offered by our Company for subscription under the International Placing, subject to reallocation and the Over-allotment Option as described in the section headed "Structure and Conditions of the Global Offering" in this prospectus
"International Sanctions"	all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the U.S. Government, the European Union and its member states, the United Nations or the Government of Australia
"International Sanctions Legal Advisers"	Hogan Lovells, our legal advisers as to International Sanctions laws
"International Underwriters"	the underwriter(s) of the International Placing, who are expected to enter into the International Placing Agreement to underwrite the International Placing Shares
"Joint Bookrunners"	the joint bookrunners as named in the section headed "Directors and Parties Involved in the Global Offering" in this prospectus
"Joint Lead Managers"	the joint lead managers as named in the section headed "Directors and Parties Involved in the Global Offering" in this prospectus
"Latest Practicable Date"	19 December 2021, being the latest practicable date for the purpose of ascertaining certain information before the printing of this prospectus
"Lion Courage"	Lion Courage Enterprises Limited, a company incorporated in the BVI with limited liability on 23 October 2018 and a direct wholly-owned subsidiary of our Company
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange
"Listing Committee"	the Listing Committee of the Stock Exchange

"Listing Date"	the date, expected to be on or about Tuesday, 11 January 2022, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"low-speed papermaking felts"	the category of papermaking felts based on the operating speed of papermaking machine which, according to our Directors, generally refers to 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
"Main Board"	the stock exchange (excluding the options market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
"Marvel Dragon"	Marvel Dragon Development Limited (億龍發展有限公司), a limited liability company incorporated in Hong Kong on 6 July 2018 and an indirect wholly-owned subsidiary of our Company
"medium-speed papermaking felts"	the category of papermaking felts based on the operating speed of papermaking machine which, according to our Directors, is other than high-speed papermaking felts and low-speed papermaking felts
"Memorandum of Association" or "Memorandum"	the amended and restated memorandum of association of our Company conditionally adopted on 9 December 2021, which will be effective upon the Listing and as amended from time to time, a summary of which is contained in Appendix IV to this prospectus
"MOFCOM"	the Ministry of Commerce of the PRC (中華人民共和國商務部)
"Mr. Leung"	Mr. Leung Chee Hung Vincent (梁志雄先生), the Pre-IPO Investor of our Company

"Mr. Xie"	Mr. Xie Zongguo (謝宗國先生), an executive Director of our Company
"Mr. Zhou"	Mr. Zhou Jun (周駿先生), an executive Director, the chief executive officer of our Company, and a Controlling Shareholder, and the spouse of Ms. Shen
"Ms. Shen"	Ms. Shen Genlian (沈根蓮女士), the chairperson of the Board, an executive Director and a Controlling Shareholder, and the spouse of Mr. Zhou
"new Shares"	the new Shares to be offered by our Company under the Global Offering
"Nomination Committee"	the nomination committee of our Board
"NTD"	New Taiwan Dollars, the lawful currency of Taiwan
"OFAC"	the United States Department of Treasury's Office of Foreign Assets Control
"Offer Price"	the final offer price per Offer Share (exclusive of a brokerage fee of 1%, the SFC transaction levy of 0.0027%, the FRC transaction levy of 0.00015% and the Stock Exchange trading fee of 0.005%) of not more than HK$1.44 and expected to be not less than HK$1.22, to be determined in the manner described in the section headed "Structure and Conditions of the Global Offering" in this prospectus, subject to any Downward Offer Price Adjustment
"Offer Share(s)"	the Hong Kong Public Offer Share(s) and the International Placing Share(s), together where relevant, with any additional share(s) to be issued pursuant to the Over-allotment Option

"Over-allotment Option"	the option expected to be granted by our Company to the International Underwriters exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters), pursuant to which our Company may be required to allot and issue up to an aggregate of 17,130,000 additional new Shares at the Offer Price, to cover over-allocation in the International Placing, details of which are described in the paragraph headed "Structure and Conditions of the Global Offering — Over-allotment Option" in this prospectus
"Perfect Angle"	Perfect Angle Limited, a company with limited liability incorporated in the British Virgin Islands on 29 October 2018 and its entire issued share capital is held by Vistra Trust as trustee for the benefit of Ms. Shen and the children of Ms. Shen under the SGL Trust
"PRC Legal Advisers"	Beijing Dentons Law Offices, LLP
"Pre-IPO Investment"	the investment made by Mr. Leung (through Marvel Dragon, a wholly-owned subsidiary of Virtuous Way, which was a wholly-owned subsidiary of High Resource) at that time, the particulars of which are set out in the paragraph headed "History, Reorganisation and Corporate Structure — Pre-IPO investment" in this prospectus
"Pre-IPO Investor"	Mr. Leung
"Price Determination Agreement"	the agreement to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date to record the agreement on the final Offer Price
"Price Determination Date"	the date, expected to be on or around Monday, 3 January 2022 or such later date as may be agreed by us and the Sole Global Coordinator (for itself and on behalf of the Underwriters) but no later than Tuesday, 4 January 2022, on which the final Offer Price is to be fixed for the purpose of the Global Offering

"Primary Sanctioned Activity"	any activity in a Sanctioned Country or (i) with; or (ii) directly or indirectly benefiting, or involving the property or interests in property of, a Sanctioned Target by a listing applicant incorporated or located in a Relevant Jurisdiction or which otherwise has a nexus with such jurisdiction with respect to the relevant activity, such that it is subject to the relevant sanctions law or regulation
"Proposed PRC Listing"	the proposed listing of the equity interest in Sichuan Huanlong on ChiNext of the Shenzhen Stock Exchange in the PRC, which was considered in or around late 2017 and subsequently aborted in early 2018
"Regulation S"	Regulation S under the U.S. Securities Act
"Relevant Jurisdiction"	any jurisdiction that is relevant to the listing applicant and has sanctions related law or regulation restricting, among other things, its nationals and/or entities which are incorporated or located in that jurisdiction from directly or indirectly making assets or services available to or otherwise dealing in assets of certain countries, governments, persons or entities targeted by such law or regulation
"Relevant Person(s)"	means a listing applicant, together with its investors and shareholders and persons who might, directly or indirectly, be involved in permitting the listing, trading clearing and settlement of its shares including the Stock Exchange and related group companies
"Remuneration Committee"	the remuneration committee of our Board
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Reorganisation"	the reorganisation of our Group as set out in the section headed "History, Reorganisation and Corporate Structure" in this prospectus, pursuant to which our Company became the holding company of our subsidiaries
"Risk Management Committee"	the risk management committee of our Board

"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"Sanctioned Country"	any country or territory subject to a general and comprehensive export, import, financial or investment embargo under sanctions related law or regulation of the Relevant Jurisdiction. "Sanctioned Country" during the Track Record Period referred only to U.S. sanctions in place against Iran, Cuba, Syria, North Korea, and the Crimea region
"Sanctioned Person(s)"	certain person(s) and identity(ies) listed on OFAC's SDN List or other restricted parties lists maintained by the United States, European Union, United Nations or Australia
"Sanctioned Target"	any person or entity (i) designated on any list of targeted persons or entities issued under the sanctions-related law or regulation of a Relevant Jurisdiction; (ii) that is, or is owned or controlled by, a government of a Sanctioned Country; or (iii) that is the target of sanctions under the law or regulation of a Relevant Jurisdiction because of a relationship of ownership, control, or agency with a person or entity described in (i) or (ii)
"SDN List"	the list of specially designated nationals and blocked persons published and maintained by OFAC
"Secondary Sanctionable Activity"	certain activity by a listing applicant that may result in the imposition of sanctions against the Relevant Person(s) by a Relevant Jurisdiction (including designation as a Sanctioned Target or the imposition of penalties), even though the listing applicant is not incorporated or located in that Relevant Jurisdiction and does not otherwise have any nexus with that Relevant Jurisdiction
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

"S$" or "SGD"	Singapore dollars, the lawful currency of Singapore
"SGL Trust"	an irrevocable discretionary trust pursuant to a deed of settlement dated 24 December 2018 made between Fame Attain as the settlor on one part and Vistra Trust as the trustee on the other part
"Shanghai Jinxiong"	Shanghai Jinxiong Paper Making Net Carpet Co., Ltd.* (上海金熊造紙網毯有限公司), a company established in the PRC with limited liability on 31 October 2000 and an indirect non-wholly owned subsidiary of our Company, the equity interest of which is wholly owned by Sichuan Huanlong
"Shanghai Production Site"	our production base located at No. 78 Jian'an Road, Fengjing Town, Jinshan District, Shanghai, the PRC
"Share(s)"	ordinary share(s) in the share capital of our Company with a nominal value of HK$0.01 each
"Share Option Scheme"	the share option scheme our Company conditionally adopted on 9 December 2021, the principal terms of which are summarised in the paragraph headed "Statutory and General Information — D. Share Option Scheme" set out in Appendix V to this prospectus
"Shareholder(s)"	holder(s) of our Share(s)
"Sichuan Huanlong"	Sichuan Huanlong Technology Fabric Co., Ltd.* (四川環龍技術織物有限公司), a company established in the PRC with limited liability on 7 February 2007 and an indirect non-wholly owned subsidiary of our Company, the equity interest of which is held as to approximately 98.4% by Huanlong Lixin and approximately 1.6% by Marvel Dragon, respectively
"Sole Global Coordinator"	CMBC Securities Company Limited, a licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities

"Sole Sponsor"	CMBC International Capital Limited, a licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, acting as the sole sponsor of the Global Offering and an Independent Third Party
"South Source"	South Source Enterprises Limited (南源企業有限公司), a company incorporated in the BVI with limited liability on 3 October 2018 and wholly-owned by Mr. Zhou
"Stabilising Manager"	CMBC Securities Company Limited, a licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
"Stock Borrowing Agreement"	the stock borrowing agreement which may be entered into between Perfect Angle and the Stabilising Manager on or about the Price Determination Date
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto under the Listing Rules
"Substantial Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Takeovers Code"	The Code on Takeovers and Mergers issued by the SFC, as amended, modified and supplemented from time to time
"Track Record Period"	the period comprising the three financial years ended 31 December 2020 and the six months ended 30 June 2021
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. dollars", "US$" or "USD"	United States dollars, the lawful currency for the time being of the United States
"U.S. Securities Act"	the U.S. Securities Act of 1933, as amended from time to time and the rules and regulations promulgated thereunder
"Underwriters"	collectively, the Hong Kong Underwriters and the International Underwriters

"Underwriting Agreements"	collectively, the Hong Kong Underwriting Agreement and the International Placing Agreement
"Vanov Tianhe"	Vanov Tianhe International Holdings Limited (環龍天和國際控股有限公司), a limited liability company incorporated in Hong Kong on 30 November 2018 and an indirect wholly-owned subsidiary of our Company
"Virtuous Way"	Virtuous Way Limited (賢途有限公司), a company incorporated in the BVI with limited liability on 22 August 2018 and a direct wholly-owned subsidiary of our Company
"Vistra Trust"	Vistra Trust (Singapore) Pte. Limited is the trustee of both of the SGL Trust and ZJ Trust and holds 100% issued share capital of both of Perfect Angle and Wonderful Advisor in such capacity
"**White Form eIPO**"	the application for Hong Kong Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of **White Form eIPO** at ***www.eipo.com.hk***
"**White Form eIPO** Service Provider"	Computershare Hong Kong Investor Services Limited
"Withdrawal Mechanism"	a mechanism which requires the Company, among other things, to (a) issue a supplemental prospectus as a result of material changes in the information in the prospectus; (b) extend the offer period and to allow potential investors, if they so desire, to confirm their applications using an opt-in approach (i.e. requiring investors to positively confirm their applications for shares despite the changes)
"Wonderful Advisor"	Wonderful Advisor Limited, a company with limited liability incorporated in the British Virgin Islands on 30 October 2018 and its entire issued share capital is held by Vistra Trust as trustee for the benefit of Mr. Zhou and the children of Ms. Shen under the ZJ Trust

"Yongxing Shikang"	Ningbo Meishan Bonded Port Area Yongxing Shikang Investment Management Partnership (Limited Partnership)* (寧波梅山保稅港區永興世康投資管理合夥企業(有限合夥)), a partnership established in the PRC with limited liability on 25 December 2015 by Independent Third Parties
"ZJ Trust"	An irrevocable discretionary trust pursuant to a deed of settlement dated 24 December 2018 made between South Source as the settlor on one part and Vistra Trust as the trustee on the other part

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancy in any table between totals and sums of individual amounts listed in any table are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

The English translation of the original names in Chinese or another language of the nationals, entities, enterprises, organisations, institutions, government authorities, departments, facilities, awards, certificates, titles, laws and regulations concerned included in this prospectus which are marked with "" is for identification purpose only. To the extent that there is any inconsistency, the original names in Chinese or another language shall prevail.*

Unless expressly stated or the context otherwise requires, all data in this prospectus is as at the date of this prospectus.

Words importing the singular include, where applicable, the plural and vice versa. Words importing the masculine gender include, where applicable, the feminine and neuter genders.

"batt-on-mesh needled papermaking felts"	a type of papermaking felts comprising a bottom mesh layer made of piled monofilaments and multi-filament to provide support for the whole felt, as well as a fibrous layer made of nylon, polyester and staple fibre to transfer and press extra water
"CAGR"	compound annual growth rate, a method of assessing the average growth of a value over time
"dB(A)"	a unit of measurement used to express the ratio of one value to another and to approximate the human ear's response to sound
"g"	gram(s)
"ISO"	the International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
"ISO 14001"	the requirements set by ISO for assisting a company to continually improve its ability to efficiently identify minimise, prevent and manage environmental impacts
"ISO 9001"	the requirements set by ISO for quality management system where an organisation needs to demonstrate its ability to provide products that fulfil customer and applicable regulatory requirements and aim to enhance customers' satisfaction
"kWh"	the kilowatt hour, a unit of energy
"m"	metre(s)
"Multi-axial weaving"	a type of weaving technique with several layers of unidirectional threads which are stacked and oriented in predetermined directions, and the layers of fabrics are bound together to form a multi-axial structure

"OHSAS 18001"	the requirements for occupational health and safety management system developed for managing the occupational health and safety risks associated with a business
"Ring weaving"	a type of weaving technique to form weave with ring structure
"Seamless technology"	a type of weaving technique for production of papermaking felts without seams (i.e. a line between two pieces of fabrics where they are sewn together)
"sq. m."	square metre(s)
"Twill weaving"	a type of weaving technique with weft thread passing over each other or in a progression of interlacings to the right or left, to create a distinct diagonal pattern on weave
"Weaving"	a process of fabric formation through interlacing threads such as monofilaments and fibre
"%"	per cent

In addition to other information in this prospectus, you should carefully consider the following risk factors before making any investment decisions in relation to the Offer Shares. Any of the following risks may adversely affect our business, financial condition, results of operations and prospects, or otherwise cause a decrease in the trading price of the Offer Shares and cause you to lose all or part of the value of your investment. These risk factors are contingencies that may or may not occur, and we are not in a position to express a view on the likelihood of any such contingency occurring. The information given is as at the Latest Practicable Date, will not be updated thereafter, and is subject to the cautionary statements in the section headed "Forward-looking Statements" in this prospectus.

Our operational results are subject to several risk factors that can be categorised into the following areas: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Global Offering.

RISKS RELATING TO OUR BUSINESS

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

Paperless and environmental-friendly initiatives include, among others, limiting paper use, recycling and reusing. According to the Frost & Sullivan Report, the market demand for papermaking felt is associated with the demand for paper. As our business is in the upstream industry of the papermaking industry, the performance of which heavily relies on the demand of paper. Paperless and environmental-friendly initiatives may potentially decrease the demand for paper products, which in turn affect the demand for our papermaking felts. In order to upgrade green packaging standard system for the express delivery services, reduce packaging consumption and reduce environmental pollution, in July 2020, eight departments of PRC government issued Guiding Opinions on Strengthening the Standardisation of Green Packaging requirements for express delivery services * (關於加強快遞綠色包裝標準化工作的指導意見). Our revenue generated from packing papermaking felts amounted to approximately RMB106.0 million, RMB114.7 million, RMB124.9 million and RMB52.7 million, respectively, during the Track Record Period, representing approximately 66.5%, 68.6%, 68.3% and 68.8%, respectively, of our total revenue for the same period. Although the aforementioned guiding opinions are not directly affected the demand of our products, if the government issue further policies which reduce the demand of packaging paper, our business, financial performance and operations may be adversely affected. Further, according to the statistics stated in *The Almanac of China Paper Industry 2020 Edition*, issued by China Technical Association of Paper Industry, cultural paper (including the printing paper) accounted for 23.2% of the national paper and board consumption in 2019. Due to the increasing awareness of environmental protection and the development of digital technology, the demand for cultural paper (including the printing paper) is decreasing in the recent years and may be expected to decrease in the future. Our revenue generated from printing papermaking felts amounted to approximately RMB14.9 million, RMB11.5 million, RMB10.7 million and RMB5.0 million, respectively during the Track Record Period, representing approximately 9.3%, 6.8%, 5.9% and 6.5%, respectively, of our total revenue for the same period. Although the printing papermaking felts are not our dominant products and not our future development focus, if we are unable to increase the sales of our other products as expected, the decreasing trend of the demand of printing paper may affect our business, financial performance and operations. We are not able to assure you that the demand for paper and paper products, as well as papermaking felts will sustain if there is an increase in promotion of paperless and environmental-friendly initiatives or a decrease in the traditional paper media. There is also no assurance that paper products will not be replaced by products made from new technology and new materials that are environmental-friendly and in such situation our business, financial condition and results of operations may be adversely affected.

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

Our future growth and success will depend significantly on our ability to adapt quickly to developments in the papermaking felts manufacturing industry, in particular, our ability to adapt to changes in the demand for our products from our customers, which may require us to upgrade our production capabilities.

The overall average utilisation rates of our production facilities were approximately 95.9%, 95.3%, 94.6% and 83.6% for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. Our future growth may be adversely affected if we are not able to expand our production capacity in time to meet the growing demand for our products. As such, there is no assurance that we will be able to achieve or maintain similar level of growth in our revenue and profit and total comprehensive income in the future.

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

Our trade and other receivables as at 31 December 2018, 2019 and 2020 and 30 June 2021 were approximately RMB107.5 million, RMB128.9 million, RMB141.1 million and RMB123.8 million, respectively. Our loss allowance provision for the three years ended 31 December 2020 and the six months ended 30 June 2021 were approximately RMB1.4 million, RMB0.8 million, RMB1.5 million and RMB0.3 million, respectively.

Although some of our customers are required to settle payment before delivery of our products, the credit periods we granted to our customers were generally around 30 to 180 days. For the three years ended 31 December 2020 and the six months ended 30 June 2021, our trade receivables turnover days were approximately 174.9 days, 198.1 days, 209.7 days and 257.8 days, respectively. In the event that a significant number of our customers fail to settle the trade receivables in full for any reason, our cashflow level may be adversely affected, and we may have to make provision for impairment, write-off the receivables and/or incur legal costs to recover the outstanding sum from our customers, which may in turn have a material and adverse impact on our business, financial conditions and results of operations.

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

Our Directors believe that our intellectual property rights, including trademarks, patents and software copyrights, are crucial to our business as we operate in a sector where technological innovation and technical skills are vital for us to remain competitive. 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-sale services. Our Directors believe that our research and development team is crucial as it ensures quality and standard in our papermaking felts. As a result of our research and development capabilities, we apply our proprietary technical know-how in the innovation and development of our products, that allow us to understand our customers' needs and precise requirements of our papermaking felts based on our analysis on the data on our customers' papermaking machines collected during the provision of our services. Please refer to the section headed "Business" in this prospectus for more information.

Our future growth and success will depend significantly on our ability to adapt quickly to developments in the papermaking felts manufacturing industry. In particular, our success will depend on our ability to adapt our products to changes in product demands from our customers, which may require us to expand our research and development capabilities. Our failure to adapt to these changes could result in a loss of competitive advantage, for example, in the form of know-how of current production techniques, which may materially and adversely affect our business, financial conditions and results of operations.

Moreover, we may not be able to effectively protect our intellectual properties and prevent any unauthorised use. In the event that we resort to litigation to enforce our intellectual property rights, such litigation could result in substantial costs and a diversion of our managerial and financial resources. We can provide no assurance that we will prevail in such litigation. Any failure in protecting or enforcing our intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

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

During the Track Record Period, our five largest suppliers accounted for approximately 81.0%, 83.5%, 80.8% and 83.3% of our total purchase of raw materials, and purchases from our largest supplier accounted for approximately 43.6%, 50.7%, 50.0% and 48.9% of our total purchase of raw materials for the same periods, respectively.

We do not have long-term purchase commitments with our suppliers. There is no assurance that our suppliers will be able to supply the required raw materials to us in a timely manner or that they will not significantly increase the prices at the time of our purchase. There is also no assurance that our suppliers would be able to deliver to us the raw materials up to our required standard. In either case, our production schedule and business could be materially and adversely affected. In addition, we may not be able to secure alternative supplies of raw materials of similar quality from other suppliers at prices and terms acceptable to us. In such event, our business, financial condition and operating results may be materially and adversely affected.

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

We believe our success partly stems from the timely and accurate delivery of raw materials from our suppliers and our products to our customers. We deliver our finished goods to our customers through third party logistics service providers. For details, please refer to the paragraph headed “Business — Logistics” in this prospectus. There is no guarantee that our products and raw materials will be delivered smoothly and without delay. Disruptions to deliveries may be caused for reasons beyond our control, including but not limited to natural disasters, unfavourable weather conditions and labour strikes. If there is any prolonged disruption to the deliveries of raw materials from our suppliers, our production and deliveries to customers may be adversely affected. If our products are not delivered to our customers on time, or are damaged during the course of delivery, our reputation could be adversely affected.

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

Our customers mainly include: (i) PRC paper and paper products manufacturers and trading companies, from which we derived around 95% to 96% of our revenue; and (ii) overseas paper and paper products manufacturers and trading companies, from which we derived around 4% to 5% of our revenue. Our trading company customers will further sell our products to third parties paper and paper products manufacturers overseas. During the Track Record Period, our revenue generated from the PRC and overseas trading companies accounted for approximately 12.9%, 15.7%, 13.1% and 14.8% for the three years ended 31 December 2020 and the six months ended 30 June 2021 of our total revenue, respectively. Due to the number of our trading company customers and size of the market, it is difficult to monitor all aspects of our trading company customers' practices thoroughly and substantively, in particular the risks of channel-stuffing and cannibalisation. Moreover, we do not impose any geographical exclusivity to our customers, including those who are trading companies. As such, 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, which may adversely affect our direct sales business and the performance of our trading company customers.

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

As a result of our ordinary business operations, we may become a party to various litigation, legal proceedings, claims, disputes or arbitration proceedings from time to time. Any ongoing litigation, legal proceedings, claims, disputes or arbitration proceedings may distract our Group's attention and consume the time of our staff and other resources. Sichuan Huanlong, being the defendant, was involved in a claim in relation to the dispute on the construction of factory building two as set out in the paragraph headed "Business — Legal proceedings and compliance — Legal proceedings" in this prospectus. Based on the advice of our PRC Legal Advisers, our Directors estimated that the total potential claims payable to the claimant, being the previous constructor, is approximately RMB1.9 million, which included certain site preparation and construction works of approximately RMB0.6 million performed by the claimant (in which the amount have been recognised as part of the additions to the property, plant and equipment for the year ended 31 December 2020), and provision of legal claims of approximately RMB1.3 million recognised in profit or loss for the year ended 31 December 2020. The court made the first-instance judgment on 16 July 2021, according to which Sichuan Huanlong was liable to pay the claimant (i) construction fees in sum of approximately RMB0.7 million together with interest;

and (ii) damages in sum of approximately RMB1.3 million. As such, a further provision of legal claims of approximately RMB0.3 million recognised in profit or loss for the six months ended 30 June 2021 and approximately RMB2.2 million in aggregate was recorded as provision for legal claim in the statement of financial position of the Group as at 30 June 2021. No party had lodged an appeal to the court and Sichuan Huanlong settled the amount of approximately RMB2.1 million to the claimant according to the aforesaid judgement on 27 August 2021.

In addition, even if we ultimately succeed in such litigation, legal proceedings, claims, disputes or arbitration proceedings, there may be negative publicity attached to such litigation, legal proceedings, claims, disputes or arbitration proceedings, which could materially and adversely affect our reputation and brand. In addition, if any verdict is awarded against us, we could be required to pay significant monetary damages, assume significant liabilities or suspend or terminate the manufacturing of certain products. As a result, this may have a material adverse effect on our business, operations and prospects.

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

We have relied on cash generated from operations and bank borrowings to carry on our business, and we expect to continue to do so in the future. As at 31 December 2018, 2019 and 2020 and 30 June 2021, we had bank borrowings of approximately RMB122.5 million, RMB117.0 million, RMB115.0 million and RMB115.0 million, respectively, representing approximately 47.3%, 40.1%, 34.1% and 30.7% of our total assets for the same period, respectively. We may not be able to obtain bank loans or renew existing credit facilities in the future on favourable terms.

As at 31 December 2018 and 30 June 2021, our net current liabilities amounted to approximately RMB31.1 million and RMB2.3 million, respectively. Our indebtedness and net current liabilities could materially and adversely affect our liquidity. Our net current liabilities position exposes us to liquidity risks. Our future liquidity, the payment of trade and other payables and the repayment of our outstanding debt obligations as and when they become due will mainly depend on our ability to maintain adequate cash generated from operating activities and sufficient external financing. We cannot assure you that we will always be able to raise necessary funding to finance our current liabilities and other debt obligations and we may continue to have net current liabilities in the future. Our ability to arrange financing and the cost of such financing are dependent on the global and the PRC economic conditions, capital and debt market conditions, lending policies of the PRC government and banks, and other factors. In the event we are unable to obtain adequate financing to meet our working capital requirements, we may be forced to delay, adjust, reduce or abandon our planned strategies. Our business, prospects and financial condition may be materially and adversely affected if our cash flow and capital resources are insufficient to finance our debt obligations.

Furthermore, any fluctuation in interest rates will affect the amount of debt payments. If adequate funding is not available to us on favourable terms, we may not be able to fund our existing operations and develop or expand our business and therefore our business, financial conditions and results of operations may be materially and adversely affected.

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

The success of our business depends on, among other things, the continuing operations of our Chengdu Production Site and Shanghai Production Site at which our production facilities are located. The operations of our production facilities may be affected by various factors, such as: (i) fire, flood or power failure at our production facilities or the buildings adjacent to our production sites; (ii) breakdown of machinery and equipment at our production facilities; or (iii) scheduled maintenance of our machinery and equipment. The occurrence of any unanticipated or prolonged disruptions, damage or destruction to our production facilities and machinery and equipment may affect our ability to produce and deliver products to our customers in a timely manner. As a result, our business, financial condition and results of operations may be materially and adversely affected.

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

According to the Frost & Sullivan Report, the papermaking felts manufacturing industry relies heavily on professionals and talents for product development and production. We strive to invest in recruiting and retaining our experienced professionals. Our direct labour costs amounted to approximately RMB11.8 million, RMB11.8 million, RMB12.9 million and RMB7.1 million, accounting for approximately 14.5%, 15.1%, 15.5% and 18.9% of our cost of sales for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. According to the Frost & Sullivan Report, the average monthly salary of employed persons in the manufacturing industry witnessed a steady growth from approximately RMB3,892.8 in 2016 to approximately RMB5,232.6 in 2020, representing a CAGR of approximately 7.7%. A constant growth of direct labour costs within the market will lead to an increase in our costs of sales, which may materially and adversely affect our business, financial conditions and results of operations.

Nylon is the major raw material of monofilaments and fibre for production of papermaking felts. The import price of imported nylon monofilaments and fibre increased at a CAGR of approximately 3.0% during 2016 to 2020. On the other hand, the price of domestic nylon monofilament and fibre recorded a fluctuation between 2016 to 2020, and registered a CAGR of -3.2% during 2016 to 2020. Going forward, the price of imported and domestic nylon monofilaments and fibre is expected to increase from 2021 to 2025, which could therefore impose burden on our profitability and financial performance.

Our gross profit margins were approximately 48.9%, 53.4%, 54.5% and 51.1% for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. As our profitability is dependent upon among other factors, the cost of raw materials and direct labour costs, there is no assurance that we will be able to maintain our gross profit margins. Any substantial increase in our costs of operation, including the cost of raw materials and direct labour costs may lead to lower gross profit margins and may materially and adversely affect our financial conditions and prospect.

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

During the Track Record Period, certain of our research projects were recognised by various local governmental authorities pursuant to which we received government subsidies of approximately RMB5.9 million, RMB2.9 million, RMB3.5 million and RMB133,000 for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. Moreover, pursuant to the relevant laws and regulations in the PRC, Sichuan Huanlong, our subsidiary in the PRC, was qualified under the development strategy of the PRC's western region and was able to enjoy a preferential income tax rate of 15% for the three years ended 31 December 2020 and the six months ended 30 June 2021. Sichuan Huanlong has renewed its preferential tax status for 2021. In 2014, Shanghai Jinxiong, our subsidiary in the PRC, was accredited as a high and new technology enterprise in 2014 and further renewed in 2017 and 2020, with a validity period of three years since the last renewal date, therefore entitled to a preferential tax rate of 15% during the Track Record Period and up to the year ending 31 December 2022. In addition, both Sichuan Huanlong and Shanghai Jinxiong are eligible for a tax deduction of up to 175%, 175%, 175% and 175% of approved research and development costs incurred for each of the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. Please refer to the paragraph headed "Financial Information — Discussion on major items from the consolidated statements of profit or loss and other comprehensive income — Income tax expense — The PRC" in this prospectus for more information.

However, the government subsidies are subject to policy changes by their respective local governmental authorities in terms of the types of research projects recognised and preferential income tax rates are also subject to policy changes. As such, any policy changes will result in the decrease in government subsidies received by us and/or increase in income tax expense, which in turn may have a material and adverse impact on our financial conditions and results of operations.

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

We are subject to laws, rules and regulations concerning the discharge of pollutants and the environmental impact of the construction of our production sites. For details, please refer to the paragraphs headed "Regulatory Overview — VI. PRC laws and regulations in relation to environmental protection" and "Business — Environmental, social and governance" in this prospectus.

As confirmed by our PRC Legal Advisers, any violation of these laws and regulations may result in fines, revocation of licence for business operation, interruption of our production process with obligations to conduct rectification and other unfavourable situations. In addition, the PRC government may take steps towards the adoption of more stringent environmental regulations. However, there is no assurance that our cost to comply with the environmental laws and regulations will not substantially increase in the future, which may hinder our business, profitability and financial performance.

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

Our intangible assets comprised trademarks, computer software and capitalised development costs, which amounted to 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.

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. Intangible assets with indefinite useful lives (i.e. trademarks) are carried at cost less any subsequent accumulated impairment losses.

Intangible assets that are not yet available for use and intangible assets with indefinite useful lives are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. Intangible assets in the Company's statement of financial position are subject to impairment testing. Others are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable. The process of assessment requires judgments in relation to such events or changes in circumstances.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset. If any of our intangible assets is determined to be impaired in the future, we would be required to write down the carrying amount or recognise an impairment loss for these intangible assets in our financial statements for the relevant period, and this may have adverse effect on our business, financial condition and results of operations.

We are exposed to risk of inventory obsolescence

Our inventories consist of raw materials, work-in-progress and finished goods we manufactured which are ready to be sold. We believe that maintaining appropriate levels of inventories helps us deliver our products in a timely manner without straining our liquidity. As at 31 December 2018, 2019 and 2020 and 30 June 2021, we had inventories of approximately RMB12.3 million, RMB11.3 million, RMB10.0 million and RMB11.5 million, respectively. Our inventory turnover days were approximately 65.9 days, 55.2 days, 46.9 days and 52.1 days for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. We may be exposed to higher risks of inventory obsolescence in the event that any of our raw materials, work-in-progress and/or finished goods are damaged during storage or otherwise. Any sudden and material changes in our customers' product requirements may result in decline in inventory values, significant write-downs or write-offs and overstocking of raw materials and/or work-in-progress. In such event, our business, financial conditions and results of operations may be materially and adversely affected.

We may not be able to renew our current leases for our leased properties and the rental expenses may increase in the future which could adversely affect our financial condition and results of operations

Our production plants, staff dormitory and staff cafeteria in our Shanghai Production Site are presently located on leased premises. The leases are renewable every one to two years. Our ability to renew such leases upon their expiry is crucial to our operation and profitability. At the end of each lease term, we may not be able to negotiate an extension or renewal of the lease and may therefore be forced to move to a less favourable location or the rent we pay may increase significantly. In such event, we may incur relocation costs and the relocation may materially and adversely affect our business, financial conditions and results of operations.

In the event that rental expenses for properties that are suitable for our operation increase in the future, and we fail to shift such increase to our customers or offset such increase by reducing other operating costs, our financial condition and results of operations may be adversely affected.

Our future capital expenditure on property, plant and equipment may result in an increase in our depreciation expenses and may affect our profitability

Our depreciation expenses for our property, plant and equipment amounted to approximately RMB7.5 million, RMB8.2 million, RMB9.1 million and RMB4.6 million for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. As part of our business strategies to expand our production capacity, we plan to purchase certain new production machinery under three phases of our production capacity expansion plan which are estimated to cost approximately RMB156.4 million. For further details, please refer to the paragraph headed "Business — Our business strategies" and the section headed "Future Plans and Use of Proceeds" in this prospectus. As soon as the machinery is put into operation and assuming the expected useful life of the machinery is 12 years (which is consistent with the existing accounting policy) and the depreciation rate is approximately 8.3%, they will result in additional annual depreciation charges of approximately RMB13.0 million. The increase in depreciation will adversely affect our financial performance and operating results.

Our existing insurance coverage may not be sufficient to cover the risks related to our operations and we may incur significant losses resulting from product liability claims or business interruptions

We do not carry business interruption insurance arising from accidents at our facilities, and there are certain types of losses, such as those arising from war, acts of terrorism, typhoons, flooding or other natural disasters for which we are not able to obtain insurance at a reasonable cost or at all. Any business disruption or natural disaster claim could result in our incurrence of substantial costs and diversion of resources, which may materially and adversely affect our business, financial conditions and results of operations. In addition, to the extent our insurance policies do cover particular risks, we cannot assure you that all claims made by us under our insurance policies will be honoured fully or on time by our insurance providers. Should an accident, natural disaster, terrorist act or other event result in an uninsured loss or a loss in excess of insured limits, we could suffer financial loss and damage to our reputation and could lose all or a portion of future revenue anticipated to be derived from the relevant product or facilities. Any material loss not covered by our insurance or reimbursed by our insurance providers could materially and adversely affect our business, financial conditions and results of operations.

Any failure to maintain effective quality control procedures could have a material and adverse effect on our business, financial conditions and results of operations

The quality of our products is mainly dependent on the effectiveness of our quality control procedures, which in turn depends on a number of factors, including the implementation of the procedures, our quality control team, and our ability to ensure that our employees adhere to such procedures. For further details, please refer to the paragraph headed "Business — Quality management" in this prospectus. There is no assurance that we will be able to continue to maintain effective quality control on the manufacturing of our papermaking felts in the future or that our quality management measures could avoid all quality issues of our products. Any failure to properly adopt or deterioration of our quality control procedures could result in the production of defective or substandard products, which in turn may impair our reputation, result in delays in the delivery of our products and the need to replace defective or substandard products and loss of purchase orders in the future. Further, in the event that our products do not meet the specifications and requirements agreed with or requested by our customers, we would be required to accept the return of such products and suspend the sales altogether. Alternatively, if our defective or substandard products result in losses suffered by our customers, our Group may be subject to product liability claims, litigation and other forms of legal actions for compensation. Regardless of the outcome of any claim of the alleged defect, we may have to incur significant financial resources and divert the time and attention of our management. Product failures or defects, any complaints from customers or negative publicity could lead to a decrease in sales of the relevant and/or other products, which could have a material and adverse impact on our business, financial conditions and results of operations.

Our sales may be affected by seasonality

We believe that our sales may be affected by seasonality. We generally record higher sales orders during the months of January and September to December than that of other months. Our Directors confirm that this was because our customers, whom are mainly PRC paper and paper products manufacturers and trading companies, generally placed orders prior to the Chinese New Year holidays. We may be exposed to risks associated with such seasonal factors and the fluctuation of demand of our products. Should there be any adverse change of market conditions during the peak season, our profitability may be adversely affected. Further, any comparison of sales and results of operations between periods within a single financial year for our Group may not be meaningful and should not be relied upon as an indicator of our Group's performance.

We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities

The United States and other jurisdictions or organisations, including the European Union, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, we sold papermaking felts to (i) customers located in Egypt and Russia (excluding Crimea); and (ii) a customer located in the PRC, with the ultimate end destination or end customers being located in Iran, according to the best knowledge of our Directors. Whilst Egypt was subject to targeted sanctions during the Track Record Period, Iran is subject to a comprehensive sanctions program administered by OFAC. Russia has been subject to a variety of additional sanctions measures since its actions and claims of sovereignty in Crimea were deemed to be illegal by the governments of many Western governments and governmental organisations, including additional sanctions measures adopted by the United States in 2018-2021 period. Further, the region of Crimea, which is part of Russia/Ukraine, is subject to comprehensive international sanctions (the rest of Russia and Ukraine are not subject to such sanctions), and while we have not conducted any business transactions in Crimea during the Track Record Period, the end customers of certain transactions were located in Russia (excluding Crimea). While we have implemented internal control measures to minimise our risk exposure to International Sanctions, sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. Our business and reputation could be adversely affected if the authorities of United States, the European Union, the United Nations, Australia or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Group.

RISKS RELATING TO OUR INDUSTRY

Our profitability may be adversely affected by the intense competition in the papermaking felts manufacturing industry in the PRC

According to the Frost & Sullivan Report, the papermaking felts manufacturing industry in the PRC is dominated by several foreign invested enterprises with distinctive product development capability and advanced technology in felt design and production. If we are unable to control our costs in connection with our planned expansion or anticipate and respond to changing customer preferences, we may not be able to compete successfully. Foreign invested enterprises in the papermaking felts manufacturing industry in the PRC is generally considered more competitive over majority of the local enterprises. Our current and potential competitors have competitive advantage over the quality of papermaking felts or price, we may not be able to compete effectively which in turn could have an adverse impact on the sales of papermaking felts and its results of operations.

The demand for our papermaking felts are affected by the demand in the paper and paper products industry, which in turn is subject to the global economic conditions

According to the Frost & Sullivan Report, the consumption demand of paper and paperboard products in the PRC has increased from 2016 to 2020 at a CAGR of 3.2% as a result of factors such as growing population, accelerated urbanisation, economic growth and the significant growth of online retail sales and e-commerce in the PRC. In addition, the export volume of papermaking felts in the PRC recorded a growth from approximately 2.7 thousand tonnes in 2016 to approximately 3.8 thousand tonnes in 2020, representing a CAGR of 8.9%. Similarly, the export value of papermaking felts in the PRC also increased from USD84.9 million in 2016 to approximately USD99.4 million in 2020, representing a CAGR of 4.0%. The growth was mainly driven by the expansion of paper manufacturers in Southeast Asia during recent years with increasing number of factories opening in the region, boosting the demand of papermaking felts from the PRC manufacturers.

However, we are not able to assure you that the demand for paper and paper products, as well as papermaking felts will maintain the growth as seen in the past. The supply and demand condition for the papermaking felts manufacturing industry in the PRC may be affected by many factors, including changes in the social, political, economic and legal environments in the PRC, as well as changes in the PRC government's fiscal and economic policies. The business of papermaking felts manufacturers are generally sensitive to changes in the economic conditions, consumer confidence, consumer spending and customer preferences. Factors such as the PRC's slower economic growth in recent years may, to a certain extent, have cooled the general economic condition for the papermaking felts manufacturing industry.

Our business and prospects therefore depend principally on the economic conditions and performance of the paper and paper products industry in the PRC. Any downturn in the general economic conditions or outlook of the paper and paper products market may therefore adversely affect our performance. We cannot assure you that the demand for papermaking felts will continue to grow, or will grow at all, and any potential decline in the demand for the felts may have a material adverse impact on our business, financial conditions, results of operations and growth prospects.

Our business is subject to the uncertainties in the general economic conditions, as such, any severe or prolonged downturn in the global or PRC economy could materially and adversely affect our business and financial conditions

Economic conditions in the PRC are sensitive to global economic conditions. Since we derive a substantial portion of our revenue from the PRC, our business and prospects may be affected by economic conditions in the PRC. We rely on our customers which are PRC and overseas paper and paper products manufacturers and trading companies for our revenue. Due to the uncertain global economic conditions, particularly the current trade tension between the U.S. and the PRC, our customers' businesses may be materially and adversely affected, which in turn, may materially and adversely affect our business, results of operations and prospects.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

The national and regional economies in China and our business may be adversely affected by factors beyond our control such as natural disasters, acts of war or terrorism and epidemics, including COVID-19

Our business is subject to general economic and social conditions in China. Certain factors beyond our control may adversely affect the economy, infrastructure and livelihood of people in the region where we conduct our business operations. Some regions in China may be susceptible to the threat of natural disasters such as earthquakes or epidemics such as Ebola and Severe Acute Respiratory Syndrome (SARS). Serious natural disasters and acts of war or terrorism may result in, among others, power shortages or failures, loss of life, injuries, destruction of assets and disruption of our business operations. Severe communicable disease outbreaks may cause a widespread health crisis that materially and adversely affects economic systems and financial markets. Any of these factors and others beyond our control could have an adverse effect on the overall business sentiment and environment, create uncertainties in the region where we conduct our business operations, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and results of operations.

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.

A prolonged outbreak and/or variant of COVID-19 in the PRC could have a material adverse impact on our business operations, including further suspension of our production and restriction on delivery of our products to our customers and raw materials from our suppliers due to travel and shipment restrictions. Our business operations could be disrupted if any of our staff had or is suspected to have COVID-19 as we would be required to quarantine some or all of our staff and/or disinfect our production facilities. The duration and scale of such epidemic cannot be predicted or controlled by our Group and hence it may have significant and adverse impact on our business operations and operating results.

Our operations may be interrupted by production difficulties due to mechanical failures or utility shortages or control

Our production and operations depend on a continuous and adequate supply of utilities, such as electricity, water and gas. If there are any shortages or control of power, water, gas or other utilities due to government policies, the local authorities may require our production plants to be shut down periodically. Any disruption in the supply of electricity, water, gas or other utilities at our production plants may disrupt our production. This may adversely affect our ability to fulfil our sales orders and consequently may have an adverse effect on our business, results of operations and financial condition. 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. If part of our suppliers' business and operation are negatively impacted by the recent power shortage and new electricity tariffs mechanism in the PRC, the supply of raw materials to us may be interrupted, which may further affect our production and ordinary operation.

The PRC's legal system embodies uncertainties that could adversely affect our business, financial condition and results of operations

Our manufacturing operations is conducted entirely in the PRC and all of our employees are based in the PRC as at 30 June 2021. Our business and operations are therefore generally affected by and subject to the PRC legal system and PRC laws and regulations. Since the late 1970's, the PRC has been developing rapidly with many changes made to laws and regulations covering general economic matters or affecting our business and operations having been promulgated in the PRC. However, as the changes to these laws and regulations are relatively new, and due to the limited volume of published cases and clarification, interpretation of these laws, regulations and their changes involve uncertainties.

In addition, the enforcement of laws may be uncertain, and it may be difficult to obtain swift and equitable enforcement, or to obtain enforcement of a judgement by a court of another jurisdiction. The PRC legal system is based on written statutes and their interpretation, and prior court decisions may be cited for reference but have limited weight as precedents. The differences in judgement caused by regional differences may create additional uncertainty as to the expected outcomes of litigation. Moreover, the interpretation of statutes and regulations may be subject to government policies reflecting domestic political, economic and social changes.

Future fluctuations in Renminbi and government control of currency conversion may affect our operations and financial position

During the Track Record Period, our sales transactions were mainly denominated in RMB, and to a lesser extent in US$. For the three years ended 31 December 2020 and the six months ended 30 June 2021, our trade receivables denominated in US$ amounted to approximately RMB845,000, RMB1,373,000, RMB676,000 and RMB1,215,000, respectively. We cannot assure that there will not be any substantial fluctuation in the exchange rate of RMB against US$. If there was a fluctuation of 5% in the exchange rate of RMB against US$, it would have affected our profit after income tax by approximately RMB36,000, RMB58,000, RMB29,000 and RMB52,000, and affected our equity by approximately RMB36,000, RMB58,000, RMB29,000 and RMB52,000 for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. As we did not engage in any hedging activity, any substantial fluctuation in the currency rate of RMB against US$ may adversely affect our financial performance and profitability.

A substantial portion of our revenue and our expenditures are denominated in Renminbi, which is not a freely convertible currency. The PRC government imposes controls over the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE or its local branch, provided that we satisfy certain procedural requirements. However, capital account transactions must be approved by or registered with SAFE or its local branch. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Since a substantial portion of our cash flow from operations is denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to fund our business activities that are conducted in foreign currencies.

The PRC laws and regulations in connection with investment and loans by offshore holding companies to our PRC subsidiaries may delay or prevent our Company from using the proceeds of the Global Offering to make additional capital contributions or loans to our PRC subsidiaries, which could harm our liquidity and our ability to expand our business

Any capital contributions or loans our Company or its offshore subsidiary, as an offshore entity, makes to the PRC members of our Group, including from the proceeds of the Global Offering, are subject to the PRC regulations. For example, the total of any offshore loans to the

PRC members of our Group cannot exceed the difference between the registered capital and total investment of the relevant PRC member of our Group or twice the relevant PRC member's net assets, and such loans must be registered with SAFE or its authorised organisation or filed for record with the relevant information system of the SAFE.

In addition, our Group's capital contributions to the PRC members of our Group must be filed for record with the competent authorities of the MOFCOM. Our Group cannot assure that it will be able to complete these formalities on a timely basis, or at all. If our Group fails to complete these formalities, its ability to capitalise the relevant PRC members of our Group or fund their operations or to utilise the proceeds of the Global Offering in the manner described in "Future Plans and Use of Proceeds" may be adversely affected, which could adversely affect the liquidity of the relevant PRC member of our Group, our Group's ability to expand its business through its subsidiaries' operations and its financial condition and results of operations.

Pursuant to the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprise SAFE Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the "**SAFE Circular 19**"), which became effective on 1 June 2015, foreign-invested enterprises shall be allowed to settle foreign exchange capital on a discretionary basis. Furthermore, where foreign-invested enterprises are engaged in equity investment in the PRC, they shall comply with the regulations on reinvestment in the PRC. While SAFE Circular 19 unlocks the restrictions on foreign exchange capital settlement, it is uncertain how the PRC authorities will interpret, apply and enforce SAFE Circular 19 and whether SAFE Circular 19 will be effective in unlocking the restrictions on foreign exchange capital settlement.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and an active trading market for our Shares may not develop or be sustained

Prior to the Global Offering, there has been no public market for our Shares. Following the completion of the Global Offering, the Stock Exchange will be the only market on which our Shares are listed. There is no guarantee that an active public trading market for our Shares will develop or be sustained after the Global Offering. In addition, we cannot assure you that the Shares will trade in the public market subsequent to the Global Offering at or above the Offer Price. The Offer Price will be determined by agreement between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters), and may not be indicative of the market price of the Shares following the completion of the Global Offering. If an active trading market for our Shares does not develop or is not sustained after the Global Offering, the market price and liquidity of our Shares may be materially and adversely affected.

The trading price of our Shares may be volatile, which could result in substantial losses to you

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, such as general market conditions of the securities markets in Hong Kong, the PRC, the United States and elsewhere in the world. In particular, the trading price performance of other companies in similar business may affect the trading price of the Shares. The performance and fluctuation of the market prices of other companies that have listed their securities in Hong Kong may also affect the volatility in the price of and trading volumes for our Shares. Recently, a number of companies have listed their securities, or are in the process of preparing for listing their securities in Hong Kong. Some of these companies have experienced significant volatility, including significant price declines after their initial public offerings. The trading performance of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards companies listed in Hong Kong and may consequently impact the trading performance of the Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

Future sale or major divestment of shares by any of our Substantial Shareholders or Controlling Shareholders could adversely affect the prevailing market price of the Shares

There is no guarantee that our Substantial Shareholders or Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after the Global Offering. We cannot predict the effect, if any, of any future sales of the Shares by any of our Substantial Shareholders or Controlling Shareholders, or that the availability of the Shares for sale by any of our Substantial Shareholders or Controlling Shareholders may have on the market price of our Shares. Sales of a substantial number of Shares by any of our Substantial Shareholders or Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of our Shares.

Investors may experience difficulties in effecting service of legal process and enforcing judgements against our Company and our management

Our Company is a company incorporated in the Cayman Islands under the Companies Act with limited liability and the Companies Act differs in some respects from those of Hong Kong or other jurisdictions where investors may be located. As a result, the remedies available to the minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions.

Our Company's corporate affairs are governed by our Memorandum of Association and the Articles of Association, the Companies Act and the common law of the Cayman Islands. The rights of the Shareholders to take legal action against our Directors and our Company, actions by minority Shareholders and the fiduciary responsibilities of our Directors to our Company under the Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of the Shareholders and the fiduciary responsibilities of our Directors under the Cayman Islands law may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong or other jurisdictions where investors may be located.

In addition, although our Company will be subject to the Listing Rules and the Takeovers Code upon the listing of the Shares on the Stock Exchange, the Shareholders will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. Furthermore, the Takeovers Code does not have the force of law and only provide standards of commercial conduct acceptable for takeover and merger transactions and share repurchases in Hong Kong. As a result of any or all of the above, the Shareholders may have more difficulty in protecting their interests in the face of actions taken by our Company's management, directors or major shareholders than they would as shareholders of a Hong Kong company or companies incorporated in other jurisdictions. For further details on the constitution of our Company and the company law of the Cayman Islands, please refer to the section headed "Summary of the Constitution of the Company and Cayman Islands Company Law" in Appendix IV to this prospectus.

The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may be different from those in Hong Kong

Our corporate affairs are governed by our Memorandum of Association and Articles of Association and by the Companies Act and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. This may mean that the remedies available to our Company's minority shareholders may be different from those they would have under the laws of other jurisdictions. A summary of the Cayman Islands company law is set out in Appendix IV to this prospectus.

Possible setting of the Offer Price after making a Downward Offer Price Adjustment

We have the flexibility to make a Downward Offer Price Adjustment to set the final Offer Price at up to 10% below the bottom end of the indicative Offer Price range per Offer Share. It is therefore possible that the final Offer Price will be set at HK$1.10 per Offer Share upon the making of a full Downward Offer Price Adjustment. In such a situation, the Global Offering will proceed and the Withdrawal Mechanism will not apply. If the final Offer Price is set at HK$1.10, the estimated net proceeds we will receive from the Global Offering will be reduced to HK$77.8 million and such reduced proceeds will be used as described in the paragraph headed "Future Plans and Use of Proceeds — Use of Proceeds" in this prospectus.

Certain facts, forecast and other statistics with respect to the papermaking felts manufacturing industry contained in this prospectus may not be reliable

Certain facts and other statistics in this prospectus relating to the papermaking felts manufacturing industry have been derived from various organisations that are generally believed to be reliable. However, our Directors cannot guarantee the quality or reliability of such source materials. While our Directors have taken reasonable care in the reproduction of the information, they have not been prepared or independently verified by our Company, our Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of them or their respective affiliates or advisers and, therefore, our Company makes no representation as to the accuracy of such facts and statistics. Such facts and other statistics include the facts and statistics as currently set out in the sections headed "Risk Factors" and "Business" in this prospectus. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to official statistics produced for other economies and you should not place undue reliance on them.

Further, our Company cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts or statistics.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties

This prospectus contains certain statements that are "forward-looking" and indicated by the use of forward-looking terminology such as "believe", "intend", "anticipate", "estimate", "plan", "potential", "will", "would", "may", "should", "expect", "seek" or similar terms. Prospective investors are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that, although our Directors believe the assumptions related to those forward-looking statements are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The risks and uncertainties in this regard consist of those identified in the risk factors discussed above. In light of these and other risks and uncertainties, the enclosure of forward-looking statements in this prospectus should not be regarded as representations by our Company that the plans and objectives will be achieved, and investors should not place undue reliance on such statements.

Our Company strongly cautions you not to place any reliance on any information contained in press articles or media regarding our Group or the Global Offering

There may be press and media coverage regarding our Group or the Global Offering, which may include certain financial information, financial projections and other information about our Group that do not appear in this prospectus. Our Company has not authorised the disclosure of any such information in the press or media. Our Company does not accept any responsibility for any such press or media coverage or the accuracy or completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, our Company expressly disclaims it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase the Shares, you should rely only on the financial, operational and other information included in this prospectus.

This prospectus contains certain forward-looking statements and information that are by their nature subject to significant risks and uncertainties and such statements and information relating to our Company and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words "aim", "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "target", "might", "may", "ought to", "plan", "project", "potential", "predict", "schedule", "seek", "should", "will", "would" and the negative of these words and other similar expressions, as they relate to our Group or our management, are intended to identify forward-looking statements.

These forward-looking statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, which may not materialise or may change and are not a guarantee of future occurrence of such events. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. Actual outcomes may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- our ability to achieve growth of existing businesses and expansion of operations through investments;

- developments in, or changes to, laws, regulations, governmental policies, taxation or accounting standards or practices affecting our operations;

- any change in the laws, rules and regulations of central and local governments in Hong Kong, the PRC and any place where we have operations relating to any aspect of our business or operations;

- general political and global economic conditions, especially those related to the PRC and Hong Kong, and macro-economic measures taken by the government to manage economic growth;

- change or volatility in interest rates, foreign exchange rates, equity prices, volumes, operations, margins, risk management and overall market trends; and

- the other risk factors discussed in this prospectus as well as other factors beyond our control.

One or more of the abovementioned risks or uncertainties may materialise.

You are strongly cautioned that reliance on any forward-looking statement involves known and unknown risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our Group's operation and business prospects, including development plans for existing and new businesses;
- future developments, trends and conditions in the industry and markets in which we operate;
- our Group's business and operating objectives, goals, strategies and plans, our ability to achieve and implement these strategies and plans and the expected timetable for such implementation;
- our capital expenditure and expansion plans;
- our profit estimate and other prospective financial information;
- general economic, political and business conditions in the markets in which our Group operates;
- the regulatory environment and general outlook in the industry and markets in which our Group operates;
- our Group's dividend policy;
- the amount and nature of, and potential for, future development of our Group's business;
- various business opportunities that our Group may pursue;
- fluctuation in the prices of raw materials and our Group's ability to pass-through any increase in price to customers; and
- the actions and developments of our competitors and our Group's ability to compete under these actions and developments.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement set out in this section as well as the risks and uncertainties discussed in the section headed "Risk Factors" in this prospectus.

In this prospectus, unless otherwise stated, statements of or references to our intentions or those of our Directors are made as of the date of this prospectus. Any such information may change in light of future developments.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors (including any proposed director who is named as such in this prospectus) collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material aspects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the **GREEN** Application Form set out the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering will be fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to the agreement to the Offer Price between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters). The Global Offering is managed by the Sole Global Coordinator. The International Placing will be fully underwritten by the International Underwriters under the terms of the International Placing Agreement. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or around Monday, 3 January 2022 (Hong Kong time) or such later time as may be agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, but in any event no later than Tuesday, 4 January 2022 (Hong Kong time). If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed.

We have reserved the right to make a Downward Offer Price Adjustment to provide flexibility in pricing the Offer Shares. The ability to make a Downward Offer Price Adjustment does not affect our obligation to issue a supplemental prospectus and to offer investors a right to withdraw their applications if there is a material change in circumstances not disclosed in the prospectus.

If it is intended to set the final Offer Price at more than 10% below the bottom end of the indicative Offer Price range, the Withdrawal Mechanism will be applied if the Global Offering is to proceed.

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it calculated to invite or solicit offers in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly in the United States of America, except in compliance with the relevant laws and regulations of such jurisdiction.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Global Offering to give any information or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees, representatives or advisers or any other person involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

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

Prospective applicants for Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our Shares in issue and to be issued as pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares to be issued under the Capitalisation Issue and any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

No part of our Shares is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or currently proposed to be sought in the near future.

REGISTER OF MEMBERS AND HONG KONG STAMP DUTY

All Shares issued by us pursuant to applications made in the Global Offering will be registered on our branch register of members to be maintained in Hong Kong, by Computershare Hong Kong Investor Services Limited, our Hong Kong Branch Share Registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Our principal register of members will be maintained in the Cayman Islands by our Company's principal share registrar, Conyers Trust Company (Cayman) Limited, at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Dealings in Shares registered in our Hong Kong Branch Share Registrar will be subject to Hong Kong stamp duty. Only Shares registered on our Hong Kong branch register of members may be traded on the Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for or purchasing, holding or disposing of or dealing in the Offer Shares, you should consult your professional advisers. None of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, agents, employees, representatives or advisors and any other person involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person or holders of Shares resulting from subscribing for, purchasing, holding or disposing of or dealing in the Offer Shares.

OVER-ALLOTMENT OPTION AND STABILISATION

Details of the arrangements relating to the Over-allotment Option and stabilisation are set out in the section headed "Structure and Conditions of the Global Offering" in this prospectus.

PROCEDURE FOR APPLICATION FOR THE HONG KONG PUBLIC OFFER SHARES

The procedure for application for the Hong Kong Public Offer Shares is set out in the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including conditions of the Global Offering, are set out in the section headed "Structure and Conditions of the Global Offering" and the paragraph headed "How to Apply for Hong Kong Public Offer Shares — 3. Terms and conditions of an application" in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or such other date HKSCC chooses. Investors should seek the advice of their stockbroker or other professional advisers for details of those settlement arrangements as such arrangements will affect their rights, interests and liabilities.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second settlement day after a trading transaction.

All necessary arrangements have been made for our Shares to be admitted to CCASS.

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

COMMENCEMENT OF DEALINGS IN OUR SHARES

Dealings in our Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Tuesday, 11 January 2022.

Our Shares will be traded in board lots of 2,000 Shares each. The stock code of our Shares is 2260.

ROUNDING

Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancy in any table or chart between totals and sums of amounts listed therein are due to rounding.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, if there is any inconsistency between the names of any of the regulations, governmental authorities, departments, entities, institutions, natural persons, facilities, certificates, titles and the like included in this prospectus which are not in English language, their English translations are unofficial translations for identification purposes only and the names in their respective original languages shall prevail.

EXCHANGE RATES CONVERSION

Unless otherwise specified, amounts denominated in RMB have been converted, for the purpose of illustration only, into HK$ and USD (or vice versa) in this prospectus at the following exchange rates:

RMB0.84 : HK$1.00
USD1.00 : HK$7.8

No representation is made that any RMB, HK$ or USD amounts were or could have been or could be converted at such rates or any other rates on any date.

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

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, our Company must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Our principal business operations are primarily located, managed and conducted in the PRC. All of our Directors and senior management members (except Mr. Ip Wang Hoi, an independent non-executive Director), are based in the PRC as we believe it is more effective and efficient for our executive Directors and senior management to be based in a location where we have significant operations. We therefore do not, and in the foreseeable future will not, have a management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures in order to ensure that regular communication is maintained between the Stock Exchange and us:

(a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, namely Ms. Shen Genlian, one of our executive Directors and Ms. Mak Po Man Cherie, one of our joint company secretaries. The authorised representatives will act as our principal channel of communication with the Stock Exchange. The authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by the Stock Exchange by telephone, facsimile and/or email to deal promptly with any enquiries which may be made by the Stock Exchange. Each of the authorised representative is authorised to communicate on behalf of our Company with the Stock Exchange;

(b) each of the authorised representatives will have all necessary means to contact all the Directors promptly at all times, as and when the Stock Exchange wishes to contact the Directors on any matters. We will implement a policy whereby:

  (i) each Director must provide his or her mobile phone number, office phone number, facsimile number and email address to these authorised representatives; and

(ii) in the event that a Director expects to travel and/or otherwise be out of office, he or she will provide the phone number of the place of his or her accommodation to these authorised representatives;

(c) we shall promptly inform the Stock Exchange of any changes on the authorised representatives;

(d) each Director must provide his or her mobile phone number, office phone number, facsimile number and email address (if applicable) to the Stock Exchange;

(e) we have appointed CMBC International Capital Limited as the compliance adviser pursuant to Rule 3A.19 of the Listing Rules to act as our additional channel of communication with the Stock Exchange and the representative(s) of the compliance adviser will be available to answer enquiries from the Stock Exchange. The compliance adviser will have access at all times to the authorised representatives, the Directors and the other senior management of our Company to ensure that it is in a position to provide prompt responses to any queries or requests from the Stock Exchange in respect of our Company; and

(f) all Directors (including the independent non-executive Directors) who are not ordinarily resident in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong prior to the Listing and will be able to meet with the relevant members of the Stock Exchange within a reasonable period of time, when required.

WAIVER IN RESPECT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 8.17 and 3.28 of the Listing Rules, the company secretary must be an individual who, by virtue of his or her academic or professional qualifications or relevant experiences, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Pursuant to Note 1 to Rule 3.28 of the Listing Rules, the Stock Exchange considers the following academic or professional qualifications to be acceptable:

(a) a member of The Hong Kong Institute of Chartered Secretaries;

(b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or

(c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Pursuant to Note (2) to Rule 3.28 of the Listing Rules, in assessing "relevant experience", the Stock Exchange will consider the individual's:

(a) length of employment with the issuer and other issuers and roles he or she played;

(b) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance and the Takeovers Code;

(c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(d) professional qualifications in other jurisdictions.

Our Company is principally engaged in manufacturing and sales of papermaking felts. Our Directors believe that its company secretary should, apart from being able to meet the professional qualifications or the relevant experience requirements under the Listing Rules, have sufficient knowledge about (a) our Group's business, operations and corporate culture; and (b) the regulatory requirements in the PRC.

All members of the senior management of our Company who are familiar with the activities of our Company and who have acquired knowledge of the relevant Hong Kong regulatory requirements during the preparation of the Listing application, including Ms. Liu Jiayan, lack the requisite professional qualifications required under Rule 3.28 of the Listing Rules. Our Company has made efforts to search for suitable candidates in the open market since commencement of the listing preparation, but so far has been unable to find a professionally qualified candidate with sufficient understanding of the business and operations of our Group who would be suitable for the position of the company secretary. Accordingly, our Company proposed to appoint Ms. Liu Jiayan and Ms. Mak Po Man Cherie as the joint company secretaries to jointly discharge the duties and responsibilities of the company secretary of our Company with reference to their work experience and qualifications.

For biographical details of Ms. Liu Jiayan, please refer to the section headed "Directors and Senior Management" in this prospectus. Although Ms. Liu Jiayan does not possess the qualifications set out in Rule 3.28 of the Listing Rules, our Company intended to appoint her as one of the joint company secretaries due to her past management experience within our Group and her thorough understanding of the internal administration and business operations of our Group.

Our Company proposed to appoint Ms. Mak Po Man Cherie as one of the joint company secretaries of our Company to assist Ms. Liu Jiayan in discharging the duties of a company secretary of our Company. The term of the appointment of Ms. Mak Po Man Cherie as one of the joint company secretaries will be initially three years commencing from the date of the listing of our Company's Shares subject to our Company's discretion to re-appoint. Ms. Mak Po Man Cherie is currently the Vice President of SWCS Corporate Services Group (Hong Kong) Limited, a professional services provider specialising in corporate services. Ms. Mak Po Man Cherie is qualified to act as our company secretary as required in Rule 3.28 of the Listing Rules. For biographical details of Ms. Mak Po Man Cherie, please refer to the paragraph headed "Directors and Senior Management — Joint company secretaries" in this prospectus.

Based on the above, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rules 8.17 and 3.28 of the Listing Rules. The following arrangements have been, or will be, put in place to assist Ms. Liu Jiayan to acquire all qualifications and experience as the company secretary of our Company as required under Rule 3.28 of the Listing Rules:

(a) Work Arrangement between the Joint Companies Secretaries

Apart from discharging her functions in her role as one of the joint company secretaries, Ms. Mak Po Man Cherie will assist Ms. Liu Jiayan to enable Ms. Liu Jiayan to acquire the relevant company secretary experience as required under Rule 3.28 of the Listing Rules and to become familiar with the requirements of the Listing Rules. Given Ms. Mak Po Man Cherie's relevant experience as a company secretary, she will be able to explain to both Ms. Liu Jiayan and our Company the relevant requirements under the Listing Rules and other applicable Hong Kong laws and regulations. She will also assist Ms. Liu Jiayan in organising board meetings and Shareholders' meetings of our Company as well as other matters of our Company which are incidental to the duties of a company secretary. Ms. Mak Po Man Cherie is expected to work closely with Ms. Liu Jiayan, and will maintain regular contact with Ms. Liu Jiayan and the Directors and senior management of our Company. The waiver will be revoked immediately when Ms. Mak Po Man Cherie, during the three-year period, ceases to provide assistance to Ms. Liu Jiayan.

(b) Training and Access to Legal Advice

In the course of preparing for our Company's proposed Listing on the Stock Exchange, Ms. Liu Jiayan has received a memorandum and has attended a training seminar on the respective obligations of Directors, senior management and our Company under the relevant Hong Kong laws and the Listing Rules, both provided by our Company's Hong Kong legal advisers Loong & Yeung. Our Company will ensure that Ms. Liu Jiayan continues to have access to relevant training and support to familiarise herself with the Listing Rules and the duties required of a company secretary of an issuer listed on the Stock Exchange, and to receive updates on the latest changes to the applicable Hong Kong laws, regulations and the Listing Rules. Furthermore, both Ms. Liu Jiayan and Ms. Mak Po Man Cherie will seek advice from our Company's Hong Kong legal and other professional advisors as and when required.

(c) Compliance Adviser

Our Company has appointed CMBC International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules, which will act as our Company's additional channel of communication with the Stock Exchange, and provide professional guidance and advice to our Company and its joint company secretaries as to compliance with the Listing Rules and all other applicable laws and regulations.

(d) Review of Qualifications and Experience

At the end of the three-year period, our Company will re-evaluate the qualifications and experience of Ms. Liu Jiayan. Upon determination that on-going assistance is no longer necessary, we will demonstrate to the Stock Exchange that Ms. Liu Jiayan, having had the benefit of Ms. Mak Po Man's assistance for three years, would have acquired relevant experience within the meaning of Rule 3.28 of the Listing Rules. The Stock Exchange can consider whether a further waiver would not be necessary.

Pursuant to Guidance Letter HKEX-GL108-20, the waiver will be for a fixed period of time ("**Waiver Period**") and on the following conditions: (i) Ms. Liu Jiayan must be assisted by a person who possesses the qualifications or experience as required under Rule 3.28 ("**Qualified Person**") and is appointed as a joint company secretary throughout the Waiver Period; and (ii) the waiver can be revoked if there are material breaches of the Listing Rules by our Company.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Ms. Shen Genlian (沈根蓮)	No. 8, 4th Floor, Unit 2, Building 11, No. 12, Baihui Road, Qingyang District, Chengdu, Sichuan Province, PRC	Chinese
Mr. Zhou Jun (周駿)	No. 8, 4th Floor, Unit 2, Building 11, No. 12, Baihui Road, Qingyang District, Chengdu, Sichuan Province, PRC	Chinese
Mr. Xie Zongguo (謝宗國)	No. 401, Unit 4, Building 16, No. 111, Beishuang Street, Qingyang District, Chengdu, Sichuan Province, PRC	Chinese
Ms. Yuan Aomei (袁傲梅)	No. 703, Unit 2, Building 4, Shiguang Junyuan, No. 30, Guanghua West 3rd Road, Qingyang District, Chengdu, Sichuan Province, PRC	Chinese
Independent Non-executive Directors		
Mr. Ip Wang Hoi (葉耘開)	Flat 1, 3/F, Block B, Imperial Court, 62G Conduit Road, Mid-Levels Hong Kong	Chinese
Mr. Zhang Shenjin (張慎金)	Unit 2-803, 8th Floor, Building 2, No. 1, Taying North Street, Chaoyang District, Beijing, PRC	Chinese

Name	Address	Nationality
Mr. Wang Yunchen (王運陳)	No. 405, 4th Floor, Building 3, No. 8 Shangya Road, Gaoxin West District, Chengdu, Sichuan Province, PRC	Chinese

For further information regarding our Directors, please see the section headed "Directors and Senior Management" in this prospectus.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

CMBC International Capital Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
45/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

Sole Global Coordinator

CMBC Securities Company Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
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8 Connaught Place
Central
Hong Kong

Joint Bookrunners

CMBC Securities Company Limited
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45/F, One Exchange Square
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Central
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ABCI Capital Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
11/F, Agricultural Bank of China Tower
50 Connaught Road Central
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CCB International Capital Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities
12/F, CCB Tower
3 Connaught Road Central
Central
Hong Kong

Essence International Securities (Hong Kong) Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
39th Floor, One Exchange Square
Central
Hong Kong

CEB International Capital Corporation Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities
22/F AIA Central
No.1 Connaught Road Central
Hong Kong

Guosen Securities (HK) Capital Company Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
Suites 3207-3212 on Level 32
One Pacific Place
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China Everbright Securities (HK) Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities
12/F, Everbright Centre
108 Gloucester Road
Wanchai
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China Industrial Securities International Capital Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
32/F, Infinitus Plaza
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Livermore Holdings Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities) regulated activities
Unit 1214A, 12/F, Tower II Cheung Sha Wan Plaza
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Huafu International Securities Limited
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SBI China Capital Financial Services Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities
4/F, Henley Building
No. 5 Queen's Road Central
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China Tonghai Securities Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities
18/F-19/F China Building
29 Queen's Road Central
Hong Kong

Zhongtai International Securities Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
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Hong Kong

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	ABCI Securities Company Limited *A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities* 10/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong
	CCB International Capital Limited *A licensed corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities* 12/F, CCB Tower 3 Connaught Road Central Central Hong Kong
	Essence International Securities (Hong Kong) Limited *A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities* 39th Floor, One Exchange Square Central Hong Kong

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China Tonghai Securities Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities
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A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
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Forwin Securities Group Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities) regulated activities
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1 Harbour Road
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I Win Securities Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities) regulated activities
Room 1916 Hong Kong Plaza
188 Connaught Road West
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China Sky Securities Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
Unit 1803-04, West Tower, Shun Tak Centre
200 Connaught Road Central
Hong Kong

Eddid Securities and Futures Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts), type 3 (leveraged foreign exchange trading) type 4 (advising on securities), type 5 (advising on futures contracts) and type 9 (asset management) regulated activities
23/F, YF Life Tower
33 Lockhart Road
Wan Chai
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Legal advisers to our Company

As to Hong Kong laws:
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29 Queen's Road Central
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As to PRC laws:
Beijing Dentons Law Offices, LLP
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ZT INTERNATIONAL CENTER
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Chaoyang District, Beijing
PRC

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	As to International Sanctions laws: **Hogan Lovells** 11th Floor, One Pacific Place 88 Queensway Hong Kong
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	As to the PRC laws: **Jincheng Tongda & Neal Law Firm** 5th Floor Investment Bank Building No. 115 Fuhua 1st Road Futian District, Shenzhen PRC
Auditor and Reporting Accountant	**Grant Thornton Hong Kong Limited** *Certified Public Accountants* *Registered Public Interest Entity Auditor* 11th Floor, Lee Garden Two 28 Yun Ping Road Causeway Bay Hong Kong
Property Valuer	**Jones Lang LaSalle Corporate Appraisal and Advisory Limited** 7/F, One Taikoo Place 979 King's Road Hong Kong

Industry Consultant	**Frost & Sullivan (Beijing) Inc.,** **Shanghai Branch Co.** Suite 2504 Wheelock Square 1717 Nanjing West Road Shanghai 200040 PRC
Internal Control Consultant	**SHINEWING Risk Services Limited** 17/F., Leighton Centre 77 Leighton Road Causeway Bay Hong Kong
Compliance Adviser	**CMBC International Capital Limited** *A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities* 45/F, One Exchange Square 8 Connaught Place Central Hong Kong
Receiving Bank	**Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong

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Principal Place of Business in Hong Kong	40th Floor, Dah Sing Financial Centre 248 Queen's Road East, Wanchai Hong Kong
Joint Company Secretaries	Ms. Liu Jiayan (劉家燕) No. 519, Section 2, Xinhua Avenue Chengdu Strait Science and Technology Industry Development Park Wenjiang District, Chengdu Sichuan Province, PRC Ms. Mak Po Man Cherie (麥寶文) *(An associate of The Hong Kong Institute of Chartered Secretaries)* 40th Floor, Dah Sing Financial Centre 248 Queen's Road East, Wanchai Hong Kong
Authorised Representatives (for the purpose of the Listing Rules)	Ms. Shen Genlian (沈根蓮) No. 8, 4th Floor, Unit 2, Building 11, No. 12, Baihui Road, Qingyang District, Chengdu, Sichuan Province, PRC

	Ms. Mak Po Man Cherie (麥寶文) *(An associate of The Hong Kong Institute of Chartered Secretaries)* 40th Floor, Dah Sing Financial Centre 248 Queen's Road East, Wanchai Hong Kong
Audit Committee	Mr. Wang Yunchen *(Chairman)* Mr. Zhang Shenjin Mr. Ip Wang Hoi
Remuneration Committee	Mr. Ip Wang Hoi *(Chairman)* Mr. Zhou Jun Mr. Zhang Shenjin
Nomination Committee	Ms. Shen Genlian *(Chairman)* Mr. Ip Wang Hoi Mr. Wang Yunchen
Cayman Islands Principal Share Registrar and Transfer Office	**Conyers Trust Company (Cayman) Limited** Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong Branch Share Registrar	**Computershare Hong Kong Investor Services Limited** Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal Bankers	**Shanghai Pudong Development Bank Co., Ltd. Chengdu Branch** No. 22, East 2nd Section, Er Huan Road, Chengdu, Sichuan Province, PRC

	Chengdu Rural Commercial Bank Co., Ltd. Wenjiang Yongsheng Branch Office Nos. 950, 952, 954, Xingda Road, Yongsheng Town, Wenjiang District, Chengdu, Sichuan Province, PRC
	Hua Xia Bank Co., Ltd. Chengdu Branch Building 2, Jinjiangzhichun, No. 299, Yong'an Road, Jinjiang District, Chengdu, Sichuan Province, PRC
Company Website Address	***www.vanov.cn***(*note*)

Note: The information contained on the website does not form part of this prospectus.

The information contained in this section and elsewhere in this prospectus have been derived from various official government publications and other publications generally believed to be reliable and the market research report prepared by Frost & Sullivan which we commissioned. We believe that the sources of such information and statistics are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. None of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or their respective directors, advisers and affiliates has independently verified the information and statistics from official government sources and none of them gives any representation as to the accuracy of the information and statistics from official government sources. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the papermaking felts manufacturing industry in the PRC. The report prepared by Frost & Sullivan for us is referred to in this prospectus as the Frost & Sullivan Report. We agreed to pay Frost & Sullivan a fee of RMB669,000 which we believe reflects market rates for reports of this type.

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

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

In compiling and preparing the research, save for the foreseeable impact resulted from COVID-19 outbreak, Frost & Sullivan assumed that (i) the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period; and (ii) the demand and preferences of the ultimate users of the papermaking felts have no material change in the relevant markets, which ensures the steady development of papermaking felts manufacturing industry in the PRC. In preparation of the forecast data, given that the outbreak of COVID-19 in the PRC has been under effective control since the second half of 2020, Frost & Sullivan assumed that there will be a gradual resumption of economic performance thereafter, as supported by (i) declining number of confirmed COVID-19 cases in the PRC since mid of March in 2020, and (ii) recovery of GDP in the PRC with a year-on-year growth of approximately 21.2% and 13.6% in the first and second quarter of 2021, respectively, according to National Bureau of Statistics of China.

OVERVIEW OF PAPERMAKING INDUSTRY IN THE PRC

Definition and classification

Paper generally refers to thin matted or felted sheets of fibres made from pressing and drying of moist cellulose pulp derived from wood, rags or grasses through water suspension on a fine screen. Attributable to light weight, thinness and flexibility, paper is widely used for printing, writing, decorating and sanitary purposes. Paperboard is a thick paper-based material, which is usually heavier in weight and has higher rigidity and foldability comparing to ordinary paper. Paperboard is often used for packaging purposes.

- Packaging paper mainly includes corrugated medium and linerboard, which is commonly applied to serve protective effect to items or goods in logistics industry. Packaging paper is usually heavier in weight as compared to printing and household paper, coarser in terms of finishing.

- Printing paper includes newsprint, printing and writing paper, art paper etc. The weight, coating, finishing, opacity and brightness of printing paper are usually altered based on printing and design requirement.

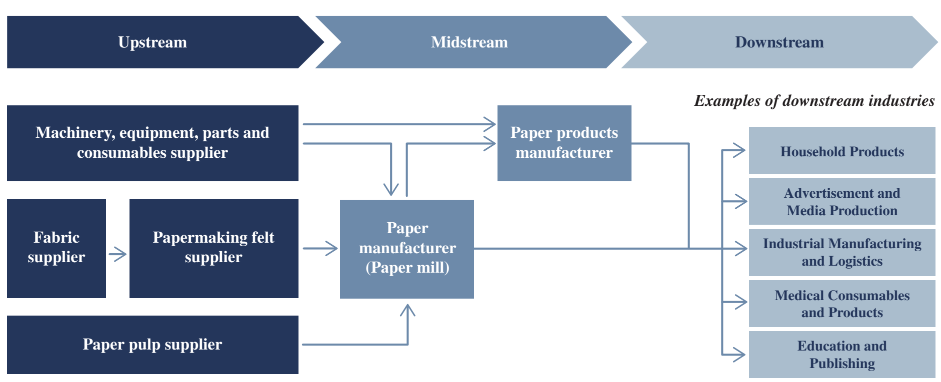
- Household paper refers to consumable paper products such as paper towels, toilet tissue, facial tissue, paper napkins, moist flushable wipes, wet wipes etc. It is usually lesser in density, and softer in terms of paper strength as compared to other paper products.

- Specialty paper and other types of paper products includes special industrial paper, abrasive paper, papers for electrical insulation, medical use and agriculture use, etc.

Papermaking primarily consists of four stages, namely (i) stock preparation, (ii) dewatering, (iii) pressing and drying and (iv) finishing and converting. Mixture of wood pulps and recycled paper fibres will be fed from headbox to wet press section, dryer section and calendar section where moisture in the pulp is removed, paper sheet is formed, dried with further finishing steps.

Value chain analysis

The overall papermaking industry comprises upstream material suppliers, mid-stream paper and paper products manufacturers, as well as downstream industries for paper products consumption. Apart from machinery, equipment, parts and paper pulp suppliers, papermaking felts suppliers are core upstream stakeholders in the papermaking industry as papermaking felts are important consumables of papermaking machines. The midstream of the industry consists of paper manufacturers (paper mills) and paper products manufacturers which process and manufacture various types of paper and paper products for different downstream industries in domestic market or overseas market.



Source: Frost & Sullivan

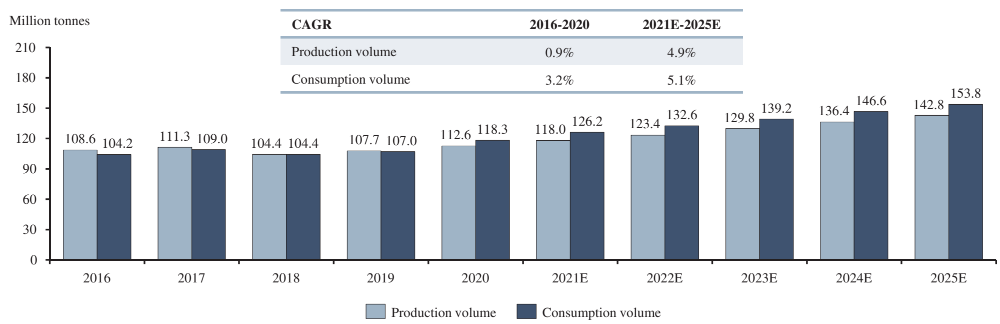
Production and consumption volume of machine-made paper and paperboard

According to the China Paper Association, the production and consumption volume of machine-made paper and paperboard in the PRC increased moderately at a CAGR of 0.9% and 3.2%, respectively during 2016 to 2020.

On the basis of (i) surge in demand for packaging paper due to trending e-commerce, and (ii) sustained demand for household paper as a necessity in daily lives of Chinese residents, it is expected that the production and consumption of machine-made paper and paperboard will not be adversely affected by the COVID-19 outbreak in 2020 in the PRC, except that the supply of paper has been temporarily affected by the suspension of business operation of papermaking enterprises in first quarter of 2020. On the other hand, the issuance of "Prohibit and Restrict the Production, Sales and Use of Disposable Plastic Products (Consultation Paper)" (《禁止、限制生產、銷售和使

用的塑膠製品目錄(徵求意見稿)》) is set to drive the demand for paper as a substitute to disposable plastic products. Accordingly, the production volume and consumption volume of machine-made paper and paperboard in the PRC are estimated to increase at a CAGR of approximately 4.9% and approximately 5.1%, respectively during 2021 to 2025.

Production and consumption volume of machine-made paper and paperboard (the PRC), 2016-2025E



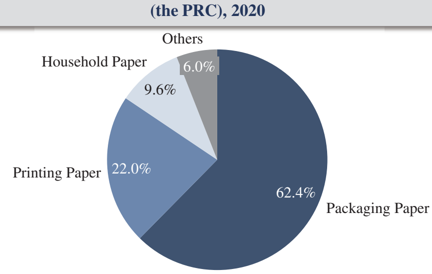
Source: China Paper Association, Frost & Sullivan

Key types and production sites of paper in the PRC

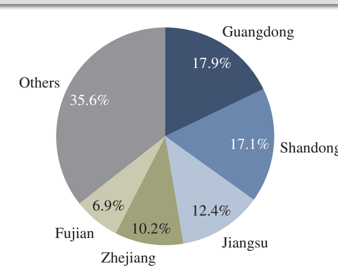
Packaging paper, including linerboard, corrugated medium and white board used for commodity and logistic packages, is the key paper products in the PRC, which accounted for approximately 62.4% of total production volume of paper in 2020. The substantial share of packaging paper is attributable to the demand from logistics industry as packaging is often required as a protection to goods and items in e-commerce and expressway deliveries. Printing paper, including newsprint paper, writing paper and coated art paper are mainly used for print media and office stationery, and accounted for approximately 22.0% of total production volume of paper in 2020.

Featured with well-developed infrastructure, production technology and logistics systems for better access to raw materials and distribution of products, Eastern and Southern provinces such as Guangdong, Fujian, Jiangsu and Zhejiang are the key papermaking regions in the PRC. In terms of production volume of paper, the top five provinces, including Guangdong, Shandong, Zhejiang, Jiangsu and Fujian, accounted for over 60% of paper production volume in the PRC in 2020.

Major types of paper by production volume (the PRC), 2020



Major production provinces by production volume (the PRC), 2020



Production volume of paper in 2020 = 112.6 million tonnes

Source: China Paper Association, Frost & Sullivan

The papermaking and paper products industry in the PRC is fragmented. According to China Paper Association, there were approximately 2,500 paper and paperboard manufacturing enterprises in the PRC in 2020. The top 10 papermaking enterprises had an estimated aggregate market share of approximately 46.6% in terms of production volume. The papermaking and paper products industry is undergoing consolidation, mainly driven by more stringent environmental protection policies that suspended disqualified and non-compliant small enterprises. Correspondingly, sizeable papermaking enterprises which demonstrate proven capability in compliance with new standards may capture the market share.

OVERVIEW OF PAPERMAKING FELTS MANUFACTURING INDUSTRY IN THE PRC

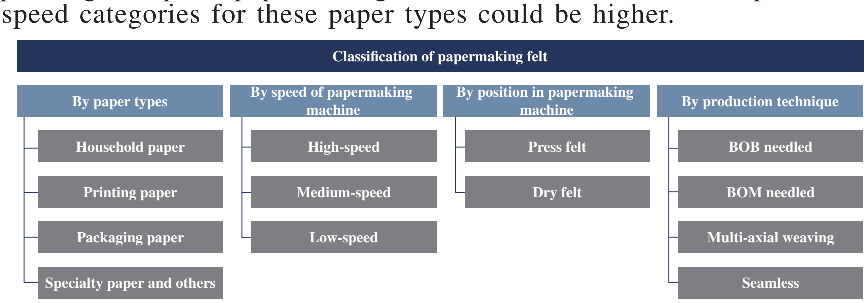
Definition and classification of papermaking felts

Papermaking felts are fabrics used in papermaking machines for pressing and dewatering, with a structure of mixed fabrics made from nylon and polyester. Papermaking felts are mainly used in wet press section and dryer section for dewatering, pressing, forming and drying of paper, which goes through a roll press together with the paper sheet to remove water off the wet web by absorbing the water without damaging the paper sheet. Papermaking felts are consumables with a replacement cycle of approximately 30 to 180 days and is regularly replaced in papermaking machines. The replacement cycle of papermaking felts is dependent on various factors such as specification of papermaking machine and type of paper produced.

Papermaking felts are specifically designed with features and core functions, such as (i) good elasticity for longitudinal extension, (ii) spaces and channels for flow of extracted moisture, (iii) high strength, stability and durability to withstand the compressive pressure, resistance to wearing and therefore avoid shifting of felt during operation of papermaking machine, along with other key features such as resistance to chemical, heat and microbial growth. In addition, papermaking felts are often customised based on the papermaking machines and types of paper output, and specifications of papermaking felts vary in width, length and thickness depending on the application in the machine. As such, papermaking felts are classified based on the paper types produced by papermaking machines (e.g. household paper, printing paper, packaging paper, specialty paper and others). On the other hand, pulp papermaking felts are used to enhance the dewatering ability and abrasion resistance, and withstand the high pressure between the pressing rollers during papermaking process.

Papermaking felts are also 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. Other common classification of papermaking felts include position in papermaking machine (e.g. press felt and dry felt) and production technique (e.g. batt-on-base ("**BOB**") needled, batt-on-mesh ("**BOM**") needled, multi-axial weaving and seamless). With good elasticity and high strength, press felt is used to press the paper sheet in order to remove moisture and transfer the paper sheet to dry felt for dewatering of paper sheets.

There is no standard threshold for respective category of speed of papermaking machine due to large variations of paper types of weight and the threshold of respective speed category increases along with technological advancement. In general, high-speed refers to above 600m per minute, medium-speed refers to 200m per minute to 600m per minute, and low-speed refers to below 200m per minute. The categorisation of speed is different based on paper types and papermaking machine and there are different speed-type requirements for papermaking felts in different applications. For example, the threshold for certain high-speed packaging papermaking machine and household papermaking machine could exceed around 800m to 900m per minute above and certain high-speed newsprint and copy paper could reach 1,800m per minute. In general, there is a limitation for certain speed range in order to achieve complete dewatering of paper sheet in the papermaking machine. In view of the aforesaid reasons and considering the advancement of papermaking technology with higher speed for certain paper categories such as printing and packaging paper, higher speed papermaking machines have been developed and the range and threshold for speed categories for these paper types could be higher.



Source: Frost & Sullivan

Sales volume and sales value of papermaking felts in the PRC

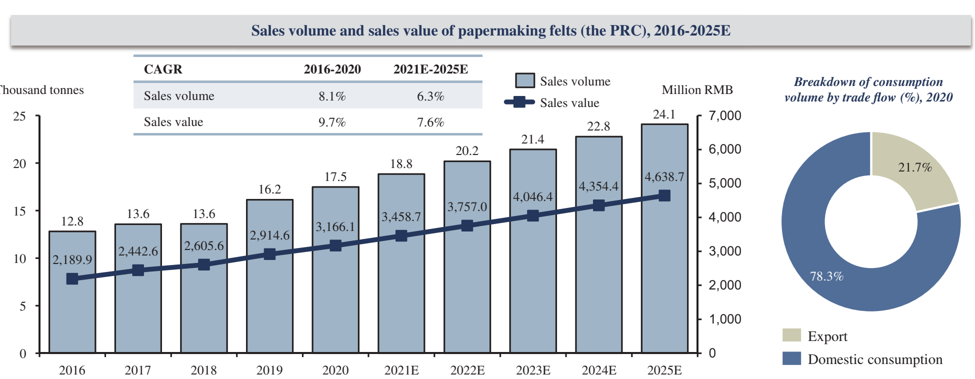
The market demand for papermaking felt is associated with the demand for paper. Specifically, the increase in output of paper machines, upgrade, replacement and expansion of production capacity from papermaking enterprises will drive the demand for papermaking felts which serve as customised consumables in different paper machines.

From 2016 to 2020, the sales volume of papermaking felts in the PRC grew from approximately 12,820.1 tonnes to approximately 17,487.9 tonnes, representing a CAGR of approximately 8.1%. Apart from the production and consumption of machine-made paper and paperboard, the market demand for papermaking felts depends on the upgrade of papermaking machine. In recent years, the increase in width of paper and production speed of papermaking machine with higher production capacity has higher wear and tear of consumables in the production process and requires the more frequent replacement and demand for papermaking felts, which results in growing demand for papermaking felts. Therefore, the increase in sales volume and sales value of papermaking felts in the PRC is higher than the increase in production and consumption volume of machine-made paper and paperboard in the PRC in 2016 to 2020.

Driven by the expected growth of domestic paper production and strong demand for papermaking felts in Southeast Asia, the sales volume of papermaking felt has seen a rapid growth from 2016 onwards with the improvement in product quality, the growth is set to maintain at a CAGR of 6.3% during 2021 to 2025.

Similarly, the sales value of papermaking felts in the PRC has achieved an overall growth from approximately RMB2,189.9 million in 2016 to approximately RMB3,166.1 million in 2020, representing a CAGR of approximately 9.7%. With the expanding production of high-speed papermaking felts among local papermaking felts manufacturers, the sales value of papermaking felts is expected to increase at a CAGR of approximately 7.6% during 2021 to 2025.

The impact of COVID-19 outbreak has temporarily affected the material supply and production of papermaking felts manufacturers in the PRC during first quarter of 2020. However, in view of the fact that (i) both papermaking felts manufacturers and their customers (i.e. paper manufacturers) generally resumed operation in mid of February 2020 and (ii) paper manufacturers are required to extend operation hours for order fulfilment upon resumption of operation, as well as (iii) expected growth in demand for paper as a result of the issuance of "Prohibit and Restrict the Production, Sales and Use of Disposable Plastic Products (Consultation Paper)" (《禁止、限制生產、銷售和使用的塑膠製品目錄(徵求意見稿)》), the market demand for papermaking felts in the PRC is expected to increase during from 2021 to 2025.



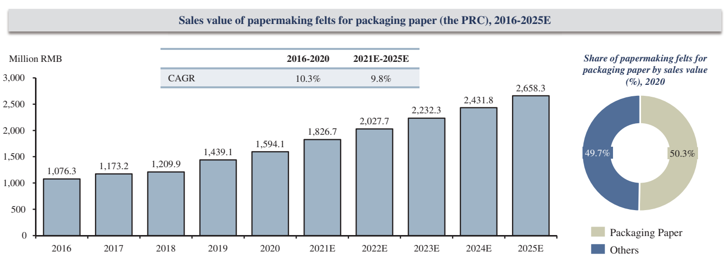
Note: the market data for the year of 2016 to 2019 is extracted from data published by China Paper Association. The market data for the year of 2020 is quoted from Frost & Sullivan's (i) independent market research and interview, (ii) analysis of actual year-on-year financial and/or business performance of key market participants in 2020, and (iii) analysis of actual performance of papermaking industry in 2020, given that the data for year of 2020 is not yet published by China Paper Association as at the Latest Practicable Date.

Source: China Paper Association, Frost & Sullivan

Sales value of papermaking felts for packaging paper in the PRC

Packaging paper is the key paper product in the PRC, which accounted for approximately 62.4% of the total production volume of machine-made paper and paperboard in 2020. During the past five years, benefiting from the rising demand from logistics industry, production and consumption of packaging paper remained high in the PRC. In line with the sustained demand for packaging paper, sales value of papermaking felts for packaging paper increased from approximately RMB1,076.3 million in 2016 to approximately RMB1,594.1 million in 2020, representing a CAGR of approximately 10.3%. It is expected that the sales value of papermaking felts for packaging paper will continue to increase at a CAGR of approximately 9.8% during 2021 to 2025.

In view of the growing demand for packaging paper for logistics in e-commerce business in the midst of COVID-19 outbreak, the corresponding market demand for papermaking felts for packaging paper is estimated to demonstrate a higher growth rate during 2020 to 2021 on the basis that the outbreak of COVID-19 in the PRC is effectively controlled by mid-2020 and the policy for limiting the use of disposable plastic products is expected to stimulate the demand for packaging paper.



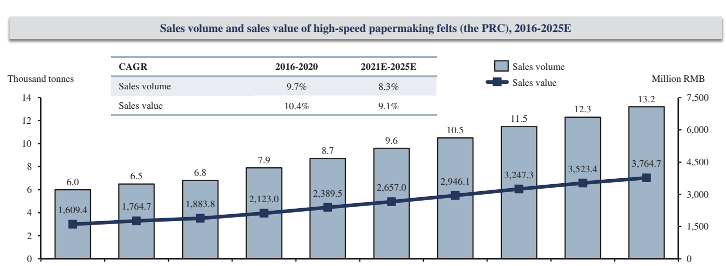
Note: the market data is derived based on Frost & Sullivan's (i) review and analysis of data published by China Paper Association, (ii) independent market research and interview, (iii) analysis of actual year-on-year financial and/or business performance of key market participants, and (iii) analysis of actual performance of papermaking industry.

Source: China Paper Association, Frost & Sullivan

Sales volume and sales value of high-speed papermaking felts in the PRC

Driven by the trend of eliminating outdated production capacity of papermaking enterprises which are mainly equipped with low speed papermaking machines, and increasing application of high-speed papermaking machines in recent years, the sales volume of high-speed papermaking felts in the PRC recorded a growth from approximately 6,000 tonnes in 2016 to approximately 8,700 tonnes in 2020, representing a CAGR of 9.7%. Going forward, the sales volume of high-speed papermaking felts in the PRC is expected to increase at a CAGR of 8.3% from 2021 to 2025.

The sales value of high-speed papermaking felts in the PRC achieved a growth from approximately RMB1,609.4 million in 2016 to approximately RMB2,389.5 million in 2020, representing a CAGR of 10.4%, and is expected to grow further at a CAGR of 9.1% from 2021 to 2025.



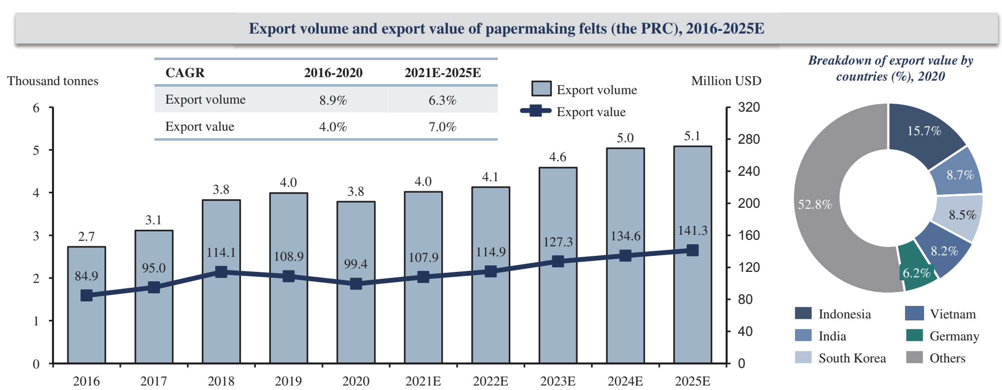
Note: High-speed papermaking felts refer to papermaking felts for papermaking machine with production speed of above 600m per minute. The market data is derived based on Frost & Sullivan's (i) review and analysis of data published by China Paper Association, (ii) independent market research and interview, (iii) analysis of actual year-on-year financial and/or business performance of key market participants, and (iii) analysis of actual performance of papermaking industry.

Source: Frost & Sullivan

Export volume and export value of papermaking felts in the PRC

The export volume of papermaking felts in the PRC recorded a growth from approximately 2.7 thousand tonnes in 2016 to approximately 3.8 thousand tonnes in 2020, representing a CAGR of approximately 8.9%. Similarly, the export value of papermaking felts in the PRC also increased from approximately USD84.9 million in 2016 to approximately USD99.4 million in 2020, representing a CAGR of approximately 4.0%. The growth was mainly driven by the expansion of paper and paper products manufacturers in Southeast Asia during recent years with increasing number of factories opening in the region, boosting the demand of papermaking felts from the PRC. Indonesia was the major destination in terms of export value of papermaking felts from the PRC, accounting for a share of approximately 15.7% in terms of value in 2020.

Due to the disruption of papermaking and trade activities as a result of COVID-19 outbreak in Southeast Asia and other major end markets such as Europe and South Korea, the export volume and value of papermaking felts in the PRC is expected to grow moderately at a CAGR of approximately 6.3% and 7.0% respectively during 2021 to 2025.



Source: Trade Map, Frost & Sullivan

Major end markets for export of papermaking felts in the PRC

During the past five years, Southeast Asia remained an important end market to papermaking felts manufacturers in the PRC due to the growing number of paper and paper products manufacturers in the region. The export value of papermaking felts in the PRC to Indonesia recorded a growth from approximately USD11.5 million in 2016 to approximately USD15.6 million in 2020, representing a CAGR of approximately 7.8%. In particular, the export value to Vietnam has registered a CAGR of approximately 23.7% from 2016 to 2020. Going forward, underpinned by the continuous expansion of paper and paper products manufacturers in Southeast Asia to cope with the growing paper demand from urbanisation and higher living standards, the demand and therefore export value of papermaking felts from the PRC to Southeast Asia is expected to grow prosperously in the next few years.

On the other hand, owing to the increasing operation costs and intensified price competition amongst domestic papermaking felts manufacturers in the PRC especially for the high-speed papermaking felts, the export unit price and therefore export value of papermaking felt in the PRC recorded a moderate decline and papermaking felts manufacturers in the PRC are facing shrinking profitability when selling products to other overseas markets during 2019 to 2020.

Source: Trade Map, Frost & Sullivan

Market drivers and opportunities

Higher demand of paper products in downstream industries — The expansion of the papermaking felts manufacturing industry in the PRC is highly associated with the growing demand of paper and paper products in downstream industries. According to the China Paper Association, the consumption demand of paper and paperboard products had increased from approximately 104.2 million tonnes in 2016 to approximately 118.3 million tonnes in 2020, representing a CAGR of approximately 3.2%. Attributable to the growing population, accelerated urbanisation, and economic growth, the consumption of paper products such as household paper, printing paper and packaging paper is expected to demonstrate a steady and sustainable growth in the forthcoming years as paper products are necessity in daily life for residents in the PRC. Specifically, the significant growth of online retail sales and e-commerce bolstered the demand for packaging paper in the PRC market given that the use of packaging is essential for e-commerce business. Despite the initiatives taken by certain e-commerce companies in reducing the packaging waste through adoption of green packaging in recent years, the impact on papermaking business is expected to be minimal on the basis that (i) the green initiatives generally focus on reducing the use of non-recyclable materials such as disposable foam packaging box, (ii) some types of paper are recyclable and are used for certain green packaging made from composite materials, and (iii) there is no foreseeable change in alternative recyclable substitutes for paper with similar properties and cost in near term. Furthermore, the demand for high quality paper also contributes to the development and sales of high-performance papermaking felts in the market.

Supportive policy for the development of industrial textiles industry — Pursuant to "the Guiding Opinions for the Development of the Industrial Textiles Industry in the 13th Five-Year Period" (《產業用紡織品行業"十三五"發展指導意見》) promulgated by the Ministry of Industry and Information Technology and the National Development and Reform Commission in 2017, "Made in China 2025" (《中國製造2025》) and "the Development Plan for the Textile Industry (2016-2020)" (《紡織工業發展規劃(2016-2020)》), the industrial textiles industry is considered as a key development area of textile industry in respect of the expansion of the industry and technological advancement. For example, the total industrial fabric processing volume is expected to grow at approximately 8% annually during 2016 to 2020 and the industrial textiles industry may demonstrate higher level of product innovation, expansion and integration of local enterprises, as well as more stringent regulations. Thus, as a sub-segment of industrial textile industry, the growth of papermaking felts manufacturing industry in the PRC is underpinned by the supportive guidance.

Expanding export trade with Southeast Asia and other emerging markets — Due to the rising consumption level of paper and paper products particularly in Southeast Asia, there is an increasing number of paper and paper products manufacturers setting up their business operations in the region. Furthermore, apart from targeting the domestic market, papermaking felts manufacturers in the PRC will also benefit from the growing export trade. For example, the export value of papermaking felts from the PRC to Indonesia and Vietnam had increased at a CAGR of 7.9% and 23.7%, respectively during 2016 to 2020. The growth in export trade with Southeast Asia and potentially other emerging countries such as India, will serve as a business opportunity for papermaking felts manufacturers in the PRC. In addition, the export trade of papermaking felt in the PRC is not materially affected by the U.S.-China trade war given that the export value of papermaking felt in the PRC to U.S. accounted for less than 2% of total export value of papermaking felt in the PRC from 2016 to 2020.

Market trends

Advancement of papermaking felts quality — Papermaking felts are considered a specialised industrial textile made from technical fabrics, which is specially designed and weaved for application in papermaking machine. Papermaking felts manufacturers are dedicated to research and development in respect of production technique that may influence the application, performance and durability of papermaking felts in papermaking machines. For example, researchers and certain papermaking felts manufacturers in the PRC had collaborated and conducted technical study to review the issue of vibration of papermaking felts and its associated impact on the safety of papermaking machine during operation. Furthermore, the shift of papermaking industry towards the use of high-speed papermaking machine and demand for high production speed and quality of paper also lead to the expansion of high-performance papermaking felts.

Industry consolidation and value chain integration — In view of the intensifying market competition and close business nature with stakeholders along the value chain, sizeable local papermaking felts manufacturers in the PRC may seek to merge with and/or acquire with their industry peers to enhance the production capacity and capability in research and development. Improvement of product technology is of vital importance to local papermaking felts manufacturers as the high-end market is currently dominated by foreign invested enterprises. In the future, sizeable enterprises may also demonstrate upstream or downstream expansion, given the close business relationship among stakeholders. For example, sizeable papermaking felts manufacturers may also acquire other manufacturers of paper machine consumables such as papermaking screen, in order to expand business horizontally in the industry chain and achieve synergies effects.

Adoption to green productions — The PRC government has put forth the promotion of green manufacturing and development of circular economy (循環經濟) in industrial textile industry and outline specific initiatives such as research and development of energy-saving production process, increase in the application of recycled fabrics in industrial textile and development of degradable industrial textile. As such, existing papermaking felts manufacturers are expected to demonstrate higher degree of adoption to the use of recycled materials for production.

Growing competitiveness of domestic players — Currently, the papermaking felts manufacturing industry is featured with several foreign invested market participants with strong capability in research and development and demonstrate premium product quality. Foreign invested papermaking felts manufacturers are highly competitive in the high-speed and high-performance segment of papermaking felts. In contrast, domestic market participants in the papermaking felts manufacturing industry are relatively competitive in terms of pricing and service level. In addition, in view of the government support for local enterprise towards the advancement of production quality and technology, domestic papermaking felts manufacturers are set to put higher emphasis on advancement of production technique and product quality.

Diversifying portfolio of paper and papermaking felts — The papermaking felts manufacturing industry serves as a service-oriented manufacturing industry and ties closely to downstream paper and paper products manufacturing industry, including household paper, printing paper (e.g. newsprint, printing and writing paper), packaging paper (e.g. linerboard, corrugated medium) and specialty paper and paper products manufacturers. Traditional paper and paper products manufacturers often provide homogeneous products and services, where they compete in pricing and logistics. In view of the increasing market competition and the foreseeable industry consolidation, mid-to-small sized paper and paper products manufacturers had attempted to innovate and start offering a wider product portfolio as well as other value-added services to stand out from the market competition. Correspondingly, as the upstream supplier to paper and paper products manufacturers, papermaking felts manufacturers are set to diversify their product portfolio to cope with the customer requirement.

Growth of high-speed papermaking felt segment — The advancement of paper machine with higher operational efficiency, larger width and higher speed contributed to the higher requirements on consumables including papermaking felt. Specifically, the market of high-speed papermaking felt is expected to expand more rapidly as compared to other types of papermaking felts, which is mainly supported by the growing capability and investment of domestic enterprises on development and manufacturing of high-speed papermaking felt with improving product quality and at a competitive price over the foreign enterprises.

Market challenges and constraints

Evolving papermaking technology and higher customer requirement — The papermaking industry in the PRC is long-established and has experienced a rapid growth over the past decade with continuous upgrade of papermaking technology and efficiency. In particularly, papermakers in the PRC has 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. To cope with higher customer requirement, papermaking felts manufacturers are required to allocate additional financial and human resources to enhance research and development and production capability.

Talent recruitment — Development, production and sales of papermaking felts require in-depth and comprehensive know-how in relation to the requirement of downstream paper and paper products manufacturers. Given the fact that foreign invested papermaking felts enterprises own a strong research and development team with solid product development capability, domestic players find it difficult to recruit relevant experienced professionals to support their development. Similarly, availability of experienced management and sales professionals in the papermaking felts manufacturing industry is also limited, thus resulting in challenges for domestic players to expand their business. In contrast, papermaking felts manufacturers with stable management team and staff are more competitive as compared to their industry peers.

Impact of COVID-19 outbreak on papermaking and papermaking felts manufacturing market in the PRC

Since around December 2019, there has been an outbreak of new type of coronavirus disease, namely COVID-19, in the PRC and other countries. The PRC authorities have taken various measures, such as mandatory quarantine for residents and travellers, lockdown of certain cities and postponement of business units operation following the Chinese New Year holidays until mid of February 2020, in an attempt to contain COVID-19.

The level of impact of COVID-19 outbreak on paper manufacturers is dependent on the product types of categories which demonstrates different degrees of temporary change in market demand in the PRC. For example, the market demand for certain household and specialty papers, such as tissue paper, disposable medical wipes, as well as packaging paper primarily used in logistic sector, increased significantly during first two months of 2020 due to higher awareness towards personal hygiene and logistics demand resulted from the surge of e-commerce performance in the midst of closure of physical retail stores, while the other paper types such as printing paper has decreased in view of the temporary suspension of downstream business activities and limited raw material (e.g. scrap paper) supply. Similarly, the operation and business performance of papermaking felts manufacturers is likely to be affected by the COVID-19 outbreak during the first two months of 2020 and may experience certain degree of delay in material supply and order fulfilment, as well as temporary decline of market demand for papermaking felts resulted from the suspension of operation by some paper manufacturers.

However, the impact of COVID-19 outbreak is expected to be temporary given that (i) the number of confirmed COVID-19 cases in the PRC has been declining since February 2020 and (ii) some major paper manufacturers in the PRC have resumed over 80% of production capacity in March 2020. Subsequent to the resumption of operation of industrial enterprises, paper manufacturers in the PRC are expected to ramp up their utilisation for fulfilment of the delayed order, which will contribute to the surge in demand for consumables such as papermaking felts due to extended hours of operation of paper machines. In addition, paper manufacturer in the PRC are ramping up their production capacity to fulfil the growing market demand for paper amid the COVID-19 outbreak. According to China Paper association, the production capacity for cardboard and corrugated fiberboard of major paper manufacturers in the PRC is expected to increase by 12.4 million tonnes during 2020 to 2021, representing a growth rate of 23.0% from 2019 to 2021. Furthermore, the additional production capacity of household paper is set to reach approximately 2.6 million tonnes from 2020 onwards, which is higher than 2019 with approximately 1.6 million tonnes per year. As a result, the impact of COVID-19 outbreak on business performance of papermaking felts manufacturers such as our Group is set to be mitigated in a long term upon resumption of operation of paper manufacturers.

On the other hand, the ongoing COVID-19 outbreak in the overseas markets such as Southeast Asia and European countries have been adversely affecting the operation of paper manufacturers, logistics and trading companies, which results in decline of market demand and supply of papermaking felts imported from the PRC in the aforesaid overseas markets, and therefore affect the business performance of papermaking felts manufacturers in the PRC targeting overseas markets. However, 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.

The COVID-19 outbreak also led to robust growth in demand for packaging paper with the surge in e-commerce due to change in consumption pattern of consumers as a result of social distancing measures. The demand for packaging paper and cardboard has also seen a recovery as reflected by the surge in paper price during the second half of 2020. As such, the adoption of online retail platform will benefit the supply chain of packaging paper and papermaking felt as consumables in papermaking process.

Cost structure analysis

The average monthly salary of employed persons in manufacturing industry witnessed a steady growth from approximately RMB3,892.8 in 2016 to approximately RMB5,232.6 in 2020, representing a CAGR of approximately 7.7%. The growth was primarily attributable to the higher demand for workers in the manufacturing industry. The average monthly salary of employed persons in the manufacturing industry is expected to increase at a CAGR of approximately 7.0% from 2021 to 2025.

Nylon is the major raw material of monofilaments and fibre for production of papermaking felts. The import price of imported nylon monofilaments and fibre increased at a CAGR of approximately 3.0% during 2016 to 2020. On the other hand, the price of domestic nylon monofilament and fibre recorded a fluctuation -3.2% during 2016 to 2020. Going forward, the price of imported and domestic nylon monofilaments and fibre is expected to increase during 2021 to 2025 with the growing demand from manufacturers. The growing operational cost is expected to drive the increasing price of papermaking felts.

Average price of imported and domestic monofilaments and fibre in papermaking felts manufacturing (the PRC), 2016-2025E

	Unit	2016	2017	2018	2019	2020	2021E	2025E	CAGR (2016-2020)	CAGR (2021E-2025E)
Price of imported nylon monofilament and fibre.	RMB per kg	57.7	60.2	63.1	64.9	64.9	67.2	76.1	3.0%	3.2%
Price of domestic nylon monofilament and fibre.	RMB per kg	20.6	27.1	29.0	22.6	18.1	18.5	20.6	-3.2%	2.7%

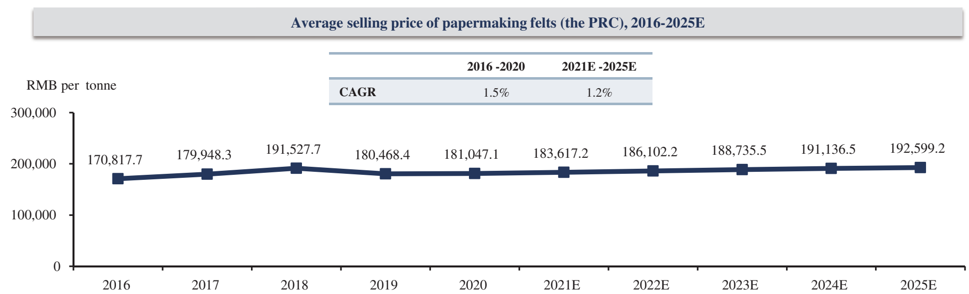
Note: the price of imported nylon monofilament and fibre takes into account the exchange rate fluctuation between USD and RMB

Source: Frost & Sullivan

Price range and price trend of papermaking felts

Papermaking felts sold in the PRC typically have a wide price range and the price of papermaking felt in the PRC generally varies based on the product quality and category of papermaking felts by speed. The price of high-speed papermaking felt ranges from approximately RMB200,000 to approximately RMB450,000 per tonne while price of medium-speed papermaking felt ranges from approximately RMB130,000 to approximately RMB200,000 per tonne. The price of low-speed papermaking felt is generally below RMB130,000 per tonne in 2020.

Attributable to the rise in demand for paper and paper products and increase in raw materials cost, the average selling price of papermaking felts had achieved an overall growth from approximately RMB170,819.6 per tonne in 2016 to RMB181,047.1 per tonne in 2020, representing a CAGR of approximately 1.5%. The drop of the average selling price during 2019 to 2020 was mainly due to the intensified price competition of high-speed papermaking felts between foreign and domestic manufacturers. In particular, the decrease of aggregate market share of top five papermaking felt enterprises, comprising mainly foreign enterprise in the PRC from 49.3% to 48.6% during 2019 to 2020 indicates that domestic papermaking felt manufacturers expanded more rapidly and offer papermaking felts at a more competitive price over their foreign peers, which results in slight decline of overall average selling price of papermaking felt in the PRC. Going forward, with the positive outlook of the paper and paper products manufacturing industry in the PRC, the growing demand for high-speed and high-performance papermaking felts and the increasing level of participation by domestic papermaking felt manufacturers in developing high-speed papermaking felts of higher selling price than low-end and mid-speed papermaking felts, the average selling prices of papermaking felts in the PRC is expected to maintain a steady growth at a CAGR of approximately 1.2% during 2021 to 2025.



Source: Frost & Sullivan

The average selling price of papermaking felts sold by our Group is slightly lower than the average selling price of papermaking felts due to the fact that our Group's revenue from medium-speed papermaking felts accounted for approximately 56.7%, 55.5%, 50.0% and 48.2% of the total revenue of our Group during the Track Record Period, while the revenue of the Group from high-speed papermaking felts accounted for approximately 20.0%, 23.4%, 30.1% and 31.0% of revenue of our Group respectively. In contrast, the overall papermaking felts market comprises mainly high-speed papermaking felts which accounted for approximately 49.7% and 75.5% of overall sales volume and sales value of papermaking felts market in the PRC in 2020, and the unit price of high-speed papermaking felts is generally higher than the medium-speed papermaking felt and low-speed papermaking felt. In addition, the high-speed papermaking felts segment is also dominated by the foreign-invested papermaking felts manufacturers and their selling price is generally higher than that of local papermaking felts manufacturers including our Group, attributable to product quality and brand reputation, and the top 4 foreign-invested papermaking manufacturers has an aggregate market share of approximately 42.7% in the overall papermaking felts market in the PRC in terms of revenue in 2020. Despite the lower average selling price, it is a competitive edge for our Group to sell papermaking felts with comparable quality as compared to other foreign-invested papermaking felts manufacturers at a competitive price.

COMPETITIVE LANDSCAPE OF PAPERMAKING FELTS MANUFACTURING INDUSTRY IN THE PRC

Overview of market competition

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. Attributable to the advanced technology, research and development capability and higher product quality, foreign invested enterprises in the papermaking felts manufacturing industry in the PRC are generally considered more competitive over most of the local papermaking felts manufacturers. On the other hand, only a few local papermaking felts manufacturers, including the Group, demonstrated capability of producing high quality papermaking felts for high-speed papermaking machines while majority of other local enterprises generally compete on supplying papermaking felts for medium and low-speed papermaking machines.

Currently, leading foreign invested enterprises in the papermaking felts manufacturing industry in the PRC are long-established multinational companies with advanced technology and equipment focusing on the production of high-quality felts, and most of them demonstrated vertical expansion whereby they are involved in the supply of papermaking felts machines, papermaking machines and even paper products. The development of the papermaking felts manufacturing industry in the PRC in respect of technological advancement and strengthened research and development capabilities of leading market participants may pose the barrier for new entrants and threats to existing local enterprises without development capability.

According to Frost & Sullivan, the top five papermaking felts manufacturers in the PRC market accounted for approximately 48.6% of market share in terms of revenue in 2020. Our Group was one of the top five papermaking felts manufacturers in the PRC market, among which, our Group ranked fourth and was the only papermaking felts manufacturer headquartered in the PRC, with an approximate market share of 5.8% in terms of revenue in 2020. As compared to other top five papermaking felts manufacturers, our Group focuses primarily in the PRC with papermaking felts as the main product. In contrast, some of the other top five papermaking felts manufacturers are conglomerate with global presence, and may also focus on sales of other products including, papermaking machine as well as other papermaking consumables. In addition, our Group offers papermaking felts with different speed range while some of the other leading players mainly offer high speed papermaking felts. During the Track Record Period, major part of our revenue was generated from the products for medium-speed papermaking felts, which accounted for approximately 56.7%, 55.5%, 50.0% and 48.2% of our Group's total revenue during the respective year/period due to (i) the high market demand for and relatively high gross profit margin of medium-speed papermaking felts as compared to low-speed papermaking felts which, coupled with our Group's production capacity, provided stable income to our Group and maintained the market share of our Group's product and the reputation of our Group; and (ii) the fact that a solid focus on end customers' needs on medium-papermaking felts laid the foundation for our Group to expand the market share of high-speed papermaking felts in the future, since there is an expected increasing demand for high-speed papermaking felts in the papermaking industry as end customers upgrade from medium-speed and/or low-speed papermaking machines. As the leading domestic papermaking felts manufacturer, our Group demonstrates a better understanding towards the development of papermaking industry in the PRC with a more effective communication with domestic paper manufacturers in respect to the paper machine optimisation and other value-added services offered to customers especially for domestic papermaking enterprises of different size and scale in the PRC. On the other hand, despite the higher research and development capability and better useful life of product offered by other top five papermaking felts manufacturers, our Group is more competitive in customer service, after-sales service and price and the papermaking felts products sold by our Group has a higher cost performance as compared to by other top five papermaking felts manufacturers.

Leading papermaking felts manufacturers in the PRC, 2020

Rank	Market participant	Year of establishment	Headquarter	Approximate revenue	Market share by revenue
				(Million RMB)	*(%)*
1	Company A	1895	United States	545.6	17.2%
2	Company B	1825	Germany	387.4	12.2%
3	Company C	1797	Finland	245.3	7.7%
4	Our Group	2007	The PRC	182.8	5.8%
5	Company D	1811	Germany	177.9	5.6%
			Sub-total	1,539.0	48.6%
			Others	1,627.1	51.4%
			Total	3,166.1	100.0%

Notes:

(i) Company A is the world's leading producer of custom-designed fabrics and felts for papermaking machines. It operates 23 plants in 10 countries and manages its business in the PRC through its subsidiaries in Zhejiang and Guangdong.

(ii) Company B has 15 subsidiaries in Asia with comprehensive solutions provided to the paper and paper products manufacturers. Its major products in the PRC include papermaking screens and felts for high-speed papermaking machines and papermaking machines and its factories are located in Jiangsu.

(iii) Company C engages in the development and supply of technologies, automation and services for the pulp, paper and energy industries, which has over 200 years of history as an industrial operator and is formerly owned by the State of Finland. Company C has three service centres in the PRC providing papermaking screens and felts, and machines to paper and paper products manufacturers. It has factories in Guangdong, Shandong, Jiangsu and etc.

(iv) Company D has been established worldwide as one of the major suppliers of papermaking screens and felts for all sections and all paper grades. It has subsidiaries and production lines in the PRC located in Jiangsu.

Source: Frost & Sullivan

Nature of market competition

Product quality — Quality and performance of papermaking felts is associated with production efficiency and cost deduction in paper manufacturing process. Papermaking felts manufacturers are required to offer modifications and customisations of products to customers upon request to support their business operation. Therefore, papermaking felts manufacturers which can fulfil customer requirements by offering high quality products will stand out from the competitors.

Business relationship with stakeholders — Leading market participants in the papermaking felts manufacturing industry in the PRC generally maintained a close business relationship with upstream suppliers, downstream customers and other parties such as research institutions. A good business relationship with key stakeholders enables papermaking felts manufacturers to source materials, perform research and development activities, and provide customised products through understanding of customer requirement. Market participants can also obtain information on market trends and technology development by leveraging the business relationship with various parties.

Service delivery and technical support — The capability of providing desired products, service and technical support to customers has become a key differentiator for market participants in the papermaking felts market in the PRC. Sizeable paper and paper products manufacturers usually expect value-added services from established papermaking felts manufacturers including pre-sales consulting, customised product design and technical support during operation of papermaking machines. Technical supports include following up of the applicability of papermaking felts in paper machines, regular testing of papermaking felts to track the product quality and assist customers to enhance the efficiency of paper machines. Apart from bundle sales of paper machines and papermaking felts, some sizeable papermaking felt manufacturers also leverage their technical capability to offer production efficiency optimisation solution to papermaking enterprises on the papermaking machines, which include aftersales product testing, design optimisation services to increase customer loyalty.

Industry experience and reputation — Market participants with a proven track record, diversified product portfolio and a professional team of talents are generally more preferred by downstream customers. In general, sizeable paper and paper products manufacturers source papermaking felts from several established papermaking felts manufacturers in the PRC with strong reputation and outstanding product performance.

Entry barriers

Production technology and market know-how — The performance and quality of papermaking felts are highly associated with the reliability and efficiency of operation of papermaking machines. Established papermaking felts manufacturers generally possess advanced technology and needling expertise in developing papermaking felts with enhanced properties in relation to seam strength, dimensional stability and durability, coupled with in-depth experience and know-how in the papermaking process, as well as offering pre-sales and aftersales technical support and assists paper and paper products manufacturers to achieve efficient production, cost reduction and energy saving through the use of adequate papermaking felts. Specifically, only limited manufacturer is capable of supplying papermaking felt for high-speed papermaking machines. As a result, technology and market know-how serve as key barriers for new market entrants.

Industry connection and network — Customer relationship becomes a key barrier for new entrants, as papermaking felts are often customised based on the type of papermaking machines and paper products of the clients. Paper and paper products manufacturers will therefore choose familiar and well established papermaking felts manufacturers. In general, existing market participants tend to maintain established relationships with their key customers, and enable them to identify the requirements and provide customised products and even solutions. In contrast, new entrants without connection in the industry are hindered from development as paper and paper products manufacturers generally show a preference towards established papermaking felts manufacturers as their major suppliers.

Access to industry professionals — The papermaking felts manufacturing industry in the PRC relies heavily on professionals and talents for product development and production. Sizeable market participants generally acquire and retain professionals with extensive and comprehensive knowledge and expertise in paper manufacturing, procurement, and research and development of papermaking felts. Furthermore, qualified and competent workers, as well as management professionals, are required in production process. In view of the large scale of operation and reputation in the industry, established papermaking felts manufacturers are more capable of attracting professionals and talents compared with new entrants without presence in the industry, which poses a challenge to new entrants in talent acquisition.

COMPETITIVE STRENGTHS OF OUR GROUP

According to Frost & Sullivan, the key competitive strengths of the Group include: (i) experienced and high calibre professional and management team, (ii) research and development capabilities, (iii) established strong business relationships with key customers and suppliers, (iv) 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 and (v) capability of providing papermaking machine efficiency optimisation services.

Please refer to the paragraph headed "Business — Competitive strengths" in this prospectus for a detailed discussion of competitive strengths of our Group.

DIRECTORS' CONFIRMATION

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

This section summarises the key PRC laws and regulations relating to the business and operations carried out by our companies in the PRC.

I. PRC LAWS AND REGULATIONS IN RELATION TO FOREIGN INVESTMENT

1. The Establishment, Operation and Management of Foreign-Invested Enterprises

According to the Company Law of the PRC (《中華人民共和國公司法》) (which came into effect on 1 July 1994 with latest amendment on 26 October 2018), this law shall be applicable to foreign-invested companies with limited liability and such companies limited by shares; and where laws on foreign investments provide otherwise, the provisions there shall be applicable.

According to the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (which came into effect on 1 January 2020, the "**Foreign Investment Law**"), it is applicable to foreign investment within the PRC. Pre-establishment national treatment is granted to foreign investment and a negative list management system is implemented. Domestic and foreign investment are managed equally in the areas not on the negative list. The organizational form and structure of a foreign Investment company and its code of conduct are subject to laws such as the Company Law of the PRC (《中華人民共和國公司法》). The Law of the PRC on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), the Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》) and the Law of the PRC on Sino-Foreign Equity Cooperative Joint Ventures (《中華人民共和國中外合作經營企業法》) are in suspension when the Foreign Investment Law is in effect. Wholly foreign owned enterprises established under the Law of the PRC on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), the Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》) and the Law of the PRC on Sino-Foreign Equity Cooperative Joint Ventures (《中華人民共和國中外合作經營企業法》) prior to the Foreign Investment Law coming into effect shall remain its original organizational form, etc. for five years thereafter.

According to the Implementing Regulations of the Foreign Investment Law of the PRC (《中華人民共和國外商投資法實施條例》) (which came into effect on 1 January 2020), Wholly foreign owned enterprises established under the Law of the PRC on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), the Law of the PRC on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法》) and the Law of the PRC on Sino-Foreign Equity Cooperative Joint Ventures (《中華人民共和國中外合作經營企業法》) prior to the Foreign Investment Law coming into effect shall, within five years thereafter, either adjust its organizational form and structure, etc. and lawfully register for such changes according to the laws or remain its original organizational form and structure, etc. Transfer of shares or interests, allocation of revenue, distribution of remaining assets, etc. as agreed upon the parties to the contract of the original joint venture or cooperative joint venture shall continue to be completed in ways prescribed in such contract after the adjustment of the organizational form and structure, etc. of existing wholly foreign owned enterprises according to the laws. Investment made by wholly foreign owned enterprises within the PRC is subject to the Foreign Investment Law and the relevant regulations thereof. Investors from the Hong Kong Special Administrative Region and the Macao Special Administrative Region shall invest in the Mainland with reference to the Foreign Investment Law and the relevant regulations thereof.

According to the Measures of the Foreign Investment Information Reporting (《外商投資信息報告辦法》) (which came into effect on 1 January 2020), when foreign investors make direct or indirect investments within the PRC, foreign investors or wholly foreign owned enterprises shall send investment information to the competent commercial department. Foreign investors or wholly foreign owned enterprises shall send investment information by submitting initial reports, change reports, cancellation reports, annual reports, etc. according to the regulations. Wholly foreign owned enterprises shall submit the annual report of the previous year through the National Enterprise Credit Information Publicity System from 1 January to 30 June each year.

2. Direction of Foreign Investment

According to the Provisions on Guiding Direction of Foreign Investment (《指導外商投資方向規定》) (which came into effect on 1 April 2002), foreign investment projects are categorised into encouraged, permitted, restricted and prohibited industries. Except for foreign investment projects in permitted industries, foreign investment projects in encouraged, restricted and prohibited industries are included in the Catalogue of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》) (which came into effect on 28 July 2017 and partially invalidated by the Special Administrative Measures (Negative List) for Access of Foreign Investment (2020 Edition) (《外商投資准入特別管理措施(負面清單)(2020年版)》) and the Catalogue of Encouraged Industries for Foreign Investment (2020 Edition) (《鼓勵外商投資產業目錄(2020年版)》) which came into effect on 23 July 2020 and 27 January 2021 respectively) as amended from time to time. These provisions are applicable to projects of investment by establishing Sino-foreign equity joint ventures, Sino-foreign cooperative joint ventures and wholly foreign-owned enterprises in the PRC and foreign investment projects in other forms. Investment projects by investors from the Hong Kong Special Administrative Region shall be conducted in reference to such provisions.

The Special Administrative Measures (Negative List) for Access of Foreign Investment (2020 Edition) (《外商投資准入特別管理措施(負面清單)(2020年版)》) (the "Negative List for Access of Foreign Investment", which came into effect on 23 July 2020) set out the special administrative measures for access of foreign investment such as the requirements in relation to shareholding and senior management. Matters beyond the coverage of the Negative List for Access of Foreign Investment shall be dealt with in the principle of same treatment for domestic and foreign investment. Matters in relation to administrative approval, qualification requirement and national security in culture and financial industries which are not specified in the Negative List for Access of Foreign Investment shall be dealt with in accordance with relevant prevailing regulations.

3. Mergers and Acquisitions of Domestic Enterprises by Foreign Investors and Overseas Listing

According to the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (which came into effect on 8 September 2006 with latest amendment on 22 June 2009), in the cash where a domestic company, enterprise or natural person, through an overseas company legally established or controlled by it/him, acquires a domestic company that is related or connected with it/him, or a foreign investor acquires a domestic company with equity interest, it/he shall obtain approval from the Ministry of Commerce of the PRC and complete the registration for such change or establishment with the State Administration for Industry and Commerce or its local branches. Overseas listing of special purpose vehicle is subject to approval from the securities regulatory authority under the State Council. In particular, acquisition of domestic enterprise by foreign investor represents that (1) a foreign investor acquires equity interests from the shareholders of a non-foreign invested enterprise or subscribes for new equity interests in a domestic enterprise, thereby converting it into a foreign invested enterprise (equity acquisition); (2) a foreign investor establishes a foreign invested enterprise which purchases and operates the assets of a domestic enterprise by agreement, or which purchases the assets of a domestic enterprise by agreement and establish a foreign invested enterprise with such assets for operation. (assets acquisition).

II. PRC LAWS AND REGULATIONS IN RELATION TO ENTERPRISE TAXATION

1. Value-Added Tax

According to the Interim Regulation on Value Added Tax of the PRC (《中華人民共和國增值稅暫行條例》) (which came into effect on 1 January 1994 with latest amendment on 19 November 2017) and the Details Rules for Implementation of the Interim Regulation on Value Added Tax of the PRC (《中華人民共和國增值稅暫行條例實施細則》) (which came into effect on 25 December 1993 with latest amendment on 28 October 2011), unless otherwise provided, entities and individuals that sell goods or labour services of processing, repair or replacement, sell services, intangible assets, or immovable properties, or import goods within the territory of the PRC shall pay VAT at the rate of 0%, 6%, 11%, and 17% for different goods sold or different services rendered.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on Comprehensive Implementation of the Pilot Program of Replacing Business Tax with Value-Added Tax (《財政部、國家稅務總局關於全面推開營業稅改徵增值稅試點的通知》) (which came into effect on 1 May 2016 and partially invalidated with effect from 1 July 2017, 1 January 2018 and 1 April 2019), the entities and individuals that sell services, intangible assets or immovable properties within the territory of the PRC are VAT payers, and shall pay VAT instead of business tax in accordance with such notice. According to the Measures for Administration of Tax Refund (Exemption) of Exported Goods (For Trial Implementation) (《出口貨物退(免)稅管理辦法(試行)》) (which came into effect on 1 May 2005 with latest amendment on 15 June 2018), unless otherwise provided, for goods exported by exporters, the exporters may, after the declaration of goods export and the conclusion of financial settlement for sales, apply with the competent tax authorities for approval of refund or exemption of his VAT.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (《財政部、稅務總局關於調整增值稅稅率的通知》) (which came into effect on 1 May 2018), VAT taxpayers who were previously subject to VAT at 17% and 11% for taxable sales or imported goods shall be subject to an adjusted 16% and 10% VAT rate respectively.

According to the Announcement on Policies for Intensifying Value-added Tax Reform (《關於深化增值稅改革有關政策的公告》) (which came into effect on 1 April 2019), general VAT taxpayers who were previously subject to VAT at 16% and 10% for taxable sales or imported goods shall be subject to an adjusted 13% and 9% VAT rate respectively.

2. Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (which came into effect on 1 January 2008 with latest amendment on 29 December 2018) and the Regulation on Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (which came into effect on 1 January 2008 with latest amendment on 23 April 2019), the enterprises and other organisations within the territory of the PRC that have incomes shall be payers of the enterprise income tax and shall pay their enterprise income taxes in accordance with such laws and regulations. An enterprise established in accordance with the PRC laws in the PRC or established under the law of a foreign country (region) but whose actual office of management resides in the PRC is a resident enterprise; an enterprise established under the law of a foreign country (region), whose actual office of management does not reside in the PRC but which has offices or establishments in the PRC; or which does not have any offices or establishments in the PRC but has incomes sourced in the PRC is a non-resident enterprise. Resident enterprise is subject to enterprise income tax at a tax rate of 25%. For a non-resident enterprise having offices or establishments in the PRC, it shall pay enterprise income tax at tax rate of 25% on its incomes derived from such offices or establishments in the PRC as well as on incomes that it earns outside the PRC but which has actual connection with the said offices or establishments. For a non-resident enterprise having no office or establishment in the PRC, or for a non-resident enterprise whose incomes have no actual connection with its office or establishment in the PRC, it shall pay enterprise income tax at a tax rate of 10% on the incomes derived from the PRC. The enterprise income tax on important high- and new-tech enterprises that are supported by the state shall be levied at the reduced tax rate of 15%. For research and development expenditures incurred by enterprises in the development of new technology, new products and new skills, if these expenditures have not been reflected in the profit or loss for the same period as intangible assets, enterprises are allowed to make a deduction of 50% of the actual cost of research and development; if these expenditures have been reflected as intangible assets, enterprises are allowed to make an amortisation of 150% of the cost of intangible assets.

According to the Administrative Measures for Recognition of High and New Tech Enterprises (《高新技術企業認定管理辦法》) (which came into effect on 1 January 2008 with latest amendment on 1 January 2016), a high and new tech enterprise recognised under the Administrative Measures for Determination of High and New Tech Enterprises may apply for enjoying the tax preferential policies in accordance with the Enterprise Income Tax Law of the PRC, the Regulation on Implementation of the Enterprise Income Tax Law of the PRC and other relevant laws and regulations. For enterprise recognised as a high and new tech enterprise, its qualification shall be valid for a period of three years from the date of issuance of the certificate. An enterprise which is recognised as a high and new technology enterprise is entitled to tax preference from the year in which the high and new technology enterprise certificate is granted.

3. Withholding Tax on Dividends

According to the Enterprise Income Tax Law of the PRC and the Regulation on Implementation of the Enterprise Income Tax Law of the PRC, generally a withholding tax rate of 10% will be imposed on dividends paid to non-PRC resident investors. The enterprise income tax rate on the dividends may be reduced pursuant to a tax treaty between Mainland China and the jurisdictions in which non-PRC investors reside. According to the Arrangements between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (which came into effect on 1 January 2007 in the Mainland with latest amendment by the Fifth Protocol to the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《〈內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排〉第五議定書》) which came into effect on 6 December 2019), the withholding tax rate for dividends paid by the PRC resident enterprise to a Hong Kong resident enterprise is 5% if the Hong Kong enterprise is the beneficial owner and directly holds at least 25% of equity interests of the PRC enterprise. According to the Notice of the State Administration of taxation on Issues Concerning the Implementation of the Dividend Clauses of Tax Agreement (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (which came into effect on 20 February 2009), the proportion of equity owned by the tax resident of the other side shall, at any time within the successive 12 months before receiving dividends, comply with the specific proportion provided in the tax agreement.

III. PRC LAWS AND REGULATIONS IN RELATION TO INTELLECTUAL PROPERTY

1. Patent

According to the Patent Law of the PRC (《中華人民共和國專利法》) (which came into effect on 1 April 1985 with latest amendment on 17 October 2020) and the Detailed Rules for Implementation of the Patent Law of the PRC (《中華人民共和國專利法實施細則》) (which came into effect on 1 July 2001 with latest amendment on 9 January 2010), inventions and creations eligible for patent application are categorised into three types: inventions, utility models and designs. A patent is valid for a term of 20 years in the case of an invention and a term of 10 years in the case of a utility model and design, starting from the application date. The patent administrative authority under the State Council shall make decision to grant the patent right, issue the patent certificate and make registration and announcement. The patent right shall be valid from the date of announcement. The patentee shall pay an annual fee beginning with the year in which the patent right is granted. Unless otherwise provided in the Patent Law of the PRC, after the granting of patent right for an invention or utility model, no entity or individual is entitled to, without permission of the patentee, exploit the patent, that is, to make, use, promise the sale of, sell or import the patented product, or use the patented process and use, promise the sale of, sell or import the product directly obtained from the patented process, for production or business purposes. Infringer shall be liable for the compensation to the patentee or subject to administrative sanction by relevant administrative authorities or even criminal liabilities (depending on the circumstances).

2. Trademark

According to the Trademark Law of the PRC (《中華人民共和國商標法》) (which came into effect on 1 March 1983 with latest amendment on 23 April 2019) and the Regulation on Implementation of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》) (which came into effect on 15 September 2002 with latest amendment on 29 April 2014), the Trademark Office of the administrative department for industry and commerce under the State Council shall take charge of trademark registration and administration across the country. Application for trademark registration shall be approved by the Trademark Office of the National Intellectual Property Administration (the "Trademark Office of the PRC") which shall issue the trademark registration certificate and make relevant announcement. A trademark registrant shall have the right to exclusively use the registered trademark which is protected by law. The registered trademark shall be valid for a term of ten years from the date of approval for registration. The trademark registrant may renew the registration of registered trademark upon expiry and each registration renewal is valid for a term of ten years. Any person or entity who infringe the exclusive right of registered trademark as provided under the Trademark Law of the PRC shall be liable for the compensation to the holder of exclusive right of registered trademark or subject to administrative sanction by relevant administrative authorities or even criminal liabilities (depending on the circumstances).

3. Domain Name

According to the Measures for the Administration of Internet Domain Names (《互聯網域名管理辦法》) (which came into effect on 1 November 2017), domain name refers to the character mark of hierarchical structure, which identifies and locates a computer on the Internet and corresponds to the Internet protocol (IP) address of that computer. Domain name registration service follows the principle of "first come, first serve". An agency of domain name registration that provides domain registration services shall require the applicant to provide the true, accurate and complete information about the domain name holder's identity for registration purpose. The registration and use of domain name by any organisation or person shall be in compliance with the requirements of the Measures for the Administration of Internet Domain Names, and the registration and use of domain in violation of the Measures for the Administration of Internet Domain Names, if constitutes a crime, shall be subject to criminal liability, otherwise it shall be subject to penalty by relevant authorities according to relevant laws.

IV. PRC LAWS AND REGULATIONS IN RELATION TO LABOUR PROTECTION, SOCIAL INSURANCE AND HOUSING PROVIDENT FUND

1. Labour Protection

According to the Labour Law of the PRC (《中華人民共和國勞動法》) (which came into effect on 1 January 1995 with latest amendment on 29 December 2018), the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) (which came into effect on 1 January 2008 with latest amendment on 28 December 2012) and the Regulation on Implementation of the Labour Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》) (which came into effect on 18 September 2008), the employer shall establish and improve relevant rules and regulations in accordance with law to guarantee that labourers enjoy labour right and fulfil labour obligations. An employer establishes an employment relationship with an employee from the date when the employer puts the employee to work. For establishment of an employment relationship, a written labour contract shall be concluded within one month from the date when the employee begins to work. A labour contract shall include the term of labour contract, job description and work location, working hours, break times and vacations, remuneration, social insurance, labour protection and working condition, prevention of occupational hazard and other mandatory clauses. An employer and an employee shall, according to the stipulations of the labour contract, fully perform their respective obligations.

2. Social Insurance

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) (which came into effect on 1 July 2011 with latest amendment on 29 December 2018), the Interim Regulation on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) (which came into effect on 22 January 1999 with latest amendment on 24 March 2019), the Trial Measures for Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》) (which came into effect on 1 January 1995), the Regulation on Unemployment Insurance (《失業保險條例》) (which came into effect on 22 January 1999) and the Regulation on Work-related Injury Insurance (《工傷保險條例》) (which came into effect on 1 January 2004 with latest amendment on 20 December 2010), the state shall establish a social insurance system including basic endowment insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance to guarantee the rights of citizens to legally obtain material assistance from the state and society in case of old age, illness, work-related injuries, unemployment and childbirth. An employer shall make contribution to a number of social security funds for its employees, including basic endowment insurance, basic medical insurance, maternity insurance, unemployment insurance and work-related injury insurance. When an employer fails to process social insurance registration, the social insurance administrative authority shall order the employer to make rectification within a prescribed period. Where an employer fails to make rectification within the prescribed period, it shall be liable for a fine of one to three times its assessed social insurance contribution. Where an employer fails to make social insurance contributions in full and on time, the social insurance contribution collection agencies shall order it to make all or outstanding contributions within the prescribed period and impose a late payment fee at the rate of 0.05% per day from the date on which the contribution becomes due. If such employer fails to make the overdue contributions within such prescribed period, the relevant administrative authority may impose a fine equivalent to one to three times the overdue amount.

3. Housing Provident Fund

According to the Regulation on Administration of Housing Provident Fund (《住房公積金管理條例》) (which came into effect on 3 April 1999 with latest amendment on 24 March 2019), the employer shall register with the housing provident fund management authority in respect of the contribution, and shall, with the approval from the housing provident fund management centre, complete the housing provident fund account opening or transfer procedures for its employees at the entrusted bank, and make contribution to the housing provident fund for its employees. The employer shall make full contribution to the housing provident fund on time and no delay or under-contribution is allowed. Where an employer fails to pay or fully pay the housing provident fund, the housing provident fund management centre shall order it to make payment within the prescribed period; if it fails to make payment within such prescribed period, the centre may apply to the people's court for enforcement.

V. PRC LAWS AND REGULATIONS IN RELATION TO PRODUCTION SAFETY AND PRODUCT QUALITY

1. Production Safety

According to the Production Safety Law of the PRC (《中華人民共和國安全生產法》) (which came into effect on 1 November 2002 with latest amendment on 1 June 2021), a manufacturing enterprise shall comply with the laws and regulations related to production safety, strengthen the production safety management, establish and improve the accountability system and relevant rules and regulations of production safety, improve the conditions of production safety and promote the establishment of production safety standards, so as to improve and ensure safe production. No production is allowed if such manufacturing enterprise has no such safe working conditions in place as required under the Production Safety Law of the PRC and relevant laws, administrative regulations and national or industrial standards. In addition, a manufacturing enterprise shall provide the workers with education and training on production safety. Manufacturing enterprise with over 100 production workers shall establish a production safety management department to strengthen the safety of production facilities or assign special personnel for production safety management. Where an enterprise fails to comply with the relevant work safety requirements, it may be subject to fines and be ordered to discontinue production. Where a crime is constituted, the enterprise shall be prosecuted for criminal responsibility.

2. Product Quality

According to the Product Quality Law of the PRC (《中華人民共和國產品質量法》) (which came into effect on 1 September 1993 with latest amendment on 29 December 2018), the producers and sellers shall develop and improve the internal product quality management system, and rigorously implement quality standards, quality liabilities and relevant assessment measures for each position. Quality of products shall pass standard examinations and no sub-standard products shall be used as standard ones. Producers shall be responsible for the quality of their products and assume product quality liabilities in accordance with the requirements of such law.

3. Special Equipment

According to the Special Equipment Safety Law of the PRC (《中華人民共和國特種設備安全法》) (which came into effect on 1 January 2014), the production (including design, manufacturing, installation, modification and repair), operation, use, inspection and testing of special equipment, supervision and management of special equipment safety, emergency response, rescue, investigation and handling of accidents and other relevant matters shall be in compliance with the requirements of such law.

4. Fire Control

According to the Fire Control Law of the PRC (《中華人民共和國消防法》) (which came into effect on 1 September 1998 with latest amendment on 29 April 2021), the above laws and regulations shall be applicable to the fire control supervision and control of construction, expansion, alteration and other construction projects. The Ministry of Housing and Urban-Rural Development shall, in accordance with the law, conduct the fire control design review, inspection, filing and spot check of fire control facilities of construction projects to oversee the fire control of construction projects.

VI. PRC LAWS AND REGULATIONS IN RELATION TO ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (which came into effect on 26 December 1989 with latest amendment on 24 April 2014), all entities and individuals shall have the obligation to protect the environment. Enterprises, public institutions and other business operators shall prevent and reduce environmental pollution and ecological disruption, and assume liabilities for damage caused by them. The environmental protection administrative department under the State Council shall develop the national environmental quality standards, national pollutant discharge standards and monitoring regulations. For matters not included in the national environmental quality standards and the national pollutant discharge standards, the people's governments of provinces may develop local environmental quality standards and pollutant discharge standards; and for matters included in the national environmental quality standards and the national pollutant discharge standards, they may develop more stringent environmental quality standards and local pollutant discharge standards than the national standards. Local environmental quality standards and pollutant discharge standards shall be filed with the environmental protection administrative department under the State Council.

According to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) (which came into effect on 1 September 2003 with latest amendment on 29 December 2018), the Administrative Rules on Environmental Protection of Construction Projects

(《建設項目環境保護管理條例》) (which came into effect on 29 November 1998 with latest amendment on 16 July 2017) and the Classified Administration Catalogue of Environmental Impact Assessments for Construction Projects (2021 Edition) (《建設項目環境影響評價分類管理名錄》(2021年版)) (which came into effect on 1 January 2021) and the Measures on Filing Administration of Environmental Impact Registration Forms of Construction Projects (《建設項目環境影響登記表備案管理辦法》) (which came into effect on 1 January 2017), for construction projects with environmental impact carried out within the territory of the PRC or within other seas subject to the jurisdiction of the PRC, environmental impact assessment shall be conducted according to relevant laws. The State implements classification-based management on the environmental impact assessment of construction projects based on the impact of the construction projects on the environment. Constructors shall prepare Environmental Impact Report or Environmental Impact Statement or fill out the Environmental Impact Registration Form according to the Classified Administration Catalogue of Environmental Impact Assessments for Construction Projects. The constructors shall submit the Environmental Impact Report and Environmental Impact Statement of construction projects to the competent authorities for ecology with approving power for approval, and shall complete the filing procedures for the Environmental Impact Registration Form. For construction projects the Environmental Impact Report or Environmental Impact Statement of which failed to be approved by relevant approving department, the constructors shall not commence construction. The environmental protection facilities that required to be built together with the construction projects shall be designed, constructed and put into operation simultaneously with the construction of main body. Upon completion of the construction projects that required the preparation of Environmental Impact Report and Environmental Impact Statement, the constructors shall perform inspection and acceptance procedures for the environmental protection facilities and prepare the inspection report in accordance with the standards and procedures required by the competent administrative authorities for environmental protection under the State Council. For construction projects that are constructed and put into production or use in phases, the environmental protection facilities shall also go through inspection and acceptance procedures in phases.

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) (which came into effect on 1 November 1984 with latest amendment on 27 June 2017), the Law of the PRC on Prevention and Control of Environmental Pollution Caused by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) (which came into effect on 1 April 1996 with latest amendment on 29 April 2020), the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) (which came into effect on 1 June 1988 with latest amendment on 26 October 2018) and the Law of the PRC on Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》) (which came into effect on 1 March 1997 with latest amendment on 29 December 2018), the PRC adopts the pollutant discharge permit administration system. The enterprises, public institutions and other business operators that are subject to the pollutant discharge permit administration shall discharge pollutants according to the requirements under the pollutant discharge permit and shall not discharge pollutants without obtaining the pollutant discharge permit. According to the Measures for Administration of Pollutant Discharge Permit (For Trial Implementation) (《排汙許可管理辦法(試行)》) (which came into effect on 10 January 2018 with latest amendment on 22 August 2019), the Ministry of Environmental Protection shall develop and issue a classification administration list of pollutant discharge permit for fixed pollution sources according to relevant laws. The enterprises, public institutions and other business operators included in the classification administration list of pollutant discharge permit for fixed pollution sources shall apply for and obtain a pollutant discharge permit within the prescribed period.

VII. PRC LAWS AND REGULATIONS IN RELATION TO IMPORT AND EXPORT OF GOODS

According to the Customs Law of the PRC (《中華人民共和國海關法》) (which came into effect on 1 July 1987 with latest amendment on 29 April 2021) and the Provisions of the Customs of the PRC on Administration of Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) (which came into effect on 13 March 2014 with latest amendment on 29 May 2018), when providing customs declaration services, customs declaration entities shall abide by the relevant laws and administrative regulations of the state and the relevant customs rules, and shall assume the relevant legal responsibilities. The registration of customs declaration entities includes the registration of customs declaration enterprises and the registration of the consignees or consignors of imported/exported goods. A customs declaration enterprise may not provide customs declaration services until it has obtained a registration licence from the local customs office directly under the General Administration of Customs or a subordinate customs office authorised by it. A consignee or consignor of imported/exported goods may directly go through the registration procedure at the local customs office. Unless otherwise provided for, the declaration of import or export goods and the payment of duties and taxes may be completed by the exporters or importers on their own, and such formalities may also be completed by their entrusted customs declaration agent registered with the Customs. The owner of imported or exported goods may complete the customs declaration procedures and the payment of duties and taxes on their own or entrust others to complete such formalities.

According to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) (which came into effect on 1 July 1994 with latest amendment on 7 November 2016), foreign trade business operator that is engaged in the import and export of goods or technology shall file and register with the competent department for foreign trade under the State Council or the institution entrusted thereby. The specific measures for filing and registration shall be formulated by the competent department for foreign trade under the State Council. Where any foreign trade business operator fails to complete filing and registration according to relevant provisions, the customs shall not handle the procedures of customs declarations and approve the import or export of goods.

VIII. PRC LAWS AND REGULATIONS IN RELATION TO FOREIGN EXCHANGE CONTROL

Renminbi is the legal currency of the PRC and is not freely convertible due to foreign currency control. The State Administration of Foreign Exchange (the "SAFE") of the PRC is responsible for all matters related to foreign exchange, including the implementation of foreign exchange control regulations.

According to the Provisions on the Settlement and Sale of and Payment in Foreign Exchange (《結匯、售匯及付匯管理規定》) (which came into effect on 1 July 1996), for foreign exchange derived from current account transactions for enterprises with foreign investment, they may open foreign exchange settlement accounts at the banks involved in foreign exchange business at their own discretion in their place of incorporation subject to approval.

According to the Regulations of the PRC on Foreign Exchange Administration (《中華人民共和國外滙管理條例》) (which came into effect on 1 April 1996 with latest amendment on 5 August 2008), every foreign exchange income under the current account may be kept or sold to a financial institution which operates foreign exchange settlement or selling business. Approval is required from the administration of foreign exchange if any foreign exchange income under capital accounts is to be kept or sold to a financial institution which operates foreign exchange settlement or selling business, unless the state regulations provide that no approval is required.

According to the Notice of the State Administration of Foreign Exchange on Further Improving and Adjusting Foreign Administration Policies for Foreign Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外滙管理政策的通知》) (which came into effect on 17 December 2012 with latest amendment on 30 December 2019), the previous approving procedures was significantly simplified by cancelling the requirement for the opening of a foreign exchange account or the entry of any amount in the foreign exchange accounts under direct investment, and instead, the bank can open the account for relevant client according to the information registered in the relevant system of the SAFE.

According to the Notice of the State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Investing and Financing Overseas and Roundtrip Investment via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (which came into effect on 4 July 2014), before a domestic resident contributes its legally owned onshore or offshore assets or equity to a special purpose vehicle ("SPV"), the domestic resident shall conduct foreign exchange registration for offshore investment with the SAFE. Where a domestic resident contributes its legally owned onshore assets or equity, it shall apply to the local branch of SAFE of the registration place, or the local branch of SAFE of the location of the domestic enterprise's assets or equity for going through the procedures for registration. Where a domestic resident contributes its legally owned offshore assets or equity, it shall apply to the local branch of SAFE of the registration place, or the local branch of SAFE of the location of household registration for going through the procedures for registration.

The Notice of State Administration of Foreign Exchange on Further Simplifying and Improving Foreign Exchange Administration Policy for Overseas Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (which came into effect on 1 June 2015 with latest amendment on 30 December 2019) lifted the requirement of administrative approval in relation to foreign exchange registration and approval for offshore direct investment, which was changed to the mechanism that the banks directly review and complete the foreign exchange registration for offshore direct investment, and the SAFE and its branches will implement indirect regulation over the foreign exchange registration for offshore direct investment through the banks. Where a domestic resident individual makes offshore investment with its onshore assets or equity, such individual shall complete the foreign exchange registration for SPV owned by domestic resident individual at the bank of the location of the domestic enterprise's assets or equity.

IX. PRC LAWS AND REGULATIONS IN RELATION TO PROPERTY

1. Land

According to the Land Administration Law of the PRC (《中華人民共和國土地管理法》) (which came into effect on 1 January 1987 with latest amendment on 26 August 2019), the Implementation Regulations for the Land Administration Law of the PRC (《中華人民共和國土地管理法實施條例》) (which came into effect on 1 January 1999 with latest amendment on 2 June 2021), the ownership of land, the right of use of land, the overall plans for land utilisation, the protection of cultivated land, land to be used for construction shall comply with the above laws and regulations.

2. Property Ownership

According to the Civil Code of the PRC (《中華人民共和國民法典》) (which came into effect on 1 January 2021), this law shall apply to the civil relationships (including ownership, usufructuary right, real rights for security and occupation etc.) generated from the ownership and utilisation of properties. In particular, the holder of the right to use land for construction shall be entitled to possess, use and seek proceeds from the land owned by the state, and be entitled to make use of the land for constructing buildings, fixtures and their auxiliary facilities. The right to use land for construction, buildings and other fixed objects on the ground may be used for mortgage in accordance with relevant laws.

3. Construction in Progress

According to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) (which came into effect on 1 January 2008 with latest amendment on 23 April 2019), the Construction Law of the PRC (《中華人民共和國建築法》) (which came into effect on 1 March 1998 with latest amendment on 23 April 2019), the Measures for Administration of Construction Permits for Construction Projects (《建築工程施工許可管理辦法》) (which came into effect on 25 October 2014 with latest amendment on 30 March 2021) and the Regulation on Quality Management of Construction Projects (《建設工程質量管理條例》) (which came into effect on 30 January 2000 with latest amendment on 23 April 2019), the construction activities carried out in the built-up areas of cities, towns and villages as well as areas that must be under planning control for urban and rural construction and development shall be in compliance with the relevant requirements of the Urban and Rural Planning Law of the PRC. The construction entity shall obtain the construction land planning permit and the construction project planning permit from the competent department of urban and rural planning under the people's government of at county level, and shall obtain the construction permit from the competent department of housing and urban and rural construction under the people's government at municipal and county level or above of the place of the construction project before commencement of construction. After receiving the construction project completion report, the construction entity shall organise the entities of design, construction, project supervision and other relevant entities to complete the acceptance.

4. Commodity House Leasing

According to the Administrative Measures for Commodity House Leasing (《商品房屋租賃管理辦法》) (which came into effect on 1 February 2011), these Measures shall apply to the leasing of commodity houses on state-owned land in urban planning areas and the supervision and administration thereof. The parties to house leasing shall sign a lease contract according to relevant laws and complete the registration and filing of house leasing at the competent department of real estate administration of the place of the house according to relevant laws.

According to the Urban Real Estate Administration Law of the PRC (《中華人民共和國城市房地產管理法》) (which came into effect on 1 January 1995 with latest amendment on 26 August 2019), those who acquire the right to use the State-owned land within the designated urban area for real estate development, engage in real estate development or transactions of real estate and exercise real estate management shall abide by the law. For house leasing, the lessor and lessee shall sign a written lease contract, prescribing such provisions as the leasing term, use of the house, rental and repair liabilities, and other rights and obligations of both parties; and complete the registration and filing with the real estate administration department.

X. SANCTIONS LAWS AND REGULATIONS

Hogan Lovells, our International Sanctions Legal Advisers, have provided the following summary of the sanctions regimes imposed by their respective jurisdictions. This summary does not intend to set out the laws and regulations relating to the U.S., the European Union, the United Nations and Australian sanctions in their entirety.

U.S.

Treasury regulations

OFAC is the primary agency responsible for administering U.S. sanctions programmes against targeted countries, entities, and individuals. "Primary" U.S. sanctions apply to "U.S. persons" or activities involving a U.S. nexus (e.g., funds transfers in U.S. currency or activities involving U.S.-origin goods, software, technology or services even if performed by non-U.S. persons), and "secondary" U.S. sanctions apply extraterritorially to the activities of non-U.S. persons even when the transaction has no U.S. nexus. Generally, U.S. persons are defined as entities organised under U.S. law (such as companies and their U.S. subsidiaries); any U.S. entity's domestic and foreign branches (sanctions against Iran and Cuba also apply to U.S. companies' foreign subsidiaries or other non-U.S. entities owned or controlled by U.S. persons); U.S. citizens or permanent resident aliens ("green card" holders), regardless of their location in the world; individuals physically present in the United States; and U.S. branches or U.S. subsidiaries of non-U.S. companies.

Depending on the sanctions programme and/or parties involved, U.S. law also may require a U.S. company or a U.S. person to "block" (freeze) any assets/property interests owned, controlled or held for the benefit of a sanctioned country, entity, or individual when such assets/property interests are in the United States or within the possession or control of a U.S. person. Upon such blocking, no transaction may be undertaken or effected with respect to the asset/property interest — no payments, benefits, provision of services or other dealings or other type of performance (in case of contracts/agreements) — except pursuant to an authorisation or licence from OFAC.

OFAC's comprehensive sanctions programmes currently apply to Cuba, Iran, North Korea, Syria, and the Crimea region of Russia/Ukraine (the comprehensive OFAC sanctions programme against Sudan was terminated on October 12, 2017). OFAC also prohibits virtually all business dealings with persons and entities identified in the SDN List or the FSE List, and prohibits certain business dealing with persons and entities identified in the SSI List (collectively hereinafter referred to as "Identified Parties"). Entities that a party on the SDN List owns (defined as a direct or indirect ownership interest of 50% or more, individually or in the aggregate, by one or more Identified Parties) are also subject to the same restrictions that apply to the Identified Party(ies) at issue, regardless whether that entity is expressly named on the SDN List, the FSE List, and/or the SSI List. Additionally, U.S. persons, wherever located, are prohibited from approving, financing, facilitating, or guaranteeing any transaction by a non-U.S. person where the transaction by that non-U.S. person would be prohibited if performed by a U.S. person or within the United States.

United Nations

The United Nations Security Council (the "**UNSC**") can take action to maintain or restore international peace and security under Chapter VII of the United Nations Charter. Sanctions measures encompass a broad range of enforcement options that do not involve the use of armed force. Since 1966, the UNSC has established 30 sanctions regimes.

The UNSC sanctions have taken a number of different forms, in pursuit of a variety of goals. The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The UNSC has applied sanctions to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation.

There are 14 ongoing sanctions regimes which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism. Each regime is administered by a sanctions committee chaired by a non-permanent member of the UNSC. There are ten monitoring groups, teams and panels that support the work of the sanctions committees.

United Nations sanctions are imposed by the UNSC, usually acting under Chapter VII of the United Nations Charter. Decisions of the UNSC bind members of the United Nations and override other obligations of United Nations member states.

European Union

Under European Union sanction measures, there is no "blanket" ban on doing business in or with a jurisdiction targeted by sanctions measures. It is not generally prohibited or otherwise restricted for a person or entity to do business (involving non-controlled or unrestricted items) with a counterparty in a country subject to European Union sanctions where that counterparty is not a Sanctioned Person or not engaged in prohibited activities, such as exporting, selling, transferring or making certain controlled or restricted products available (either directly or indirectly) to, or for use in a jurisdiction subject to sanctions measures.

Australia

The Australian restrictions and prohibitions arising from the sanctions laws apply broadly to any person in Australia, any Australian anywhere in the world, companies incorporated overseas that are owned or controlled by Australians or persons in Australia, and/or any person using an Australian flag vessel or aircraft to transport goods or transact services subject to United Nations sanctions.

BUSINESS DEVELOPMENT

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 were one of the top five papermaking felts manufacturers in the PRC market, among which, we ranked fourth and were the only papermaking felts manufacturer headquartered in the PRC, with an approximate market share of 5.8% in terms of revenue in 2020. 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 have around 14 years of experience in the papermaking felts manufacturing industry and we continue to innovate industrial technologies within the papermaking felts manufacturing industry.

Our Company was incorporated in the Cayman Islands under the Companies Act on 5 November 2018 as an exempted company with limited liability. Pursuant to the Reorganisation, as more particularly described in the paragraph headed "Reorganisation" in this section, our Company became the holding company of our Group for the purpose of the Listing.

The following timeline sets forth the business milestones of our Group:

Year	Major Developments and Milestones
2007	— Sichuan Huanlong was established in the PRC on 7 February 2007
2010	— Acquisition of Shanghai Jinxiong between the period from October 2010 to November 2010
2011	— Sichuan Huanlong was awarded the Second-class Science and Technology Progress Award* (科技進步獎二等獎) issued by the People's Government of Wenjiang District of Chengdu City* (成都市溫江區人民政府) in October 2011
	— Sichuan Huanlong was awarded the Paper Industry Chamber of Commerce's 5th Anniversary Outstanding Contribution Award* (紙業商會成立五周年傑出貢獻獎) issued by the China Paper and Pulp Industry Chamber of Commerce* (全國工商聯紙業商會) in November 2011

Year	Major Developments and Milestones
2012	— Sichuan Huanlong participated in the Asian Paper 2012 (2012亞洲紙業展覽會) exhibition in Thailand in April 2012
	— Sichuan Huanlong participated in the drafting of the "China Textile Industry Standard: Batt-on-mesh Papermaking Felts"* (中華人民共和國紡織行業標準：底網造紙毛毯), which was published by the Ministry of Industry and Information Technology of the People's Republic of China* (中華人民共和國工業和信息化部) in May 2012
	— Sichuan Huanlong was recognised as Member Entity* (會員單位) by the Specialty Papers Committee of China Technical Association of Paper Industry* (中國造紙學會特種紙專業委員會) in October 2012
	— Sichuan Huanlong was recognised as the Vice Chairman Entity* (副理事長單位) by the Sichuan Province Papermaking Industry Association* (四川省造紙行業協會) and the Sichuan Province Papermaking Association* (四川省造紙學會) in November 2012
2013	— Shanghai Jinxiong was awarded the "High Pressure-Resistant Bottom Pressing Paper Blanket Certificate"* (高抗壓底網壓榨造紙毛毯證書) issued by the Shanghai High-tech Achievement Transformation Project Certification Office* (上海市高新技術成果轉化項目認定辦公室) in March 2013
2014	— The "環龍" trademark was identified as a famous trademark in Sichuan Province by the Sichuan Administration for Industry and Commerce* (四川省工商行政管理局) in 2014
	— Sichuan Huanlong was recognised as the Vice Chairman Entity* (副理事長單位) by the China Technical Association of Paper Industry* (中國造紙學會) in May 2014
	— The multiple multi-layer papermaking felts* (多向多層疊網造紙毛毯) of Shanghai Jinxiong was given the title of "Top Ten Innovative Products/Technologies" by the China Nonwovens & Industrial Textiles Association* (中國產業用紡織品行業協會) in October 2014
	— Sichuan Huanlong was awarded the Second-class Science and Technology Progress Award* (科學技術進步獎二等獎) issued by the China National Textile And Apparel Council* (中國紡織工業聯合會) in November 2014

Year	Major Developments and Milestones
	— Shanghai Jinxiong was awarded the 2014 Product Development Contribution Award* (2014年度產品開發貢獻獎) issued by China National Textile And Apparel Council* (中國紡織工業聯合會) in December 2014
2015	— Shanghai Jinxiong was awarded the Second-class Science and Technology Progress Award* (科學技術進步獎二等獎) issued by the China National Textile And Apparel Council* (中國紡織工業聯合會) in October 2015 for its invention of Base Network Multi-axis Superimposed Manufacturing Technology* (基網多軸疊合製造技術)
2016	— The "Research and Application of Key Technology for Multi-axial Multi-layer Papermaking Felts" project* (多軸向多層造紙毛毯關鍵技術研究與應用) of Sichuan Huanlong was appraised by the Sichuan Science and Technology Department* (四川省科學技術廳) and was registered as Sichuan Science and Technology Achievements* (四川省科學技術成果) in May 2016
	— Sichuan Huanlong was awarded the China Specialty Papers Industry Development Contribution Award* (中國特種紙產業發展貢獻獎) issued by the Specialty Papers Committee of China Technical Association of Paper Industry* (中國造紙學會特種紙專業委員會) in September 2016
	— Sichuan Huanlong was recognised as the Governing Entity* (理事單位) by the China Nonwovens & Industrial Textiles Association* (中國產業用紡織品行業協會) in September 2016
	— Sichuan Huanlong participated in the "2016 China International Paper Technology Exhibition and Conference"* (2016中國國際造紙科技展覽會及會議) and being the sole sponsor of the "2016 China International Paper Innovation and Development Forum"* (2016中國國際造紙創新發展論壇) in October 2016
	— Sichuan Huanlong was awarded the Industry Contribution Award* (行業貢獻獎) issued by the Papermaking Textiles Branch* (造紙用紡織品分會) of the China Nonwovens & Industrial Textiles Association* (中國產業用紡織品行業協會) in October 2016

Year	Major Developments and Milestones
	— Sichuan Huanlong was awarded the High and New Technology Enterprise Qualification* (高新技術企業證書) jointly issued by Sichuan Science and Technology Department* (四川省科學技術廳), Sichuan Provincial Department of Finance* (四川省財政廳), Sichuan Provincial State Taxation Administration* (四川省國家稅務局) and Sichuan Provincial Local Taxation Administration* (四川省地方稅務局) in December 2016
2017	— Sichuan Huanlong and Shanghai Jinxiong were both awarded the Second-class Sichuan Province Science and Technology Progress Award* (四川省科學技術進步獎二等獎) issued by the People's Government of Sichuan Province* (四川省人民政府) in April 2017
	— Sichuan Huanlong was recognised as the Fourth Vice Chairman Entity* (第四屆理事會副會長單位) by the China Nonwovens & Industrial Textiles Association* (中國產業用紡織品行業協會) in May 2017
	— Shanghai Jinxiong was awarded the "Multi-axial Multi-layer Papermaking Blanket Certificate"* (多軸向多層造紙毛毯證書) issued by the Shanghai High-tech Achievement Transformation Project Certification Office* (上海市高新技術成果轉化項目認定辦公室) in August 2017
	— Shanghai Jinxiong was awarded the High and New Technology Enterprise Qualification* (高新技術企業證書) jointly issued by Shanghai Science and Technology Committee * (上海市科學技術委員會), Shanghai Department of Finance* (上海市財政局), Shanghai State Taxation Administration* (上海市國家稅務局) and Shanghai Local Taxation Administration* (上海市地方稅務局) in November 2017
	— Sichuan Huanlong was awarded the Product Development Contribution Award* (產品開發貢獻獎) issued by the China National Textile And Apparel Council* (中國紡織工業聯合會) in December 2017
2018	— Shanghai Jinxiong was awarded the Third-class of Top 50 Economic Contribution in 2017 Award* (2017年度經濟貢獻50強三等獎) issued by the Fengjing Town Committee of the CPC Fengjing Town People's Government* (中共楓涇鎮委員會楓涇鎮人民政府) in March 2018
	— Shanghai Jinxiong was recognised as a Little Giant of Technology Enterprises* (科技小巨人企業) by the Shanghai Jinshan District Science and Technology Committee* (上海市金山區科學技術委員會) in August 2018

Year	Major Developments and Milestones
2019	— Sichuan Huanlong developed and launched the trial version of Huanlong Paper Machine Efficiency Operation System*(環龍紙機效率運營系統) mini programme on a social media platform in August 2019, for certain selected customers of our Group. The said programme provides a convenient and efficient interface between external paper machine operating efficiency information and internal product management information.
2020	— Shanghai Jinxiong was jointly recognised as a Little Giant of Technology Training Enterprises in Shanghai* (上海市科技小巨人培育企業) of 2020 by the Shanghai Science and Technology Committee* (上海市科學技術委員會) and Shanghai Municipal Commission of Economy and Informatisation* (上海市經濟和信息化委員會) in September 2020.
	— Sichuan Huanlong was recognised as a Key New Material Enterprise in Chengdu (成都市重點新材料企業) of the years 2020–2021 by Chengdu Municipal Bureau of Economy and Information Technology* (成都市經濟和信息化局) in December 2020.

OUR OPERATING SUBSIDIARIES

Details of our PRC subsidiaries and their respective corporate history prior to the Reorganisation are set out below:

Sichuan Huanlong

Sichuan Huanlong, our principal operating subsidiary, was established in the PRC on 7 February 2007 with a registered capital of RMB10,000,000, which was wholly owned by Chengdu Huanlong. The principal business of Sichuan Huanlong is manufacturing and sales of papermaking felts.

Increase of registered capital

On 24 May 2011, the registered capital of Sichuan Huanlong was increased from RMB10,000,000 to RMB40,000,000 contributed by Chengdu Huanlong.

Equity transfer between Ms. Shen, Mr. Zhou and Chengdu Huanlong

On 20 March 2013, each of Ms. Shen and Mr. Zhou entered into equity transfer agreement with Chengdu Huanlong, pursuant to which Chengdu Huanlong transferred its 75% and 25% equity interests in Sichuan Huanlong to Ms. Shen and Mr. Zhou respectively. Upon completion of the above transfer of equity interests, Sichuan Huanlong was owned as to 75% and 25% by Ms. Shen and Mr. Zhou respectively.

Equity transfer between Ms. Shen, Mr. Zhou and Chengdu Huanlong

On 24 December 2016, each of Ms. Shen and Mr. Zhou entered into equity transfer agreement with Chengdu Huanlong, pursuant to which Ms. Shen and Mr. Zhou transferred their respective 75% and 25% equity interests in Sichuan Huanlong to Chengdu Huanlong. Upon completion of the above transfer of equity interests, Sichuan Huanlong was wholly owned by Chengdu Huanlong.

Equity transfer between Chengdu Huanlong and Yongxing Shikang

In November 2017, in preparation of the Proposed PRC Listing, Yongxing Shikang, Chengdu Huanlong, Sichuan Huanlong, Ms. Shen and Mr. Zhou entered into an equity transfer agreement dated 24 November 2017, as supplemented by a supplemental agreement (the "**First Yongxing Shikang — Chengdu Huanlong Equity Transfer Agreements**"), pursuant to which Chengdu Huanlong transferred its 6.91% equity interest in Sichuan Huanlong to Yongxing Shikang, at a consideration of RMB38,000,000, which was determined after arm's length negotiations among the parties on a willing buyer willing seller basis. The First Yongxing Shikang — Chengdu Huanlong Equity Transfer Agreements stipulates, inter alia, that Chengdu Huanlong shall procure an independent third party to acquire equity interest in Sichuan Huanlong for a sum not less than RMB60,000,000 within six months from 29 November 2017, being the settlement date of the equity transfer consideration of RMB38,000,000, failing which Chengdu Huanlong, Ms. Shen and Mr. Zhou are obliged to buy back the 6.91% equity interest in Sichuan Huanlong on demand of Yongxing Shikang at an annualised interest rate of 11%.

Upon completion of the aforesaid transfer and until immediately before the Reorganisation and the Pre-IPO Investment as set out below, Sichuan Huanlong was owned as to 93.09% and 6.91% by Chengdu Huanlong and Yongxing Shikang, respectively.

Upon completion of the Reorganisation and the Pre-IPO Investment, Sichuan Huanlong was owned as to approximately 98.4% and approximately 1.6% by Huanlong Lixin and Marvel Dragon, respectively, and became an indirect non-wholly owned subsidiary of the Company. For details, please refer to the paragraphs headed "Reorganisation" and "Pre-IPO investment" below in this section.

Our PRC Legal Advisers confirmed that the establishment of Sichuan Huanlong and equity interest transfers as set out above had been approved by relevant competent authorities and were legally valid and effective.

Shanghai Jinxiong

Shanghai Jinxiong was established in the PRC on 31 October 2000 with a registered capital of RMB35,590,000. The principal business of Shanghai Jinxiong is manufacturing and sales of papermaking felts. At the time of establishment, Shanghai Jinxiong was owned as to approximately 68.73%, 29.50% and 1.77% by Shanghai Industrial Felt Factory* (上海工業用呢廠) (a collective enterprise established in the PRC and an Independent Third Party that has already been dissolved as at the Latest Practicable Date), Shanghai Shenda Company Limited* (上海申達股份有限公司) (a listed company on the Shanghai Stock Exchange (stock code: 600626) and an Independent Third Party) and nine individual Independent Third Parties, respectively.

After a series of equity interest transfers from December 2000 to July 2007, Shanghai Jinxiong became an entity owned as to approximately 65.92%, 32.31% and 1.77% by Shanghai Textile (Group) Co., Ltd.* (上海紡織(集團)有限公司) (a limited liability company established in the PRC and an Independent Third Party), Shanghai Shenda Company Limited* (上海申達股份有限公司) and the nine initial individual Independent Third Parties, respectively.

Equity interest acquisition by Sichuan Huanlong

On 25 October 2010, Shanghai Textile (Group) Co., Ltd.* (上海紡織(集團)有限公司) and Shanghai Shenda Company Limited* (上海申達股份有限公司) as vendors and Sichuan Huanlong as purchaser entered into a Shanghai Assets and Equity Exchange Contract* (上海市產權交易合同) through the Shanghai United Assets and Equity Exchange* (上海聯合產權交易所), pursuant to which Shanghai Textile (Group) Co., Ltd.* and Shanghai Shenda Company Limited* transferred their respective 65.92% and 32.31% equity interests in Shanghai Jinxiong to Sichuan Huanlong, at the consideration of RMB30,322,004 and RMB14,864,164, respectively, determined with reference to the valuated net asset value of Shanghai Jinxiong as of 31 July 2010.

On 31 October 2010, the nine initial individual Independent Third Parties (collectively, the "**Vendors**") entered into an equity transfer agreement with Sichuan Huanlong, pursuant to which the Vendors transferred their respective approximately 0.56%, 0.42%, 0.17%, 0.14%, 0.14%, 0.08%, 0.08%, 0.08% and 0.08% equity interests in Shanghai Jinxiong to Sichuan Huanlong, at the consideration of RMB258,500, RMB193,875, RMB77,550, RMB64,625, RMB64,625, RMB38,775, RMB38,775, RMB38,775 and RMB38,775, respectively, determined after arm's length negotiations between the parties and on a willing buyer willing seller basis.

Upon completion of the aforesaid equity interest transfer, Shanghai Jinxiong became a direct wholly-owned subsidiary of Sichuan Huanlong.

Upon completion of the Reorganisation, Shanghai Jinxiong remained as a direct wholly-owned subsidiary of Sichuan Huanlong and became an indirect non-wholly owned subsidiary of our Company.

Our PRC Legal Advisers confirmed that the establishment of Shanghai Jinxiong and equity interest transfers as set out above had been approved by relevant competent authorities and were legally valid and effective.

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 from RMB40,000,000 to RMB40,650,000, and that Marvel Dragon subscribed for registered capital of RMB650,000 (representing approximately 1.6% of the enlarged registered capital of Sichuan Huanlong), which was determined after arm's length negotiation between the parties with reference to the appraised net asset value of Sichuan Huanlong as at 31 December 2018 by an independent valuer and such consideration was settled by Marvel Dragon with its internal financial resources. Upon completion of the aforesaid capital increase, Sichuan Huanlong was held as to approximately 98.4% by Chengdu Huanlong and approximately 1.6% by Marvel Dragon, respectively, and became a sino-foreign joint venture enterprise on 8 May 2019. The aforesaid capital contribution was settled by Marvel Dragon on 11 June 2019. Marvel Dragon was wholly owned by Virtuous Way, a wholly owned subsidiary of High Resource, which was wholly owned by Mr. Leung at that time.

As part of the Reorganisation, on 13 August 2019, a share transfer agreement was entered into among our Company, High Resource and Mr. Leung, pursuant to which High Resource transferred the then entire issued share capital of Virtuous Way to our Company, at the consideration of 192 Shares issued by our Company to High Resource. For details, please refer to the paragraph headed "Reorganisation — (6) Share swap between our Company and Pre-IPO Investor" in this section below. Upon completion of the share transfer, our Company was owned as to 73.8%, 24.6% and 1.6% by Perfect Angle, Wonderful Advisor and High Resource, respectively.

Key details of the Pre-IPO Investment are summarised in the table below:

Name of investor:	Mr. Leung (through Marvel Dragon)
Date of agreements:	26 April 2019
Amount of consideration paid:	RMB1,940,000 (equivalent to HK$2,210,000 based on the approximate exchange rate at RMB1: HK$1.14)
Basis of consideration:	determined after arm's length negotiation between the parties with reference to the appraised net asset value of Sichuan Huanlong as at 31 December 2018 by an independent valuer and taking into account of (i) the Group's competitive strengths, proven track record, reputation as well as the Group's future prospect, which the appraised net asset value had not taken into account; and (ii) the uncertainty in relation to the outcome of our proposed IPO exercise, the operation and financial performance of our Group in the future, and the outcome of the implementation of our Group's business strategies.
Payment date of the consideration:	11 June 2019
Effective cost per Share paid:	approximately HK$0.38
Discount to the Offer Price:	approximately 71.43% (with reference to the mid-point Offer Price at HK$1.33 per Share)
Shareholding upon Listing:	5,852,800 Shares representing approximately 1.22% of the issued share capital of our Company upon Listing (without taking into consideration of Shares which may be issued and allotted under the Over-allotment Option)
Use of proceeds:	As general working capital and such proceeds have been fully utilised

Strategic benefits to our Group:	Our Directors are of the view that in addition to providing general working capital to the Group, Mr. Leung, with his knowledge in engineering and information technology, will bring strategic benefits to the Group by providing general advices and recommendations to the Group on information technology, e.g. cyber security, and internal operation and management system, based on Mr. Leung's previous working experience, and the investments demonstrate his confidence in our operation and serve as an endorsement of our performance, strength and prospects
Other special rights:	Nil
Lock-up:	N/A

The principal business activity of High Resource is investment holding. Mr. Leung is a resident of Hong Kong, and the shareholder and director of High Resource. He worked in MTR Corporation Limited from November 1994 to May 2015 with the last position as systems manager of information technology services department. Save for the Pre-IPO Investment and acting as a director of Virtuous Way and Marvel Dragon until 14 April 2021, Mr. Leung has confirmed that (i) he has never been involved in any dealing or transaction with our Directors, our Controlling Shareholders, any member of our Group and any of their respective associates; (ii) he did not acquire interests in our Company with finance provided directly or indirectly by our connected person(s); (iii) he does not take instructions from our connected person(s) in relation to the acquisition, disposal, voting or other disposal of our Shares registered in his name; and (iv) he has no relationship with our Group or any connected persons of our Company.

As neither Mr. Leung nor High Resource is our core connected person (as defined in Listing Rules), the Shares held by High Resource will form part of the public float for the purposes of Rule 8.08 of the Listing Rules accordingly.

Ms. Shen met Mr. Leung back in 2015 during a social gathering in Hong Kong. We acquainted with Mr. Leung when he, via Ms. Shen, expressed interest in an investment in Sichuan Huanlong in or around early 2018. To the best knowledge and belief of our Directors, Mr. Leung decided to invest in our Group in view of the prospects of our business growth.

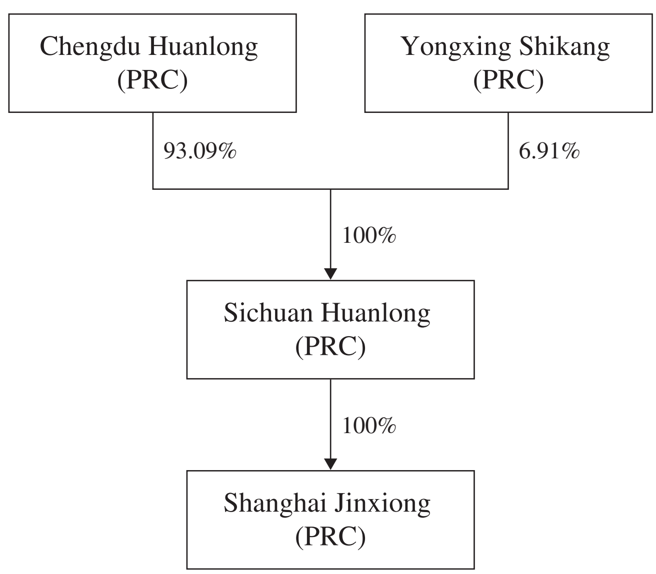
Our PRC Legal Advisers advised that the Pre-IPO Investment was conducted in compliance with all applicable laws and regulations in the PRC.

The Sole Sponsor has reviewed the relevant information and documentation in relation to the Pre-IPO Investment and is of the view that the Pre-IPO Investment is in compliance with the Interim Guidance on Pre-IPO Investments (i.e. Guidance Letter HKEX-GL29-12), and Guidance Letter HKEX-GL43-12 issued by the Stock Exchange, whereas the Guidance Letter HKEX-GL44-12 is not applicable to the Pre-IPO Investment.

Based on the due diligence performed by the Sole Sponsor, the Sole Sponsor is of the view that (i) Mr. Leung and the valuer who performed the valuation of the appraised net asset value of Sichuan Huanlong as a reference for determining the consideration of the Pre-IPO Investment were Independent Third Parties; (ii) the basis of the valuation of the Company and the amount of cash consideration of paid for the Pre-IPO Investment were after arm's length negotiation between the parties.

REORGANISATION

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



In preparation for the Listing, we underwent the Reorganisation which involve the following steps:

(1) Incorporation of our Company, Lion Courage and Vanov Tianhe

Our Company

On 5 November 2018, our Company was incorporated in the Cayman Islands with an authorised share capital of HK$380,000 divided into 38,000,000 ordinary Shares with a par value of HK$0.01 per Share. On 5 November 2018, one fully-paid Share was allotted and issued to the initial subscriber, which was then transferred to South Source, followed by an addition of 2,499 Shares and 7,500 Shares being allotted and issued to South Source and Fame Attain respectively on the same date. On 31 December 2018, South Source and Fame Attain transferred their respective 2,500 Shares and 7,500 Shares of our Company to Wonderful Advisor and Perfect Angle respectively, each at a nominal consideration of HK$1.00, with Wonderful Advisor and Perfect Angle both being entities incorporated in the BVI and held by Vistra Trust, the trustee of both the SGL Trust and ZJ Trust, for the respective benefit of Ms. Shen and Mr. Zhou while the children of Ms. Shen being the beneficiaries of both SGL Trust and ZJ Trust, for details, please refer to the section headed "Relationship with Controlling Shareholders" in this prospectus. On 26 June 2019, an additional 452 Shares and 1,356 Shares were allotted and issued to Wonderful Advisor and Perfect Angle respectively. The principal business of our Company is investment holding.

As part of the Reorganisation, on 13 August 2019, a share transfer agreement was entered into among our Company and High Resource and Mr. Leung, pursuant to which High Resource transferred the entire issued share capital of Virtuous Way to our Company, at the consideration of 192 Shares issued by our Company to High Resource. For details, please refer to the paragraph headed "Reorganisation — (6) Share swap between our Company and Pre-IPO Investor" in this section below.

After the aforesaid transactions, Perfect Angle, Wonderful Advisor and High Resource held 8,856, 2,952 and 192 fully-paid Shares, respectively, representing 73.8%, 24.6% and 1.6% of the then total issued share capital of our Company.

Lion Courage

On 23 October 2018, Lion Courage was incorporated in the BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each. On 13 November 2018, 100 fully paid ordinary shares of Lion Courage, representing its entire issued share capital, was issued and allotted at par to our Company. The principal business of Lion Courage is investment holding.

Vanov Tianhe

On 30 November 2018, Vanov Tianhe was incorporated in Hong Kong. 10,000 fully paid ordinary shares of Vanov Tianhe, representing its entire issued share capital, was issued and allotted at HK$1.00 each to Lion Courage. The principal business of Vanov Tianhe is investment holding.

(2) Equity transfer between Chengdu Huanlong and Yongxing Shikang

According to our Directors, Sichuan Huanlong decided to abort the Proposed PRC Listing in or around May 2018, having considered that a listing of our Shares on the Stock Exchange can provide a more competitive financing platform to raise capital for our business development and diversify our capital structure. Accordingly, Chengdu Huanlong ceased to look for investor to acquire equity interest in Sichuan Huanlong. As the buy-back obligation under the First Yongxing Shikang — Chengdu Huanlong Equity Transfer Agreements was triggered, the parties, namely Yongxing Shikang, Chengdu Huanlong, Sichuan Huanlong, Ms. Shen and Mr. Zhou, entered into a second supplemental agreement (the "**Yongxing Shikang — Chengdu Huanlong Second Supplemental Agreement**") in May 2018, pursuant to which Chengdu Huanlong bought back the 6.91% equity interest in Sichuan Huanlong from Yongxing Shikang, at a consideration of RMB41,976,726.03, determined with reference to the calculation mechanism as set out in the First Yongxing Shikang — Chengdu Huanlong Equity Transfer Agreements further supplemented by the Yongxing Shikang — Chengdu Huanlong Second Supplemental Agreement. The above consideration of RMB41,976,726.03 was fully settled on 24 December 2018 and transfer of equity interest in Sichuan Huanlong was duly registered with the PRC government on 17 March 2019. Upon completion of the above equity transfer, Sichuan Huanlong became a direct wholly-owned subsidiary of Chengdu Huanlong.

(3) Pre-IPO Investment

On 26 April 2019, a capital increase agreement was entered into between Chengdu Huanlong and Marvel Dragon. For details, please refer to the paragraph headed "Pre-IPO investment" above in this section.

Upon completion of the above capital increase, Sichuan Huanlong was held as to approximately 98.4% by Chengdu Huanlong and approximately 1.6% by Marvel Dragon, respectively.

(4) Incorporation of Huanlong Funeng and Huanlong Lixin

Huanlong Funeng

On 28 February 2019, Huanlong Funeng was established in the PRC as a wholly foreign-owned enterprise with a registered capital of RMB1,000,000. Huanlong Funeng is a wholly-owned subsidiary of Vanov Tianhe and an indirect wholly-owned subsidiary of our Company. Huanlong Funeng is principally engaged in technical research and development related to textiles, materials and paper.

Huanlong Lixin

On 27 March 2019, Huanlong Lixin was established in the PRC as a limited liability company. At the time of establishment, it was a wholly-owned subsidiary of Huanlong Funeng and with a registered capital of RMB990,000. Huanlong Lixin is principally engaged in technical research and development related to textiles, materials and paper.

(5) Capital Increase of Huanlong Lixin and transfer of equity interest of Sichuan Huanlong to Huanlong Lixin by Chengdu Huanlong

Pursuant to the capital increase agreement entered into among Huanlong Lixin, Huanlong Funeng and Chengdu Huanlong dated 31 May 2019, the registered capital of Huanlong Lixin was increased from RMB990,000 to RMB1,000,000 by way of Chengdu Huanlong subscribing for 1% equity interest of Huanlong Lixin, in consideration for Chengdu Huanlong transferring its 98.4% equity interest in Sichuan Huanlong to Huanlong Lixin. The increase of registered capital of Huanlong Lixin was duly registered with the PRC Government on 6 June 2019 and the transfer of equity interest in Sichuan Huanlong was completed on 10 June 2019.

Upon completion of the capital increase on 6 June 2019 and the transfer of equity interest in Sichuan Huanlong on 10 June 2019, Huanlong Lixin was owned as to 99% and 1% by Huanlong Funeng (which is indirectly wholly-owned by the Company) and Chengdu Huanlong, respectively, while Sichuan Huanlong was owned as to approximately 98.4% and approximately 1.6% by Huanlong Lixin and Marvel Dragon. Huanlong Lixin and Sichuan Huanlong became indirect non-wholly owned subsidiaries of the Company.

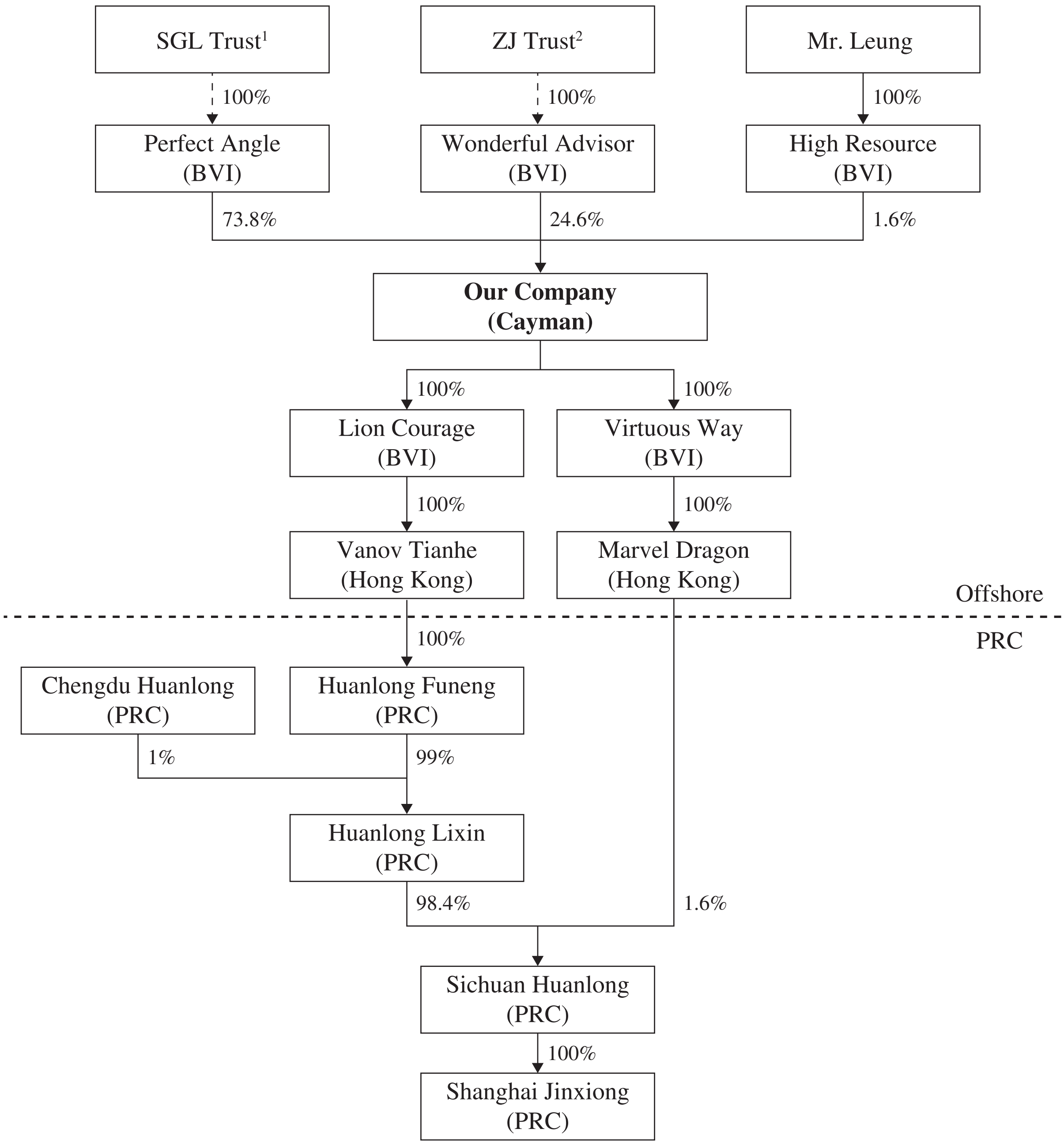
As advised by our PRC Legal Advisers, the subscription of the increased registered capital in Huanlong Lixin (representing 1% equity interest of Huanlong Lixin) by Chengdu Huanlong would result in the remaining small amount of equity interest in Huanlong Lixin to continuously being held by Ms. Shen and Mr. Zhou. The reason for the said subscription is to allow such step to be taken without having the need for offshore funding. As advised by our PRC Legal Advisers, the said subscription was in full compliance with the applicable PRC laws and regulations.

(6) Share swap between our Company and Pre-IPO Investor

On 13 August 2019, a share transfer agreement was entered into among our Company, High Resource and Mr. Leung, pursuant to which High Resource transferred the entire issued share capital of Virtuous Way to our Company, at the consideration of 192 Shares issued by our Company to High Resource. Upon completion of the share swap, (i) Virtuous Way became our wholly and directly owned subsidiary, and (ii) Perfect Angle, Wonderful Advisor and High Resource held 8,856, 2,952 and 192 fully-paid Shares, respectively, representing 73.8%, 24.6% and 1.6% of the then total issued share capital of our Company.

Our PRC Legal Advisers confirmed that our Group has obtained all necessary approvals, consent, licences and permits in the PRC and has effected all necessary filings and recordation under the relevant PRC laws and regulations in connection with the Reorganisation.

The corporate structure of our Group immediately after completion of the Reorganisation but before the Capitalisation Issue and the Global Offering is set out below:

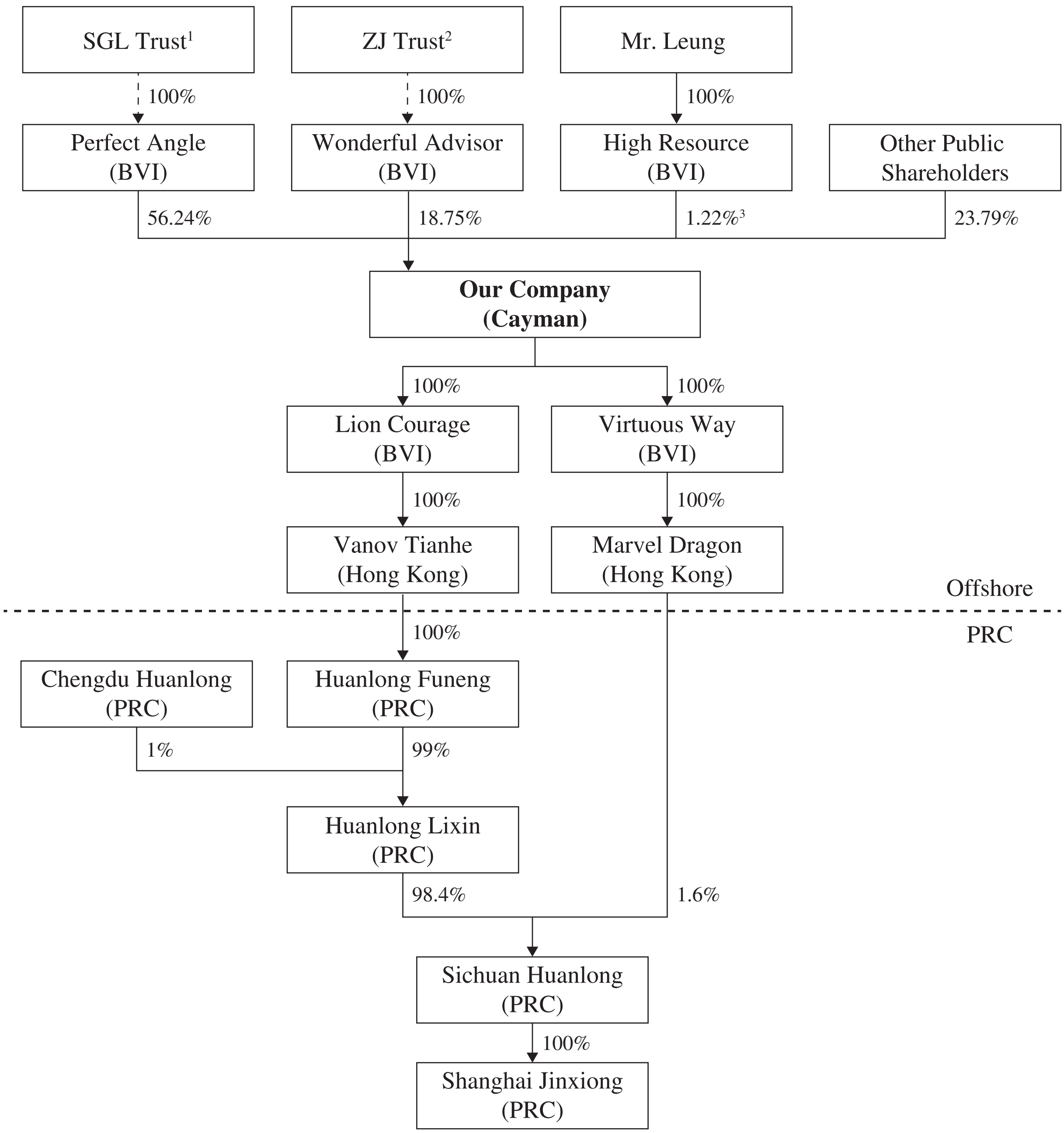


Notes:

(1) The SGL Trust is an irrevocable discretionary trust established by Fame Attain as the settlor and Ms. Shen as the protector of the trust, with Vistra Trust as the trustee, for the benefit of Ms. Shen and the children of Ms. Shen.

(2) The ZJ Trust is an irrevocable discretionary trust established by South Source as the settlor and Ms. Shen as the protector of the trust, with Vistra Trust as the trustee, for the benefit of Mr. Zhou and the children of Ms. Shen.

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



Notes:

(1) The SGL Trust is an irrevocable discretionary trust established by Fame Attain as the settlor and Ms. Shen as the protector of the trust, with Vistra Trust as the trustee, for the benefit of Ms. Shen and the children of Ms. Shen.

(2) The ZJ Trust is an irrevocable discretionary trust established by South Source as the settlor and Ms. Shen as the protector of the trust, with Vistra Trust as the trustee, for the benefit of Mr. Zhou and the children of Ms. Shen.

(3) As neither Mr. Leung nor High Resource is our core connected person (as defined in Listing Rules), the Shares held by High Resource will form part of the public float for the purposes of Rule 8.08 of the Listing Rules accordingly.

PRC REGULATORY ISSUES RELATING TO THE REORGANISATION

Proposed PRC Listing

As disclosed in the section of Industry Overview in this prospectus, our Group's major competitors were listed companies in other stock exchanges. Our Directors are of the view that our Group will have to obtain funding for further expansion in order to maintain its competitiveness and by listing on ChiNext of the Shenzhen Stock Exchange can provide a financing platform to raise capital for our business development and diversify our capital structure.

In 2017 and 2018, Sichuan Huanlong had engaged several professional parties as its financial adviser, auditors and legal advisers, to preliminarily assess whether Sichuan Huanlong was suitable for listing on the ChiNext of the Shenzhen Stock Exchange. In connection with the Proposed PRC Listing, Sichuan Huanlong had paid the professional parties with details as set out below:

Professional parties	Remuneration paid in FY2017	Remuneration paid in FY2018
	(RMB'000)	*(RMB'000)*
Financial adviser	—	500
Legal advisers	—	300
Auditors	192	248
Total	192	1,048

According to our Directors, during the preparation process, it was necessary to convert Sichuan Huanlong to joint stock limited company prior to any application for the Proposed PRC Listing and the directors of Sichuan Huanlong noted that CSRC had a significant backlog of applications for listing on the A-share market and expected the vetting and approval processes for the listing in the PRC to be lengthy. As a result, there was no application for listing made with ChiNext of the Shenzhen Stock Exchange in respect of the Proposed PRC Listing. According to our Directors, Sichuan Huanlong decided to abort the Proposed PRC Listing in or around May 2018. Since then, Sichuan Huanlong has been actively exploring the possibility of listing in other stock exchanges.

Our Directors are of the view that, compared with listing on ChiNext of the Shenzhen Stock Exchange, the listing of our Shares on the Stock Exchange would be more beneficial to our Group in terms of developing international market and recruiting international talents. Also as disclosed in the section of Industry Overview in this prospectus, the Group's major competitors were based overseas, our Directors took the view that the Group will have to further expand into international market in the future if the Group is to maintain its competitiveness.

Our Directors confirmed that, (i) save for a draft due diligence report produced by the legal advisers, no other reports have been prepared in connection with the Proposed PRC Listing; and (ii) save for the aforesaid appointments, no other professional parties were appointed in connection with the Proposed PRC Listing. The Sole Sponsor has conducted independent interviews with the aforementioned professional parties involved in the Proposed PRC Listing, and confirmed that (i) save for a draft due diligence report produced by the legal advisers, no material preparation work had been conducted and no other reports had been prepared in connection with the Proposed PRC Listing; and (ii) no material issues were noted by the professional parties that would have affected the Proposed PRC Listing of Sichuan Huanlong.

Based on the aforesaid and having considered that (i) the material issues noted in the draft due diligence report produced by the legal advisers were disclosed in the paragraph headed "Business — Legal proceedings and compliance — Non-compliances" in this prospectus; (ii) no material issues were noted by the professional parties that would have affected the Proposed PRC Listing of Sichuan Huanlong; and (iii) save for a draft due diligence report produced by the legal advisers, no material preparation work had been conducted and no other reports had been prepared in connection with the Proposed PRC Listing, our Directors take the view and the Sole Sponsor concurs that there is no material issue regarding the Proposed PRC Listing which should be brought to the attention of the regulators, shareholders and potential investors.

SAFE Registration

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles* (關於境內居民通過特殊目的公司境外融資及返程投資外匯管理有關問題的通知) (the "**SAFE Circular No. 37**"), promulgated by SAFE and which became effective on 4 July 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the "**Overseas SPV**") that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including a change of Overseas SPV's PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV's capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Director Investment* (關於進一步簡化和改進直接投資外匯管理政策的通知) (the "**SAFE Circular No. 13**"), promulgated by SAFE and which became effective on 1 June 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC Legal Advisers, each of Ms. Shen and Mr. Zhou has completed the registration under the SAFE Circular No. 13 and SAFE Circular No. 37 on 21 December 2018.

THE M&A RULES

Six PRC regulatory authorities, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, SAIC, CSRC and SAFE, jointly issued the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors* (關於外國投資者併購境內企業的規定) (the "**M&A Rules**"), which became effective on 8 September 2006, and was amended on 22 June 2009. Pursuant to the M&A Rules, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise through an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise.

On 10 June 2019, Chengdu Huanlong transferred its 98.4% equity interest in Sichuan Huanlong to Huanlong Lixin as consideration for capital increase of Huanlong Lixin and obtained 1% of the equity interest of Huanlong Lixin. Huanlong Lixin since then held 98.4% equity interest in Sichuan Huanlong. As advised by our PRC Legal Advisers, given that Sichuan Huanlong was a sino-foreign joint venture enterprise prior to the aforementioned capital increase, hence M&A Rules is not applicable to the said capital increase and approval by MOFCOM or CSRC is not required.

Our PRC Legal Advisers have also confirmed that we have in all material aspects complied with all applicable PRC rules and regulations and have obtained all relevant approvals from the relevant competent governmental authorities for the Reorganisation and that the Group is not required to obtain approvals from CSRC or other relevant authorities for the Reorganisation and the Listing.

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 were one of the top five papermaking felts manufacturers in the PRC market, among which, we ranked fourth and were the only papermaking felts manufacturer headquartered in the PRC, with an approximate market share of 5.8% in terms of revenue in 2020. 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 have a research and development team which, as believed by our Directors, gives us a competitive edge over our competitors as it ensures quality and standard in our papermaking felts, and supports our commitment towards delivering to our customers high quality products and services which can better fit the specifications of our customers' papermaking machines. For details of our research and development capabilities, please refer to the paragraph headed "Research and development" in this section. As a result of our research and development capabilities, we apply our proprietary technical know-how in the innovation and development of our products, that allow us to understand our customers' needs and the precise requirements of our papermaking felts based on our analysis on the data on our customers' papermaking machines collected during the provision of our services. We developed and launched a trial version of Huanlong Paper Machine Efficiency Operation System* (造紙機運營效率優化服務數字平台系統), which is able to gather and store the data of our customers' papermaking machines collected during the provision of our services, so that we can analyse the data and customise the product for customers and provide technical advice of improving the efficiency of customers' papermaking machines. As part of our sales and marketing strategies, upon completion of the development and the launching of the formal version of system, this online platform will allow our selected customers to access our services remotely such as reviewing product development plans, tracking orders and production status, reviewing product examination and technical reports and giving feedback on the efficiency of their papermaking machines. Our Directors believe that such development would provide us with a distinct advantage as compared to our competitors. For more details, please refer to the paragraphs headed "Sales and marketing" and "Research and development" in this section.

Riding on our research and development capabilities and data we stored in the system, in order to increase customer stickiness to our products, we currently also provide complementary papermaking machine efficiency optimisation services from pre-sales technical advice in the use of suitable products and/or customisation of our products to after-sales technical advice and evaluation of the effectiveness on our customers' papermaking machine to our customers, with a view to increase our customers' operational efficiency. As advised by Frost & Sullivan, papermaking machine efficiency optimisation services are only provided by few competitors in the market, which are mainly leading players such as foreign invested enterprises and our Group.

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 by type of papermaking felts during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2018		2019		2020		2020		2021	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000* (unaudited)	*% of total revenue*	*RMB'000*	*% of total revenue*
Packaging papermaking felts	106,027	66.5	114,670	68.6	124,863	68.3	44,017	66.5	52,661	68.8
Specialty papermaking felts	25,755	16.2	26,951	16.1	32,090	17.6	11,496	17.4	12,709	16.6
Printing papermaking felts	14,859	9.3	11,451	6.8	10,732	5.9	4,193	6.3	4,958	6.5
Household papermaking felts	9,975	6.3	10,600	6.3	9,490	5.2	4,225	6.4	4,364	5.7
Pulp papermaking felts	2,740	1.7	3,642	2.2	5,584	3.0	2,274	3.4	1,823	2.4
Total	159,356	100.0	167,314	100.0	182,759	100.0	66,205	100.0	76,515	100.0

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. As advised by Frost & Sullivan, regarding the classification of papermaking felts by speed, there is no standard threshold for the respective category of the speed of papermaking machine due to large variations of paper types by weight and the threshold of the respective speed category may increase along with technological advancement. The categorisation of speed is different based on paper types and papermaking machine. In view of the aforesaid reasons and considering the advancement of papermaking technology with higher speed for certain paper categories such as printing and packaging paper, higher speed papermaking machines have been developed and the range and threshold for speed categories for these paper types could be higher. The development and variation in the product mix of our Group can also be better reflected through the aforesaid categorisation. The following table sets out a breakdown of our revenue, sales volume, average selling price and gross profit of our papermaking felts during the Track Record Period based on the operating speed of the applicable papermaking machine:

	Year ended 31 December														
	2018					2019					2020				
	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit
	RMB '000		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*	*RMB '000*		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*	*RMB '000*		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*
High-speed papermaking felts	31,770	20.0	160.8	198	19,709	39,093	23.4	177.9	220	25,772	54,952	30.1	256.5	214	36,208
Medium-speed papermaking felts	90,433	56.7	622.5	145	43,895	92,940	55.5	599.2	155	48,958	91,429	50.0	623.5	147	46,635
Low-speed papermaking felts	37,153	23.3	358.6	104	14,280	35,281	21.1	340.4	104	14,599	36,378	19.9	323.3	113	16,776
Total	159,356	100.0	1,141.9		77,884	167,314	100.0	1,117.5		89,329	182,759	100.0	1,203.3		99,619

	Six months ended 30 June									
	2020					2021				
	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit
	RMB '000 *(unaudited)*		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*	*RMB '000*		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*
High-speed papermaking felts	18,338	27.7	82.2	223	11,964	23,709	31.0	113.9	208	15,184
Medium-speed papermaking felts	32,222	48.7	214.8	150	16,043	36,914	48.2	252.5	146	17,832
Low-speed papermaking felts	15,645	23.6	141.0	111	6,847	15,892	20.8	147.9	107	6,061
Total	66,205	100.0	438.0		34,854	76,515	100.0	514.3		39,077

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.

Monofilaments and fibre, which are mainly made from nylon, are our major raw materials. 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 cost of raw materials amounted to approximately RMB53.1 million, RMB49.1 million, RMB51.5 million and RMB20.6 million, respectively.

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

According to the Frost & Sullivan Report, only a few local papermaking felts manufacturers, including the Group, demonstrated capability of producing high quality papermaking felts for high-speed papermaking machines while majority of other local enterprises generally compete on supplying papermaking felts for medium and low-speed papermaking machines. Our technologies and research and development capabilities are responsive to the new market and product trends. Our Directors believe that our success is mainly attributable to our in-depth knowledge of the papermaking felts manufacturing industry, our ability to identify and understand market trends, and our experience in material and product design development.

According to the Frost & Sullivan Report, the technology in the papermaking felts manufacturing industry has been evolving over the decades. Since there is a strong demand in terms of quality of papermaking felts, the papermaking felts manufacturers are required to respond to the market by developing and adopting different production technology, such as ring weaving, multi-axial weaving and seamless technology for improving the performance and useful life of their products. As the leading domestic papermaking felts manufacturer, our Group demonstrates a better understanding towards the development of papermaking industry in the PRC with a more effective communication with domestic paper manufacturers in respect to the paper machine optimisation and other value-added services offered to customers especially for domestic papermaking enterprises of different size and scale in the PRC.

We have been undertaking research and development activities on technology application, new auxiliary tools design and relevant software applications to maintain our competitiveness. In particular, our Directors believe that the ability of our research and development department to develop advanced manufacturing techniques such as multi-axial weaving and seamless technology has become the hallmark of the papermaking felts manufacturing industry and is critical to our success. In addition, our research and development department has worked closely with domestic professors and experts from established tertiary institutions through collaborations. We believe that we can capitalise on the collaboration to further enhance our capabilities, develop new technologies and stay abreast of the latest technological developments. As a result of our research and development capabilities, we apply our proprietary technical know-how in the innovation and development of our products, that allow us to understand our customers' needs and the precise requirements of our papermaking felts based on our analysis on the data on our customers' papermaking machines collected during the provision of our services so that we can provide high quality papermaking felts which can better fit the specifications of our customers' papermaking machines. We developed and launched a trial version of Huanlong Paper Machine Efficiency Operation System* (造紙機運營效率優化服務數字平台系統), which is able to gather and store the data of our customers' papermaking machines collected during the provision of our services, so that we can analyse the data and customise the product for customers and provide technical advice of improving the efficiency of customers' papermaking machines. Upon completion of the development and the launching of the formal version of system, this online platform will allow our selected customers to access our services remotely such as reviewing product development plans, tracking orders and production status, reviewing product examination and technical reports and giving feedback on the efficiency of their papermaking machines. Our Directors believe that such development would provide us with a distinct advantage as compared to our competitors.

Riding on our research and development capabilities and data we stored in the system, we also provide papermaking machine efficiency optimisation services from pre-sales technical advice in the use of suitable products and/or customisation of our products to after-sales technical advice and evaluation of the effectiveness on our customers' papermaking machine to our customers, with a view to increase our customers' operational efficiency. As advised by Frost & Sullivan, papermaking machine efficiency optimisation services are only provided by few competitors in the market, which are mainly leading players such as foreign invested enterprises and our Group.

Despite the higher research and development capability and better useful life of product offered by other top five papermaking felts manufacturers, our Group is more competitive in customer service, after-sales service and price and the papermaking felts products sold by our Group has a higher cost performance as compared to by other top five papermaking felts manufacturers.

We are qualified as high and new technology enterprise. We place great emphasis on the research and development of new technologies and product innovations, as well as the protection of our intellectual property rights. Our capabilities can be demonstrated in part by the patents we have obtained. As at the Latest Practicable Date, we have obtained 99 patents in the PRC, details of which are set out in the paragraph headed "Statutory and General Information — Further information about the business — 2. Intellectual property rights" in Appendix V to this prospectus. We believe that our strong intellectual property portfolio provides us with a competitive advantage in the papermaking felts manufacturing industry.

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 commenced our papermaking felts manufacturing business in 2007 and since then we have accumulated 14 years of experience in the papermaking felts manufacturing industry in the PRC. According to the Frost & Sullivan Report, we were one of the top five papermaking felts manufacturers in the PRC market, among which, we ranked fourth and were the only papermaking felts manufacturer headquartered in the PRC, with an approximate market share of 5.8% in terms of revenue in 2020. As compared to other top five papermaking felts manufacturers, our Group focuses primarily in the PRC with papermaking felts as the main product. In contrast, some of the other top five papermaking felts manufacturers are conglomerate with global presence, and may focus on sales of other products including, papermaking machine as well as other papermaking consumables. Our focus on the research and development, services and production of papermaking felts, together with our efficiency optimisation services, enables us to provide more refined services to our customers for better customer experience. In addition, our Group offers papermaking felts with different speed range while some of the other leading players mainly offer high speed papermaking felts. Our products are sold under our two brands, namely VANOV and Gobear. As advised by Frost & Sullivan, our brands are high-end brands and first tier brands amongst the other domestic papermaking felts brands. Our Directors believe that we have well-established reputation in the papermaking felts manufacturing industry with a proven track record in the PRC and we are capable of delivering our products on time and to the satisfaction of our customers.

According to the Frost & Sullivan Report, the sales value of papermaking felts in the PRC has achieved a CAGR of approximately 9.7% from 2016 to 2020 and is expected to increase at a CAGR of approximately 7.6% from 2021 to 2025 due to the expansion in production of high-speed papermaking felts among local papermaking felts manufacturers. By closely following the growing trend in the market, our Directors believe that our responsiveness to the latest technology and high operational efficiency have contributed significantly to our success. With our long history of operation, we believe that we can consistently produce high quality products with short production and delivery cycles.

In addition, our Directors believe that our growing research and development portfolio will continue to integrate us with our customers' critical research and industrial processes and further differentiate our value proposition from that of our competitors.

We have established strong business relationships with our key customers and suppliers

Our Directors believe that we have built a good reputation and a good corporate image in the paper and paper products manufacturing industry and we have established strong business relationships with our key customers and suppliers.

We have maintained a wide range of channels leveraging on our products and services, which include building strong relationships with our customers. As at the Latest Practicable Date, we have maintained business relationships with our five largest customers during the Track Record Period for an average of approximately six years. According to the Frost & Sullivan Report, nine out of the top ten papermaking companies in the PRC in 2020 are our Group's customers.

We believe that our market-leading position and track record in providing quality products which meet certain certification requirements has provided us with a competitive advantage in attracting more well-known paper and paper products manufacturers or their sourcing companies as customers. We communicate and work closely with our customers during the entire production process to ensure that our products are properly designed and manufactured in accordance with their production needs. In order to strengthen our business relationships with our customers, members of our sales and marketing department visit our customers' production facilities regularly to understand their needs and keep ourselves abreast of the latest development and trends of our customers' products. As part of our after-sales service, we provide a tailor-made papermaking felts solution whereby, we issue complimentary technical advisory proposals to our customers which analyse the performance of their production machines. Our Directors believe that this service differentiates us from other conventional papermaking felts manufacturers who merely provide papermaking felts to customers.

In addition, we have also established long-term relationships with some of our suppliers of quality raw materials for papermaking felts manufacturing. As at the Latest Practicable Date, we have maintained business relationships with our five largest suppliers during the Track Record Period for an average of approximately ten years. Our Directors believe that such business relationships enable our access to a steady supply of raw materials which are manufactured according to the specifications and timing requested by us and our customers, and such relationships have been built upon a mutual trust and confidence over the years of cooperation between us and our suppliers.

We have a group of experienced and high calibre professional team led by a stable and dedicated management team

Our management team has extensive experience, in-depth knowledge and strong expertise in the papermaking felts manufacturing industry of the PRC. Our chairperson and executive Director, Ms. Shen and our executive Director and chief executive officer, Mr. Zhou, each has over 16 years of experience in the papermaking felts manufacturing industry. They have built our Group's reputation in the papermaking felts manufacturing industry, and facilitated the establishment of long-standing business relationships with our customers and suppliers. Our executive Director, Mr. Xie, has over 18 years of experience in the papermaking felts manufacturing industry with an expertise in research and development in technologies regarding papermaking felts as proven in his contribution as the leading drafter of "China Textile Industry Standard: Batt-on-mesh Papermaking Felts" (中國紡織行業標準：底網造紙毛毯), which has subsequently become the industry standard of the papermaking felts manufacturing industry. Our director of the sales and marketing department, Mr. Gao Qiang, has over 18 years of experience in sales and marketing. Our director of the operation department, Ms. Lin Xiaoyan, has over 12 years of experience in operation and client management. The majority of our senior management has over 10 years of experience in each of their respective fields of expertise. For further details, please refer to the section headed "Directors and Senior Management" in this prospectus.

Our executive Directors and senior management have led and transformed our Group into a well-established papermaking felts manufacturer in the PRC, the only papermaking felts manufacturer headquartered in the PRC among the top five papermaking felts manufacturers in the PRC market, and one of the few local papermaking felts manufacturers which demonstrate capability of producing high quality papermaking felts for high-speed papermaking machine. We believe our management team possesses in-depth knowledge and experience critical to the success in the papermaking felts manufacturing industry and is capable of seizing market opportunities, formulating sound and tailored business strategies, assessing and managing risks and implementing management schemes, so as to maximise our shareholder value.

OUR BUSINESS STRATEGIES

We plan to achieve our business objectives by pursuing the following strategies:

Expanding our production capacity

According to the Frost & Sullivan Report, the total sales volume of papermaking felts in the PRC experienced an overall growth from 2016 to 2020 at a CAGR of approximately 8.1%, and the sales volume of papermaking felts is expected to have a further growth from 2016 onwards and is expected to increase at a CAGR of approximately 6.3% during 2021 to 2025. According to the Frost & Sullivan Report, we were one of the top five papermaking felts manufacturers in the PRC market, among which, we ranked fourth and were the only papermaking felts manufacturer headquartered in the PRC, with an approximate market share of 5.8% in terms of revenue in 2020. The total sales value of papermaking felts in the PRC has also shown an overall increasing trend from approximately RMB2,189.9 million in 2016 to approximately RMB3,166.1 million in 2020, representing a CAGR of approximately 9.7% and is expected to further increase at a CAGR of approximately 7.6% during 2021 to 2025.

The effective utilisation rate of our Chengdu Production Site was 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, while the effective utilisation rate of our Shanghai Production Site was 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. The actual production volume of our Chengdu Production Site was approximately 547 tonnes, 587 tonnes, 608 tonnes and 276 tonnes for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively, while the actual production volume of our Shanghai Production Site was approximately 498 tonnes, 537 tonnes, 603 tonnes and 259 tonnes for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively.

For details about the production capacities of our existing production facilities during the Track Record Period, please refer to the paragraph headed "Production — Our production capacity and utilisation rate" in this section.

In order to cater for the expected increasing demand in our high-speed papermaking felts, our Directors believe that it is imminent to increase our production capacity for high-speed papermaking felts. Our production capacity expansion plan, which involves the acquisition of production machinery for our Chengdu Production Site and our Shanghai Production Site, is divided into three phases.

We have commenced phase one of our production capacity expansion plan in the fourth quarter of 2020, which 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. We have completed phase one of our production capacity expansion plan in September 2021 and commenced operation progressively. RMB41.1 million has been capitalised as the fixed assets in the consolidated statements of financial position. Immediately upon completion of such phase one in September 2021, the annual production capacity of one major production line in our Chengdu Production Site increases by approximately 150 tonnes, which will enable us to have a total annual production capacity of approximately 400 tonnes, comprising approximately 150 tonnes of enlarged annual production capacity and approximately 250 tonnes of existing annual production capacity, to manufacture the papermaking felts used for paper machines of higher speed, and the quality of our products are expected to enhance when the new set of production machinery is in full operation. This set of production machinery together with the production machinery to be acquired under phase three of our production capacity expansion plan as discussed below will enhance the production efficiency and the annual production capacity of the production lines in our Chengdu Production Site.

Phase two of our production capacity expansion plan, which is expected to complete in one year, has started in the second quarter of 2021 and we plan to expand the annual production capacity by (a) acquiring a set of production machinery as additional production line in our Shanghai Production Site, (b) acquiring supplemental equipment and upgrading certain production lines of our Chengdu Production Site and (c) performing technical transformation on our machinery and production lines of both of our Chengdu Production Site and our Shanghai Production Site by the second quarter of 2022. The total estimated capital expenditure to be incurred in relation to phase two of our production capacity expansion plan is approximately RMB94.6 million, 36.4% of which will be financed by the net proceeds of the Global Offering, with the remaining to be financed by internal resources. It is expected that following the completion of such phase two, the annual production capacity of our Shanghai Production Site is expected to increase by approximately 300 tonnes for the year ending 31 December 2022 and further increase by approximately 100 tonnes for the year ending 31 December 2023, i.e. an aggregated increase of 400 tonnes enlarged annual production capacity in our Shanghai Production Site upon the full operation and completion of phase two of our production capacity expansion plan. Such additional production capacity is intended mainly for manufacturing the papermaking felts used for paper machines of higher speed. It is expected that there will be no material change to the annual production capacity of our Chengdu Production Site as a result of the upgrade of the production lines in phase two since such upgrade is for the purpose of optimising the production process of warping, winding and weaving. Nevertheless, such upgrade is a necessary preparation for our further expansion plan, which will allow us to increase the annual production capacity of our Chengdu Production Site in our phase three of our production capacity expansion plan as discussed below with the incurring of less capital expenditure. As at the Latest Practicable Date, we have signed certain agreements with machinery and equipment providers for the acquisition of machinery and equipment under phase two of our production capacity expansion plan and capital expenditure of approximately RMB3.7 million under this phase has been incurred so far, and we are still looking for suitable production premises to expand our Shanghai Production Site.

For the particulars of the production machinery and the estimated capital expenditure to be incurred from the purchase the machinery for phase two of our production capacity expansion plan, please see the section headed "Future Plans and Use of Proceeds" in this prospectus.

Phase three of our production capacity expansion plan is expected to commence in June 2022 and we plan to further expand the annual production capacity by acquiring a set of production machinery including weaving machine, needling machine and setting machine for one of our production lines in our Chengdu Production site to complement the production machinery invested during phase one of our production capacity expansion plan. The total estimated capital expenditure to be incurred in relation to phase three of our production capacity expansion plan is approximately RMB20.7 million, which will be fully financed by internal resources. It is expected that following the completion of such phase three, together with the production machinery acquired under phase one of our production capacity expansion plan and taking advantage of the production lines upgrade under phase two of our production capacity expansion plan as discussed above, the annual production capacity of our Chengdu Production Site is expected to increase by approximately 200 tonnes for the year ending 31 December 2023 and further increase by approximately 200 tonnes for the year ending 31 December 2024, i.e. an aggregated increase of 400 tonnes enlarged annual production capacity in our Chengdu Production Site upon the full operation and completion of phase three of our production capacity expansion plan, mainly for manufacturing the papermaking felts used for paper machines of higher speed.

The following table sets forth the actual annual production capacities and capital expenditure incurred for the year ended 31 December 2020 and the expected annual production capacities and capital expenditure expected to incur for the four years ending 31 December 2024 in respect of our production facilities, assuming our production capacity expansion plan can be completed as scheduled:

		For the year ended 31 December	For the year ending 31 December			
		2020	**2021**	**2022**	**2023**	**2024**
Chengdu Production Site	Actual/expected annual production capacity *(tonnes)* *(Note 1)*	660	710	810	1010	1210 *(Note 2)*
	Capital expenditure incurred/expected to incur *(RMB'000)*	19,056	36,758	10,050	12,290	900
Shanghai Production Site	Actual/expected annual production capacity *(tonnes)* *(Note 1)*	620	620	920	1020	1020
	Capital expenditure incurred/expected to incur *(RMB'000)*	Nil	45,120	28,370	3,910	Nil

Notes:

1. The expected increase in the annual production capacity for the four years ending 31 December 2024 are intended for high-speed papermaking felts, which can also be used for medium-speed or low-speed papermaking felts if required.

2. The expected increase in the annual production capacity for the year ending 31 December 2024 in our Chengdu Production Site is due to the expected full operation and completion of phase three of our production capacity expansion plan.

According to the Frost & Sullivan Report, the replacement, adjustment and testing of machine for the production of papermaking felts could generally take several months to a year subject to the time from ordering, manufacturing to shipment of the machine, as well as the time for installation, adjustment and testing process for such machine. Given the time required for adjusting and testing the new sets of production machinery following its installation in our three phases of production capacity expansion plan, our Directors estimated that the new sets of machinery will gradually increase our production volume from 2021 to 2024. Our Directors believe that such purchase will allow us to better cope with the expected increase in demand in our high-speed papermaking felts from both existing and new customers.

Further strengthening our research and development capabilities

We believe that our commitment to research and development is essential to enhancing our sales and marketing position, and our ongoing research and development activities, particularly in papermaking machine efficiency optimisation, can help us bolster the quality and performance of our customers' papermaking machines. We plan to strengthen our research and development capabilities in the area of digitalisation of papermaking machine operation services system to enhance papermaking machine efficiency data services, customised product design and standardised product development. We developed and launched a trial version of Huanlong Paper Machine Efficiency Operation System* (造紙機運營效率優化服務數字平台系統), which is able to gather and store the data of our customers' papermaking machines collected during the provision of our services, so that we can analyse the data and customise the product for customers and provide technical advice of improving the efficiency of customers' papermaking machines. As part of our sales and marketing strategies, upon completion of the development and the launching of the formal version of system, this online platform will allow our selected customers to access our services remotely such as reviewing product development plans, tracking orders and production status, reviewing product examination and technical reports and giving feedback on the efficiency of their papermaking machines. We plan to upgrade such online platform to facilitate the collection of information from our customers' papermaking machines and our production machinery and equipment, support the analysis of the data collected from the machines, build database and promote our customised product services based on our analysis of the data. We will continue to develop our production machinery and equipment based on the information collected using the online platform and allocate more resources to procure staff with relevant expertise to strengthen our information technology facilities. The total estimated capital expenditure to be incurred in relation to upgrade our Huanlong Paper Machine Efficiency Operation System, including developing and upgrading the software platform, investing in the hardwares, hiring professional staff and strengthening our information technology facilities, is approximately RMB20.0 million, 49.0% of which will be financed by the net proceeds of the Global Offering, with the remaining to be financed by internal resources. For the breakdown of such estimated capital expenditure, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

We were accredited as an enterprise technology centre in Sichuan Province in November 2019. We will continue to place strong emphasis on research and development, with an aim to provide continuing support in respect of technical know-how for increasing papermaking machine efficiency. We will continue to pursue technological innovation, management innovation and strategic innovation and enhance our level of digitalisation of our comprehensive papermaking felts services. The total estimated capital expenditure to be incurred in relation to upgrading our technology centre, including the investments into the human resources, equipment and facilities, and cooperative research and development projects, is approximately RMB15.0 million, 49.3% of which will be financed by the net proceeds of the Global Offering, with the remaining to be financed by internal resources. For the breakdown of such estimated capital expenditure, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

Pursuing strategic acquisitions

We have demonstrated our ability to execute synergistic acquisitions, such as the acquisition of Shanghai Jinxiong in 2010, that has greatly improved our competitiveness with additional production lines.

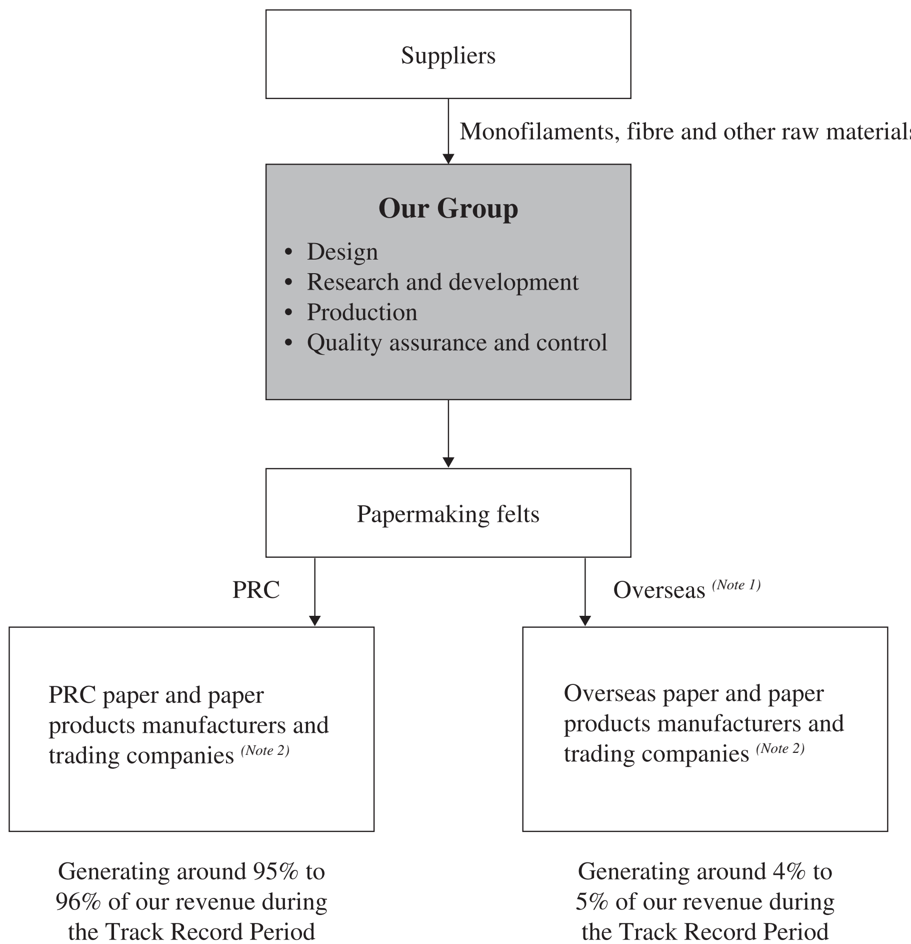
To achieve future growth, we may selectively pursue strategic acquisitions that complement our business and strategic priorities, such as for expanding our business horizontally in the industry chain and supply chain, taking into account factors such as the financial and competitive positions of the potential acquisition targets. In particular, we intend to acquire papermaking screens manufacturer(s) with the capacity to produce drying screens (乾網) and three-layer screens (三層網), another consumables required by paper manufacturers during the papermaking process, since generally our paper and paper products manufacturers customers which purchase papermaking felts from us need papermaking screens as well. They are major consumables for pressing, forming and drying in the whole papermaking process. As compared to papermaking felt which is mainly used in pressing section of paper machine, papermaking screens are consumables used for forming section and drying section of a paper machine. According to the Frost & Sullivan Report, the market demand of papermaking screens in the PRC is estimated to be approximately RMB4,000 million to RMB5,300 million in 2020. In terms of production volume, the market size of papermaking screens in the PRC was approximately 2.3 million sq. m.. The market growth of papermaking screens is generally in line with papermaking felts. The top five papermaking felts enterprises (except for our Group) are also engaged in the manufacturing of papermaking screens and it is a market trend for the papermaking felts enterprises to acquire papermaking screens manufacturers to maximise synergies. Acquiring the papermaking screens manufacturer(s) by the papermaking felts providers can provide synergies including (i) provision of all types of dewatering fabric consumables for paper machine at a competitive price, (ii) strengthening business relationship and loyalty of customers, and (iii) achieving scale production and rapid development of papermaking felts providers in terms of business and financial performance.

We plan to acquire company(ies) as our subsidiary(ies) by holding more than 50% of its/their equity interest that (i) is/are located in the PRC; (ii) is/are specialised in papermaking screens which has/have sound track record in providing such services with its own production line(s) for drying screens and three-layer screens; (iii) has/have considerable scale of operations with air-conditioned production site of at least 30,000 sq. m. and heavy weaving machines, and sufficient staff with experience in the papermaking industry; (iv) has/have production capacity of at least 400,000 sq. m. for drying screens and at least 30,000 sq. m. for three-layer screens; and (v) has/have research and development capabilities. We plan to incur not more than RMB100 million for such acquisitions, of which we plan to allocate approximately RMB8.7 million, representing 10% of the total net proceeds of the Global Offering, to settle part of the consideration of any strategic acquisitions, with the remaining part being settled by internal resources and/or other external financing. As advised by Frost & Sullivan, there are over 200 papermaking screen manufacturers in the PRC as in 2020 and there are over 30 papermaking screen manufacturers that are feasible potential targets for acquisition by our Group. Through integrating and enhancing the businesses we acquire, we plan to maximise synergies brought by the strategic acquisitions and our Directors believe that we have the requisite knowledge and understanding to pursue strategic acquisitions to enhance our business. As at the Latest Practicable Date, we had not identified any suitable target for such potential acquisition or opportunities.

OUR BUSINESS MODEL

We principally engage in the design, manufacture and sales of papermaking felts under the brands of VANOV and Gobear. Papermaking felts are fabrics used in the papermaking machine 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 of our production, conducting quality control, delivery papermaking felts to customers and providing after-sales services. Our products 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. We mainly conduct manufacturing process for our products in accordance with the design and technical specifications agreed between our customers and us.

Our customers mainly include: (i) PRC paper and paper products manufacturers and trading companies, from which we derived around 95% to 96% of our revenue; and (ii) overseas paper and paper products manufacturers and trading companies, from which we derived around 4% to 5% of our revenue. For further details of our customers, please refer to the paragraph headed "Our customers" in this section. The diagram below provides a simplified presentation of our business model:



Notes:

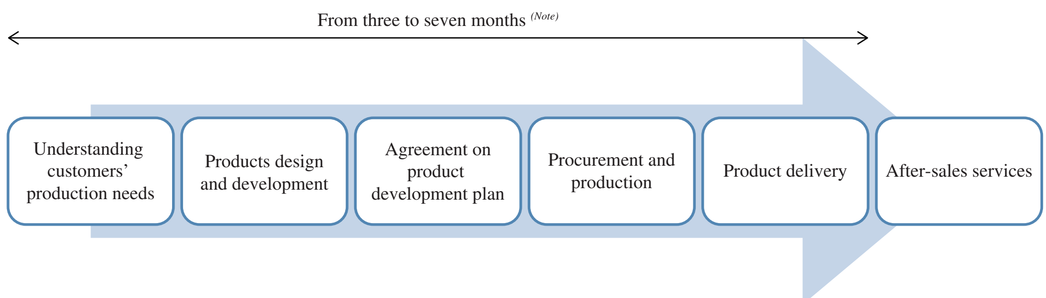
1. Overseas mainly include Singapore, Brazil, Pakistan, Colombia, India and Uzbekistan.

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. The total amount of agency service fees incurred for the three years ended 31 December 2020 and the six months ended 30 June 2021 were approximately RMB3.3 million, RMB4.9 million, RMB7.2 million and RMB1.9 million, respectively.

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.

Understanding production needs of our new customers

Our new customers generally approach us with their requests for our products with product requirements. In other cases, members of our sales and marketing department will directly approach potential customers to pursue business opportunities.

We normally request our potential customers to provide the information about their production process and product catalogue to us. After that, we will conduct technical reviews on their production machinery. In some cases, we receive our potential customers' order enquiries and request reports generated from their production machinery in order to understand thoroughly their production needs during their operation and design quality products to cater their specific needs.

For our complementary papermaking machine efficiency optimisation services, particularly for high-speed papermaking felts, we will also collect information from our customers' papermaking machines, conduct online testing on the machines and analyze the data collected from the machines so that we are able to understand our customers' needs and the precise requirements of our papermaking felts and formulate a product development plan and/or an optimisation plan for our customers.

Product design and development

After conducting technical reviews and analysing our potential customers' production needs and special requirements, we will formulate a product development plan based on the following proposals:

(i) offering a selection of products from our existing product portfolio and making adjustments or alterations, where necessary; and/or

(ii) customising our products.

In a product development plan, we typically include, among other things, source of raw materials, estimated performance of our customised papermaking felts and the adoption of quality standards.

Agreement on product development plan

If our potential customers are satisfied with our customised product development plan, we will generally enter into a sale and purchase agreement with them. The agreement can ensure that our products will be manufactured up to our customers' standards while integrating and maximising our advanced technological resources. For details of the salient terms of our sale and purchase agreements with our customers, please refer to the paragraph headed "Our customers" in this section.

Procurement and production

We generally procure our raw materials according to a procurement plan prepared by us on a monthly basis. We receive purchase orders from our customers from time to time to indicate, among other things, the quantities they require us to produce. After receipt of purchase orders from our customers, we manufacture our products in accordance with the agreed production development plan. For details of our production process, please refer to the paragraph headed "Production — Our production process" in this section.

Product delivery

Upon completion of the entire production process, the finished goods will be delivered to the locations specified by our customers through third party logistics service providers. For details of logistics support in relation to transporting finished goods from our production facilities to our customers' designated locations, please refer to the paragraph headed "Logistics" in this section.

After-sales services

We strive to provide quality and effective after-sales services and technical support to our customers and collect feedback as to the quality of our products for future product enhancement. We conduct testing, analysis and evaluation of the effectiveness of our products after the implementation of the optimisation plan in respect of our complementary papermaking machine efficiency optimisation services, with a view to increase our customers' operational efficiency.

In the event that a defect is identified, our customers may reject our products or ask for product return under our product return and warranty policy. For details of our product return and warranty policy, please refer to the paragraph headed "Product returns and warranty" in this section.

For certain long-term customers, we pay them on-site visits regularly to conduct review and inspection on the performance of our products on their production machinery. We also offer a complimentary technical advisory proposal to certain long-term customers, in which we inspect their machinery, analyse the performance of their production machines, and evaluate the effectiveness of our products on their machinery with the most up-to-date technology from time to time.

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. During the Track Record Period, a significant proportion of orders, in terms of revenue, were received from our recurring customers, being those customers who had renewed contracts or had placed orders with us during the previous financial year. For the three years ended 31 December 2020 and the six months ended 30 June 2021, our recurring customers contributed approximately 97.5% 88.4%, 90.5% and 93.4% of our revenue, respectively.

The table below sets out the sales volumes and average selling prices attributable to new customers and recurring customers during the Track Record Period:

	For the year ended 31 December									For the six months ended 30 June		
	2018			2019			2020			2021		
	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price
	(RMB'000)	*(tonnes)*	*(RMB'000 per tonne)*	*(RMB'000)*	*(tonnes)*	*(RMB'000 per tonne)*	*(RMB'000)*	*(tonnes)*	*(RMB'000 per tonne)*	*(RMB'000)*	*(tonnes)*	*(RMB'000 per tonne)*
Recurring customers	155,370	1,107.3	140	147,969	996.0	149	165,417	1,083.7	153	71,428	477.4	150
New customers	3,986	34.6	115	19,345	121.5	159	17,342	119.6	145	5,087	36.9	138
Total	159,356	1,141.9	140	167,314	1,117.5	150	182,759	1,203.3	152	76,515	514.3	149

The revenue generated from the recurring customers generally increased during the Track Record Period and it was mainly affected by the sale volume to the recurring customers which depends on their needs and demands. The relevant average selling price was increasing due to more and more high-speed papermaking felts were sold during the Track Record Period. For the revenue generated from the new customers, it increased significantly from approximately RMB4.0 million in 2018 to approximately RMB19.3 million in 2019, mainly due to our increasing effort on sourcing new customers. The average selling price with new customers during the Track Record Period fluctuated materially as it was affected by their requests for our products with different product requirements.

OUR PRODUCTS

We principally engage in the design, manufacture and sales of papermaking felts, which are fabrics used in the papermaking machines for dewatering, pressing, forming and drying of paper in the papermaking process. 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.

Our Directors consider that our papermaking felts can be utilised for about 30 to 90 days. Depending on the product development plan prepared by us in accordance with our customers' production needs, we adopt different techniques in producing customised papermaking felts. For the three years ended 31 December 2020 and the six months ended 30 June 2021, our average selling price for our papermaking felts per tonne amounted to approximately RMB140,000, RMB150,000, RMB152,000 and RMB149,000, respectively.

The following table sets out a breakdown of our revenue by product type during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2018		2019		2020		2020		2021	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000* (unaudited)	*% of total revenue*	*RMB'000*	*% of total revenue*
Packaging papermaking felts	106,027	66.5	114,670	68.6	124,863	68.3	44,017	66.5	52,661	68.8
Specialty papermaking felts	25,755	16.2	26,951	16.1	32,090	17.6	11,496	17.4	12,709	16.6
Printing papermaking felts	14,859	9.3	11,451	6.8	10,732	5.9	4,193	6.3	4,958	6.5
Household papermaking felts	9,975	6.3	10,600	6.3	9,490	5.2	4,225	6.4	4,364	5.7
Pulp papermaking felts	2,740	1.7	3,642	2.2	5,584	3.0	2,274	3.4	1,823	2.4
Total	159,356	100.0	167,314	100.0	182,759	100.0	66,205	100.0	76,515	100.0

The principal functions of papermaking felts include: (i) assisting the formation of paper sheets by pressing and drying the papers; and (ii) conveying paper sheets through various sections of papermaking machines. Therefore, the quality and characteristics of paper produced, and the efficiency of papermaking machines, largely rely on the design and quality of 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. As advised by Frost & Sullivan, regarding the classification of papermaking felts by speed, there is no standard threshold for the respective category of the speed of papermaking machine due to large variations of paper types by weight and the threshold of the respective speed category may increase along with technological advancement. The categorisation of speed is different based on paper types and papermaking machine. In view of the aforesaid reasons and considering the advancement of papermaking technology with higher speed for certain paper categories such as printing and packaging paper, higher speed papermaking machines have been developed and the range and threshold for speed categories for these paper types could be higher. The development and variation in the product mix of our Group can also be better reflected through the aforesaid categorisation. The following table sets out a breakdown of our revenue, sales volume, average selling price and gross profit of our papermaking felts during the Track Record Period based on the operating speed of the applicable papermaking machine:

	Year ended 31 December														
	2018					2019					2020				
	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit
	RMB '000		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*	*RMB '000*		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*	*RMB '000*		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*
High-speed papermaking felts	31,770	20.0	160.8	198	19,709	39,093	23.4	177.9	220	25,772	54,952	30.1	256.5	214	36,208
Medium-speed papermaking felts	90,433	56.7	622.5	145	43,895	92,940	55.5	599.2	155	48,958	91,429	50.0	623.5	147	46,635
Low-speed papermaking felts	37,153	23.3	358.6	104	14,280	35,281	21.1	340.4	104	14,599	36,378	19.9	323.3	113	16,776
Total	159,356	100.0	1,141.9		77,884	167,314	100.0	1,117.5		89,329	182,759	100.0	1,203.3		99,619

	Six months ended 30 June									
	2020					2021				
	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit
	RMB '000 (unaudited)		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*	*RMB '000*		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*
High-speed papermaking felts	18,338	27.7	82.2	223	11,964	23,709	31.0	113.9	208	15,184
Medium-speed papermaking felts	32,222	48.7	214.8	150	16,043	36,914	48.2	252.5	146	17,832
Low-speed papermaking felts	15,645	23.6	141.0	111	6,847	15,892	20.8	147.9	107	6,061
Total	66,205	100.0	438.0		34,854	76,515	100.0	514.3		39,077

According to our Directors, the features of and the techniques adopted for our products ensure the satisfactory performance of our products on papermaking machines. During our production process, we mainly use two types of weaving techniques, ring weaving and twill weaving. Ring weaving ensures the stability of dewatering performance and the fabric structure and the flatness of the felts, and twill weaving ensures the stability of dewatering performance.

Packaging papermaking felts

Our packaging papermaking felts are manufactured for packaging papermaking machines. The weaving techniques used for manufacturing packaging papermaking felts include ring weaving and twill weaving. Packaging paper mainly includes corrugated medium and linerboard, which is commonly applied to serve protective effect to goods in logistic industry.

Specialty papermaking felts

Our specialty papermaking felts are applicable to all types of specialty papermaking machines, including specialty papermaking machines that can manufacture papers with superfine surfaces. The weaving technique used for manufacturing specialty papermaking felts is ring weaving. Specialty paper includes paper for industrial, agricultural and medical use.

Printing papermaking felts

Our printing papermaking felts are applicable to printing papermaking machines. The weaving techniques used for manufacturing printing papermaking felts include ring weaving and twill weaving. Printing paper mainly includes newsprint, printing and writing paper and art paper.

Household papermaking felts

Our household papermaking felts are manufactured for the household papermaking machines with models in vacuum cylinder mould and crescent form. Our household papermaking felts are made of thin fibre and with the adoption of ring-weaving technique, the surface of the felts are relatively fine and smooth compared to the other types of papermaking felts. Household paper refers to consumable paper products such as toilet tissue, facial tissue and wet wipes.

Pulp papermaking felts

Our pulp papermaking felts are manufactured for the pulp papermaking machines, of which pulp paper are manufactured and subsequently used as consumables of other types of papermaking machines. The weaving techniques used for manufacturing pulp papermaking felts include twill weaving which enhances the dewatering ability and abrasion resistance.

PRODUCTION

Our production facilities

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. Our production facility in Chengdu is constructed on a parcel of land owned by our Group, while our production facility in Shanghai is constructed on leased land owned by Independent Third Parties. As at 30 June 2021, all material machinery and equipment applied in our production facilities are owned by us.

For the three years ended 31 December 2020 and the six months ended 30 June 2021, approximately 52%, 52%, 50% and 52% of our products were manufactured in our Chengdu Production Site, respectively, while approximately 48%, 48%, 50% and 48% of our products were manufactured in our Shanghai Production Site, respectively.

Chengdu Production Site

We established our Chengdu Production Site in 2008. It is situated in Wenjiang District, Chengdu, Sichuan, the PRC.

Our Chengdu Production Site comprises one factory building in operation and ancillary facilities including staff dormitory, staff cafeteria and other buildings with an aggregate gross floor area of approximately 15,748 sq. m. As at the Latest Practicable Date, the Chengdu Production Site has six production lines.

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.

Our Shanghai Production Site comprises three factory buildings and ancillary facilities including staff dormitory and staff cafeteria with an aggregate site area of approximately 9,006 sq. m. As at the Latest Practicable Date, our Shanghai Production Site has two production lines.

For further details about our properties, please refer to the paragraph headed "Properties" in this section.

Our production machinery

Major machinery owned by our Group for production use during the Track Record Period are summarised as follows:

Major type of production machinery	Quantity				Principal use	Approximate weighted average remaining useful life (note 1)
	As at 31 December			As at 30 June		
	2018	2019	2020	2021		
Fearnought machine (和毛機)	2	2	2	2	Loosening and separating lumps of fibre	nil
Carding machine (梳理機)	4	4	4	4	Brushing and pulling fibre into parallel form	19 months
Cross-forming machine (鋪網機)	4	4	4	4	Folding single layer of fibre batt into thicker layers	19 months
Pre-needling machine (預刺機)	4	4	4	4	Strengthening the fibre in the fibre batt	19 months
Warping machine and winding machine (整經機和卷緯機) . .	9	9	9	10	Weaving single yarns into warp beams and weft threads	22 months
Weaving machine (織機)	19	20	20	20	Knitting warp beams and weft threads into fabric pieces	33 months
Needling machine (針刺機)	8	8	8	8	Punching and entangling different layers of fabrics into a single layer of felt	21 months
Setting machine (定型機)	4	4	4	4	Eliminating any tension variations in the fabrics and stabilising the shape and structure of the felt	20 months

Note:

1. The calculation of the weighted average remaining useful life of our machinery is based on the weighted average of the remaining depreciable period of each unit of machinery determined in accordance with our applicable accounting policies, under which the depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives.

For details of our production machinery used in each step of our production process, please refer to the paragraph headed "Our production process" in this section.

For the three years ended 31 December 2020 and the six months ended 30 June 2021, we incurred capital expenditures (including additions and transfers from construction in progress) for plant and machinery of approximately RMB9.7 million, RMB5.7 million, RMB1.2 million and RMB2.6 million, respectively. As at 30 June 2021, our Group had prepayment of acquisition of plant and machinery of approximately RMB5.0 million. We adopt a straight-line depreciation policy for our plant and machinery. For details of the relevant accounting policies, please see note 2.6 of the Accountants' Report set out in Appendix I to this prospectus.

We conduct regular checks on our production machinery, based on which we make replacement and/or repair and maintenance decisions on an ongoing basis. We do not have a pre-determined or regular replacement cycle for our machinery, as replacement decisions are made on a case-by-case basis having regard to various factors, such as, according to our Directors, the feasibility and cost of repairing the worn-out or malfunctioning parts and the cost of replacing the entire machinery with a new one. For the three years ended 31 December 2020 and the six months ended 30 June 2021, our total expenses incurred in relation to the repair and maintenance of machinery were approximately RMB0.7 million, RMB0.7 million, RMB1.0 million and RMB0.5 million, respectively.

Save as disclosed in the paragraph headed "Our production capacity and utilisation rate" in this section, during the Track Record Period, we had not experienced any material disruption in our production due to machinery breakdown.

Our production capacity and utilisation rate

We plan our production based on our sales target of each month. As part of our production plan, we allocate our resources, such as the amount of raw materials and employees based on our estimated maximum capacity.

The following table sets forth the utilisation of our production facilities during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
Chengdu Production Site					
— Estimated maximum annual capacity *(tonnes)*(Note 1)	590	660	660	330	330
— Approximate actual production volume *(tonnes)*(Note 2)	547	587	608	242	276
— Effective utilisation rate *(%)*(Note 3)	92.7	88.9	92.1	73.4	83.8(Note 5)
Shanghai Production Site					
— Estimated maximum annual capacity *(tonnes)*(Note 1)	500	520	620	310	310
— Approximate actual production volume *(tonnes)*(Note 2)	498	537	603	217	259
— Effective utilisation rate *(%)*(Note 3)	99.6	103.3(Note 4)	97.3	69.9	83.5(Note 5)

Notes:

1. The estimated maximum annual capacity represents the estimated weight of papermaking felts produced by our key production machinery, which mainly include certain types of needling machines, minus the required maintenance days during the year or period. The estimated maximum annual capacity is estimated based on the assumption that our key production facilities operate for 287 days for each calendar year and 24 hours per day taking into account public holidays, subject to rest time of our employees and required maintenance time for each production facilities.

2. The actual production volume represents the weight of papermaking felts produced during the Track Record Period.

3. The effective utilisation rate is calculated by dividing the approximate actual production volume by the estimated maximum annual capacity for the same period.

4. The Shanghai Production Site operated longer than our assumption of the operation time of our relevant key production facilities for the year ended 31 December 2019.

5. Comparing to the effective utilisation rates for the year ended 31 December 2020, the effective utilisation rates for the six months ended 30 June 2021 is lower due to the fact that our Group's revenue was subject to seasonal fluctuations as the sales orders during the months of January and September to December are generally higher than those of other months. Comparing to the effective utilisation rates of our Chengdu Production Site and Shanghai Production Site of approximately 73.4% and 69.9% for the six months ended 30 June 2020 respectively, the respective effective utilisation rates increased to approximately 83.8% and 83.5% for the six months ended 30 June 2021 respectively, mainly due to the business operation had been temporarily affected by the outbreak of COVID-19 in the first two months of 2020.

The following table sets out a breakdown of the actual production volume 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**
	(tonnes)	*(tonnes)*	*(tonnes)*	*(tonnes)*	*(tonnes)*
High-speed papermaking felts	136	184	260	88	121
Medium-speed papermaking felts	587	602	627	225	262
Low-speed papermaking felts	322	338	324	146	152
Total	1,045	1,124	1,211	459	535

Our Directors consider that the utilisation rates of our production facilities are affected by a number of factors such as the number, type and special requirement of our products ordered, status of repair and maintenance of machinery and production schedule and arrangement, taking into account the inventory level of raw materials, work-in-progress and finished goods.

The overall effective utilisation rates of our production facilities were approximately 95.9%, 95.3%, 94.6% and 83.6% for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively.

Our Group replaced a malfunctioning needling machine at our Chengdu Production Site in the year ended 31 December 2018, which resulted in approximately six months of downtime from its breakdown in April 2018 to the eventual installation of the new replacement machine in September 2018. The principal use of such needling machine is punching and entangling different layers of fabrics into a single layer of felt. Our Directors are of the view that such procedures are essential parts of the production of papermaking felts and considered that it is difficult to engage other subcontractors to perform such procedures to continue our production as the quality of the products manufactured by other subcontractors may vary. The replacement of the machine was completed in September 2018, followed by the adjustment and testing of the machine. As the sales orders of our Group has seasonality effect and such machine was not in the normal production during September to December in 2018, our production had been affected during the same period.

Various adjustments and tests were conducted on the new replacement machine during the first half of 2019, which limited its production efficiency and production capacity during such period. As such, it took approximately a year from the time of the breakdown of the malfunction needling machine to the completion of its replacement, adjustment and testing. Our Directors consider that the time we spent on replacing, adjusting and testing the needling machine was in line with industry practice. According to the Frost & Sullivan Report, the replacement, adjustment and testing of machine for the production of papermaking felts could generally take several months to a year subject to the time from ordering, manufacturing to shipment of the machine, as well as the time for installation, adjustment and testing process for such machine. The estimated production capacity of the new replacement machine increased following the completion of adjustment and tests during the year ended 31 December 2019. Particularly, the estimated maximum production capacity for such needling machine was 250 tonnes for the year ended 31 December 2019 as compared to 150 tonnes immediately before its replacement. Overall, the estimated maximum annual capacity of our Chengdu Production Site increased from 590 tonnes for the year ended 31 December 2018 to 660 tonnes for the year ended 31 December 2019 which was mainly attributable to the increase in estimated maximum annual production capacity of the new replacement machine. The estimated maximum annual capacity of our Chengdu Production Site has remained the same at 660 tonnes for the years ended 31 December 2019 and 2020.

The estimated maximum annual capacity of our Shanghai Production Site increased from approximately 500 tonnes for the year ended 31 December 2018 to approximately 520 tonnes for the year ended 31 December 2019 and further increased to approximately 620 tonnes for the year ended 31 December 2020 which was mainly attributable to our technological developments in the automatic control system involved in the warping and winding process for controlling the tension, speed, size and length of the warp beams and weft threads, resulting in a shorter processing time involved in the warping and winding process and improvement in our production efficiency.

Since manufacturing high-speed papermaking felts involve more complex techniques, the time required for weaving the warp beams and weft threads into fabric pieces and needle-punching the batt into the base fabrics for manufacturing high-speed papermaking felts is longer than that of medium-speed or low-speed papermaking felts. For illustrative purpose only, the average production time of low-speed papermaking felts, medium-speed papermaking felts and high-speed papermaking felts was estimated to be approximately 48 hours, 86 hours and 122 hours, respectively. The difference in production time was mainly attributable to the fact that generally the processing time involved in the warping and winding process of high-speed papermaking felts is approximately 1.5 to three times of that involved in the production of medium-speed or low-speed papermaking felts. The actual difference in the production time of low-speed, medium-speed and high-speed papermaking felts may vary depending on the type of papermaking felts, complexity of the design and our customers' requirements and quality specifications.

Our total actual production volume of papermaking felts increased from 1,045 tonnes for the year ended 31 December 2018 to 1,124 tonnes for the year ended 31 December 2019 which was mainly attributable to (i) the completion of replacement, adjustment and testing of the malfunctioning needling machine during the year ended 31 December 2019 as explained above, resulting in the increase in actual production volume of our Chengdu Production Site from 547 tonnes for the year ended 31 December 2018 to 587 tonnes for the year ended 31 December 2019; and (ii) the increase in number of days that our Shanghai Production Site had operated during the year ended 31 December 2019 as explained above. Meanwhile, the increase in our Group's total actual production volume for the year ended 31 December 2019 was limited by our business strategy in allocating more resources on the production of high-speed papermaking felts which involved a longer production time as explained above. The actual production volume of our high-speed papermaking felts increased from 136 tonnes for the year ended 31 December 2018 to 184 tonnes for the year ended 31 December 2019, accounting for 13.1% and 16.4% of our total actual production volume, respectively.

Our total actual production volume slightly increased from 1,124 tonnes for the year ended 31 December 2019 to 1,211 tonnes for the year ended 31 December 2020, which corresponded to (i) the increase in our 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; and partially offset by (ii) the extension of our Chinese New Year holidays during early 2020 from 23 January 2020 to 13 February 2020 due to the outbreak of COVID-19 in the PRC; and (iii) our business strategy in allocating more resources on the production of high-speed papermaking felts which involved a longer production time as explained above. The actual production volume of our high-speed papermaking felts increased from 184 tonnes for the year ended 31 December 2019 to 260 tonnes for the year ended 31 December 2020, accounting for 16.4% and 21.5% of our total actual production volume, respectively.

Our total actual production volume increased from 459 tonnes for the six months ended 30 June 2020 to 535 tonnes for the six months ended 30 June 2021, which corresponded to the increase in our revenue 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. The actual production volume of our high-speed papermaking felts increased from 88 tonnes for the six months ended 30 June 2020 to 122 tonnes for the six months ended 30 June 2021, accounting for 19.2% and 22.8% of our total actual production volume, respectively.

Our production process

Raw Material: Monofilaments

Warping machine and winding machine

Warping and winding (about 1 day)

Weaving single yarns or twines into warp beams and weft threads for preparing the latter weaving steps. In this stage, close monitor of uniform tension of the warp beams and weft threads is necessary for ensuring the smoothness of the surface of the felts.

Weaving machine

Weaving (about 1-3 days)

The weaving looms knit the warp beams and weft threads into fabric pieces of various sizes and densities required for felting.

N/A

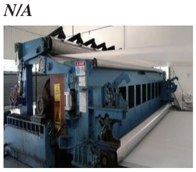
Spreading and cutting (about 1-2 days)

The woven fabrics are further trimmed into batt-on-mesh fabric pieces according to our customers' product preferences and the weaving techniques required for laying.

N/A

Bonding (about 1-3 days)

A plurality of batt-on-mesh fabric pieces join at their respective opposite edges, superimposing one over the other and laying batts of fibre over the layers of foundation fabrics, to form foundation fabrics woven in an endless form.



Setting machine

Pre-heat setting (about 1 day)

The foundation fabrics are heated high enough to eliminate any tension variations in the base materials and change their shapes to create a dimensionally stable base fabrics.

Raw Material: Fibre

Fearnought machine

Opening and mixing (about 1 day)

The fibre bale machine is fed with fibre to loosen and mix the lumps of fibres for carding.

Carding machine

The fibre are loaded to the carding machine which brushes and pulls the fibre to form a single layer of fibre batt.

Cross-forming machine

Carding, cross forming and pre-needling (about 1 day)

The batt is subsequently transferred to the cross-forming machine which folds the fibre batt into thicker layers, and rolled onto the aluminium pole of the pre-needling machine to strengthen and wind fibre to form pre-needled batt.

Pre-needling machine

Needling machine

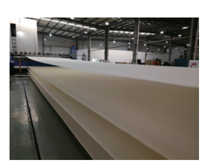
Needling (about 1 day)

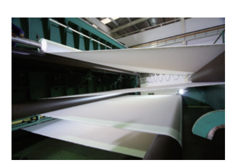
The batt is then unrolled and needle-punched into the base fabrics, whereby the fibre become entangled with each other. The needle-punching process under tension ensures uniform mass distribution and surface smoothness of the felts.

Setting machine

Heat-setting and finishing (about 4 days)

The needled felts are then damped, dewatered, heated, pre-compacted and resin treated to improve the structural stability and permeability of the felt and ensure uniform moisture content across the felts.





Finished Products

QUALITY MANAGEMENT

We pride ourselves in the production of high quality and reliable products. In recognition of our quality control management system, we have obtained various quality related certifications, including ISO 9001: 2015 certificate. For details, please refer to the paragraph headed "Certifications and awards" in this section.

We have an established and comprehensive internal quality control practice that allows us to uphold our product quality standards as well as meeting our customers' requirements. Our quality control procedures are implemented throughout the production process from procurement of raw materials to the manufacturing of finished goods.

Quality control team

Our quality control team includes personnel from our production department. As at the Latest Practicable Date, we had 10 quality control personnel, with an average of approximately 18 years of experience in papermaking felts manufacturing industry. Our quality control team is responsible for overseeing our entire operating process, and maintaining and operating our quality control system. Our quality control team also reports regularly in writing any quality issues arising from our production process and any defected products identified by our in-house inspectors or returned by our customers.

Incoming quality control

We generally procure raw materials from suppliers who are included in our list of approved suppliers. The approved suppliers are selected based on a number of factors, including product quality, supply capacity, pricing and way of settlement. After we issue a purchase order to our suppliers and the raw materials are delivered to us, our quality control inspectors will inspect and approve the raw materials before use to make sure that the raw materials used in our production process for our products are of reliable and satisfactory quality.

In-process quality control

Our quality control inspectors monitor our entire production process closely to ensure strict compliance with our standard operating procedures, and in some cases, alongside the quality standard requested by our customers. We conduct quality control checks at each key production stage to maintain the manufacturing performance and avoid production disruption or deviation from our intended procedures. When a technical issue is identified, we will provide technical support and modify our production process and product design to keep up with our high-quality production.

Outgoing quality control

We perform in-house inspections on sample batches of our finished goods to ensure our products are delivered in a high-quality standard consistently. Our quality control inspectors will identify the causes for any product defects and follow up closely with our quality control team under our production department to confirm any problems with our production process addressed. We have also established a similar system on handling products which do not meet our customers' quality specifications, where our quality control inspectors will report to our quality control team any quality issues identified from inspecting our returned products. Members of our research and development department regularly conduct analysis on returned products to improve the quality and performance of our products in the future.

During the Track Record Period and up to the Latest Practicable Date, we had not received any material claims or complaints from our customers in relation to the quality of our products.

INVENTORY MANAGEMENT

Our inventory mainly includes raw materials, work-in-progress and finished goods. Our raw material inventories mainly include commonly used raw materials as well as supplemental raw materials such as packaging materials. As at 31 December 2018, 2019 and 2020 and 30 June 2021, our inventories were approximately RMB12.3 million, RMB11.3 million, RMB10.0 million and RMB11.5 million, respectively. For the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021, our inventory turnover days were approximately 65.9 days, 55.2 days, 46.9 days and 52.1 days, respectively. For more information on our inventory analysis, please refer to the paragraph headed "Financial Information — Discussion of selected statements of financial position items — Inventories" in this prospectus.

We monitor our inventory level in accordance with our inventory control policies and make provisions in accordance with our accounting policy. To effectively monitor our inventory level and minimise obsolete inventory, the following inventory control policies are adopted:

- all purchases of raw materials must be authorised and approved by the head of procurement and the general manager of each business unit;

- all incoming raw materials must be checked and verified against our purchase orders before acceptance;

- the inventory level of our raw materials, work-in-progress and finished goods is closely monitored through the use of the inventory management system for planning and managing purchasing activities and production schedules, complemented with our daily stock-in and stock-out records;

- we have standard procedure for the acceptance and disposal of returned goods;

- we have standard procedures for the retrieval of inventory; and

- we generally conduct monthly, semi-annually and annual stocktakes.

For the three years ended 31 December 2020 and the six months ended 30 June 2021, provision for inventories amounted to approximately RMB0.1 million, RMB42,000, RMB0.8 million (reversal) and RMB0.2 million were recognised, respectively. We review our inventories at each reporting date and make allowance for impairment of obsolete, slow-moving and impaired items. Our finance and accounting department monitors our inventory level regularly be examining the conditions of our inventories, conducting analysis on the performance of our inventory management and giving advice on whether a provision for impairment should be made.

SALES AND MARKETING

We pride ourselves in the production of high quality and reliable products and provision of technical advisory services and our sales mainly rely on our strong and experienced sales and marketing department. As at the Latest Practicable Date, our sales and marketing department had 21 personnel. Despite our reputation within the papermaking felts manufacturing industry, our sales and marketing department continues to explore new business opportunities, build our brand image and manage existing client relationship through the following marketing activities:

— participating in local and international product exhibitions to showcase our latest product design and research development;

— organising thematic seminars to share and exchange latest development within the industry with our customers;

— sponsoring and participating in activities organised by associations within the industry, such as conferences, seminars and meetings to enhance corporate image and increase our brand awareness across the industry;

— contacting existing customers to collect feedback on the quality of our products;

— conducting visits to various customers to, as confirmed by our Directors, promote our Group, strengthen our understanding of their needs and discuss, among other things, customers' business, operational requirements and market trends; and

— cooperating with our customers in delivering our complementary papermaking machine efficiency optimisation services.

We developed and launched a trial version of Huanlong Paper Machine Efficiency Operation System* (造紙機運營效率優化服務數字平台系統), which is able to gather and store the data of our customers' papermaking machines collected during the provision of our services, so that we can analyse the data and customise the product for customers and provide technical advice of improving the efficiency of customers' papermaking machines. As part of our sales and marketing strategies, upon completion of the development and the launching of the formal version of system, this online platform will allow our selected customers to access our services remotely such as reviewing product development plans, tracking orders and production status, reviewing product examination and technical reports and giving feedback on the efficiency of their papermaking machines.

Our Directors are of the view that this system allows us to better understand our customers' production needs, plan and deploy our resources effectively and respond to their request in a timely manner, which will provide us with a distinct advantage as compared to our competitors.

OUR CUSTOMERS

Our customers are primarily paper and paper products manufacturers and trading companies. The following table sets forth the revenue breakdown by our customer types 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*	*%*
Paper and paper products manufacturers	138,773	87.1	141,035	84.3	158,782	86.9	55,435	83.8	65,169	85.2
Trading companies	20,583	12.9	26,279	15.7	23,977	13.1	10,770	16.2	11,346	14.8
Total	159,356	100.0	167,314	100.0	182,759	100.0	66,205	100.0	76,515	100.0

During the Track Record Period, our customers 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; and (ii) overseas paper and paper products manufacturers and trading companies, from which we derived around 4% to 5% of our revenue.

The following table sets forth the revenue breakdown by geographical region of our customers 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*	*%*
PRC										
— North China *(Note 1)*	50,030	31.4	49,980	29.9	63,491	34.8	19,472	29.4	28,042	36.6
— East China *(Note 2)*	50,532	31.7	56,936	34.0	60,159	32.9	22,724	34.3	22,112	28.9
— South China *(Note 3)*	36,670	23.0	37,404	22.4	31,513	17.2	12,290	18.6	13,355	17.5
— West China *(Note 4)*	10,529	6.6	11,123	6.7	11,496	6.3	4,608	7.0	6,334	8.3
— North-East China *(Note 5)*	4,378	2.8	2,212	1.3	5,539	3.0	2,402	3.6	1,873	2.4
— North-West China *(Note 6)*	1,246	0.8	2,054	1.2	2,973	1.6	1,062	1.6	1,096	1.4
Sub-total	153,385	96.3	159,709	95.5	175,171	95.8	62,558	94.5	72,812	95.2
Overseas *(Note 7)*	5,971	3.7	7,605	4.5	7,588	4.2	3,647	5.5	3,703	4.8
Total	159,356	100.0	167,314	100.0	182,759	100.0	66,205	100.0	76,515	100.0

Notes:

1. North China includes Henan, Hebei, Shandong, Shanxi, Tianjin, Beijing and Inner Mongolia.
2. East China includes Hubei, Anhui, Jiangsu, Zhejiang and Shanghai.
3. South China includes Hunan, Jiangxi, Fujian, Guangxi and Guangdong.
4. West China includes Sichuan, Chongqing, Guizhou and Yunnan.
5. North-East China includes Heilongjiang, Jilin and Liaoning.
6. North-West China includes Shaanxi, Ningxia, Gansu and Xinjiang.
7. Overseas mainly include Singapore, Brazil, Pakistan, Colombia, India and Uzbekistan.

PRC paper and paper products manufacturers and trading companies

A very substantial part of our revenue was derived from our sales to PRC paper and paper products manufacturers and trading companies.

For the three years ended 31 December 2020 and the six months ended 30 June 2021, our revenue derived from the PRC paper and paper products manufacturers and trading companies amounted to approximately RMB153.4 million, RMB159.7 million, RMB175.2 million and RMB72.8 million, respectively, representing approximately 96.3%, 95.5%, 95.8% and 95.2% of our total revenue for the same periods, respectively.

PRC paper and paper products manufacturers

We generally enter into sale and purchase agreements with the PRC paper and paper products manufacturers. The salient terms of our typical sale and purchase agreement with the PRC paper and paper products manufacturers which is legally binding are summarised as follows:

- *Duration* — We generally enter into the agreement either in the form of purchase order or agreement with a term of one year to three years.

- *Price* — The price is generally determined based on the agreement between the parties as stated in the agreement.

- *Purchase quantity* — A total fixed purchase amount or range is generally set out in the agreement. The actual purchase amount will be subject to the purchase orders separately provided to us by our customers on a monthly basis.

- *Price adjustment* — Generally not specified.

- *Inspection and product return* — Our products shall comply with the agreed quality standards and requirements and shall be inspected by our customers upon receipt of our products. If any product defect or instance of non-compliance with the agreed quality standards and requirements is identified during the inspection, our customers may reject our products or ask for product return under our product return and warranty policy. For details of our product return and warranty policy, please refer to the paragraph headed "Product returns and warranty" in this section.

- *Renewal and termination* — In certain cases, the agreement should be automatically renewed for a further term of one year, unless either party serves a prior written notice on the other party to terminate or amend the agreement. Termination terms may vary, but generally include the following: (a) termination by our customer in case we fail to perform our obligations under the agreement due to late delivery and/or product defects (except in the cases of force majeure); or (b) termination by us in case our customers fail to pay us in a certain period of time.

PRC trading companies

We also sell our products to PRC trading companies which will further sell our products to third parties paper and paper products manufacturers overseas. Our relationship with our PRC trading company customers is a seller/buyer relationship. We do not set any sales or expansion target or minimum purchase commitment for our PRC trading company customers. Save as the salient terms of our typical sale and purchase agreements set out below, we do not exert any other specific control on our PRC trading company customers. Our Directors consider that selling our products to trading companies is in the interest of our Group as it enables us to expand our market exposure and enlarge our market share in the papermaking felts manufacturing industry. In addition, our Directors are of the view that the trading companies, based on our industry experience, are reliable and reputable with extensive sales networks within the PRC and overseas.

We generally enter into sale and purchase agreements with the PRC trading companies. The salient terms of our typical sale and purchase agreement with the PRC trading companies which is legally binding are summarised as follows:

- *Duration* — We generally enter into the agreement either in the form of purchase order or agreement with a term of one to two years.

- *Price* — The prices are generally determined based on the agreement between the parties as stated in the agreement.

- *Purchase quantity* — The total purchase amount is generally either set out in the agreement or the purchase orders which are separately provided to us from time to time. We do not set any sales or expansion target or minimum purchase commitment for our PRC trading company customers.

- *Credit terms* — While some of our PRC trading company customers are required to settle payment before delivery of our products, we may also grant a credit period of around 30 to 60 days to some of our PRC trading company customers.

- *Price adjustment* — Generally not specified.

- *Product inspection* — Our products shall comply with the agreed quality standards and requirements and shall be inspected by our customers upon delivery. All title and risks relating to our products were passed to our customers when our products are delivered to our customers.

- *Renewal and termination* — Generally not specified in the agreement which is in the form of purchase order. In certain cases, the agreement can be automatically renewed if neither party requests in writing to amend the terms or to terminate the agreement at least one month before expiration.

Overseas paper and paper products manufacturers and trading companies

To a much lesser extent, we sell our products to overseas paper and paper products manufacturers and trading companies.

For the three years ended 31 December 2020 and the six months ended 30 June 2021, our revenue derived from the overseas paper and paper products manufacturers and trading companies amounted to approximately RMB6.0 million, RMB7.6 million, RMB7.6 million and RMB3.7 million, respectively, representing approximately 3.7%, 4.5%, 4.2% and 4.8% of our total revenue for the same periods, respectively.

Overseas paper and paper products manufacturers

We generally enter into one-off agreements with the overseas paper and paper products manufacturers in the form of purchase order. The salient terms of our typical agreement with the overseas paper and paper products manufacturers which is legally binding are summarised as follows:

- *Duration* — Not applicable.

- *Prices* — The price is generally determined based on the agreement between the parties as stated in each purchase order.

- *Purchase quantity* — The purchase quantity is provided to us as stated in each purchase order.

- *Credit terms* — A certain proportion of the total selling price is generally paid upon the signing of the purchase order, and the remaining shall be settled before shipment.

- *Renewal and termination* — Generally not specified.

- *Delivery* — Mode and time of delivery are generally stated in each purchase order.

Overseas trading companies

We also sell our products to overseas trading companies which will further sell our products to third parties. We generally enter into one-off agreements with the overseas trading companies in the form of purchase order. Our relationship with our overseas trading company customers is a seller/buyer relationship. We do not set any sales or expansion target or minimum purchase commitment for our overseas trading company customers. Save as the salient terms of our typical sale and purchase agreements set out below, we do not exert any other specific control on the overseas trading company customers. The salient terms of our typical agreement with the overseas trading companies which is legally binding are summarised as follows:

- *Duration* — Not applicable.

- *Prices* — The price is generally determined based on the agreement between the parties as stated in each purchase order.

- *Purchase quantity* — The purchase quantity is provided to us as stated in each purchase order. We do not set any sales or expansion target or minimum purchase commitment for our overseas trading company customers.

- *Credit terms* — Payment will be made after shipment. Credit term is generally not specified in the purchase order and is determined based on mutual agreement on a case-by-case basis.

- *Renewal and termination* — Generally not specified.

- *Delivery* — Mode, time and destination of delivery are generally stated in each purchase order.

Commercial arrangement with our PRC and overseas trading company customers

For the three years ended 31 December 2020 and the six months ended 30 June 2021, our revenue derived from the PRC and overseas trading companies, in aggregate, amounted to approximately RMB20.6 million, RMB26.3 million, RMB24.0 million and RMB11.3 million, respectively, representing approximately 12.9%, 15.7%, 13.1% and 14.8% of our total revenue for the same periods, respectively. The following paragraphs set forth our relationship with our trading company customers.

Movement in the number of trading company customers

The table below sets forth the movements in the number of our customers which are trading companies during the Track Record Period:

	For the year ended 31 December			Six months ended 30 June
	2018	2019	2020	2021
Opening balance as at the beginning of the relevant year/period	50	56	55	65
Additions	21	19	24	8
Termination/expiration	15	20	14	25
Total number as at the end of the relevant year/period	56	55	65	48

Product returns arrangement

We do not allow our customers, including those which are trading companies, to return any products sold to them except due to product defects caused by us. Our Directors confirmed that we have not experienced any material incident of product return from our customers during the Track Record Period and up to the Latest Practicable Date. For details of our product returns policy, please refer to the paragraph headed "Product returns and warranty" in this section.

No geographical exclusivity

We do not impose any geographical exclusivity to our customers, including those who are trading companies. To the best knowledge of our Directors, our trading company customers will sell the products to paper and paper products manufacturers overseas, while most of our direct customers are based in the PRC, and as such, our Directors are of the view that there should be minimal risk of cannibalisation among our trading company customers and our direct customers. During the Track Record Period, our Group responded to requests from our trading company customers for providing complimentary after-sales technical advice to their end-customers. Based on our customer database and information provided by our trading company customers, none of these end-customers had previously made any direct purchase from our Group, or purchased our products from more than one trading company.

Further, we generally supply our products to our trading company customers on an order-by-order basis and we do not accept return or exchange of obsolete products. Our seller/buyer relationship with our trading company customers ensures that our customers would likely make purchase orders with us only when they are certain that an active market from the end customer exists. As a result, our business model does not require us to exert any control on our trading company customers, nor is it necessary for us to actively monitor the sales and inventory levels of our trading company customers.

Internal control measures to monitor inventory risks

As with all our other customers, we do not allow our trading company customers to return products sold to them except due to product defects caused by us. For details of our product returns policy, please refer to the paragraph headed "Product returns and warranty" in this section. We believe that the risk of inventory accumulation by our customers is insignificant as (i) we do not retain risk of ownership of our products once our products are sold to our customers and legal title has been passed to them; (ii) our customers do not have a legal right to return products to us except for product defects caused by us; (iii) we are not contractually required to repurchase our products if they remain unsold by the trading companies; (iv) we do not guarantee a minimum resale value of our products; and (v) our five largest trading company customers together contributed no more than 10.0% of our total revenue for each of the financial year during the Track Record Period.

Revenue recognition and trade receivables

Revenue from sales of papermaking felts products is recognised at a point in time when the legal title of the finished good is transferred and our Group has present right to payment and the collection of the consideration is probable. Our Directors confirmed that our revenue recognition policy and our trade receivables in respect of trading company customers are the same as those with our paper and paper products manufacturer customers. For further details, please refer to the paragraphs headed "Financial Information — Critical accounting policies, estimates and judgements — Revenue recognition" and "Financial Information — Discussion of selected statement of financial position items — Trade and other receivables" in this prospectus.

Our largest customers during the Track Record Period

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.

For the three years ended 31 December 2020 and the six months ended 30 June 2021, 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.

Our Directors believe that any concentration risk among our customers during the Track Record Period was not significant given that there was no single customer that accounted for more than 5% of our total revenue for the three years ended 31 December 2020 and the six months ended 30 June 2021 and our five largest customers accounted for less than 30% of our total revenue for the corresponding periods.

The following tables set out a breakdown of our revenue from our five largest customers during the Track Record Period and their respective background information:

For the year ended 31 December 2018

No.	Customer	Major products sold by our Group	Credit term and payment method	Business relationship since	Revenue from the customer	Percentage of our total revenue
					RMB'000	*%*
1.	Customer Group A *(Note 1)*	Packaging and specialty papermaking felts	30–120 days; by bank acceptance bills	2016	7,104	4.5
2.	Customer Group B *(Note 2)*	Packaging papermaking felts	60 days; by bank acceptance bills	2016	6,137	3.8
3.	Customer C *(Note 3)*	Packaging, household, printing and pulp papermaking felts	60–90 days; by bank remittance	2011	4,173	2.6
4.	Customer Group D *(Note 4)*	Packaging, household and printing papermaking felts	Before delivery; by bank remittance	2017	4,122	2.6

No.	Customer	Major products sold by our Group	Credit term and payment method	Business relationship since	Revenue from the customer	Percentage of our total revenue
					RMB'000	*%*
5.	Customer E *(Note 5)*	Packaging papermaking felts	90 days; by bank acceptance bills	2016	3,976	2.5
	Total				**25,512**	**16.0**

For the year ended 31 December 2019

No.	Customer	Major products sold by our Group	Credit term and payment method	Business relationship since	Revenue from the customer	Percentage of our total revenue
					RMB'000	*%*
1.	Customer Group F *(Note 6)*	Packaging papermaking felts	90 days; by bank acceptance bills	2014	5,815	3.5
2.	Customer Group G *(Note 7)*	Packaging and pulp papermaking felts	120 days; by bank acceptance bills	2018	4,939	3.0
3.	Customer Group B *(Note 2)*	Packaging papermaking felts	60 days; by bank acceptance bills	2016	4,824	2.9
4.	Customer Group A *(Note 1)*	Packaging and specialty papermaking felts	30-120 days; by bank acceptance bills	2016	4,745	2.8
5.	Customer Group D *(Note 4)*	Packaging and household papermaking felts	Before delivery; by bank remittance	2017	4,732	2.8
	Total				**25,055**	**15.0**

For the year ended 31 December 2020

No.	Customer	Major products sold by our Group	Credit term and payment method	Business relationship since	Revenue from the customer	Percentage of our total revenue
					RMB'000	*%*
1.	Customer Group G *(Note 7)*	Packaging and pulp papermaking felts	120 days; by bank acceptance bills	2018	7,172	3.9
2.	Customer H *(Note 8)*	Packaging papermaking felts	120 days; by bank acceptance bills	2011	5,667	3.1
3.	Customer A1 *(Note 9)*	Packaging and specialty papermaking felts	30-120 days; by bank acceptance bills	2016	5,590	3.0
4.	Customer I *(Note 10)*	Packaging papermaking felts	180 days; by bank acceptance bills	2009	5,034	2.8
5.	Customer J *(Note 11)*	Specialty papermaking felt	30 days; by bank acceptance bills	2013	4,342	2.4
	Total				**27,805**	**15.2**

For the six months ended 30 June 2021

No.	Customer	Major products sold by our Group	Credit term and payment method	Business relationship since	Revenue from the customer	Percentage of our total revenue
					RMB'000	*%*
1.	Customer Group G *(Note 7)*	Packaging and pulp papermaking felts	120 days; by bank acceptance bills	2018	3,156	4.1
2.	Customer K *(Note 12)*	Packaging papermaking felts	120 days; by bank acceptance bills	2020	2,594	3.4
3.	Customer I *(Note 10)*	Packaging papermaking felts	180 days; by bank acceptance bills	2009	2,349	3.1
4.	Customer Group F *(Note 6)*	Packaging papermaking felts	90 days; by bank acceptance bills	2014	2,296	3.0
5.	Customer Group D *(Note 4)*	Packaging and household papermaking felts	30 days; by bank remittance	2017	2,122	2.8
	Total				**12,517**	**16.4**

Notes:

1. Customer Group A comprises two private companies, namely, Customer A1 and Customer A2, both of which were incorporated in Shandong, the PRC in December 2014 and January 2015, respectively, and mainly engaged in the production and sales of paper, paper products and plastic products, and sales of machinery and equipment. Customer A1 was owned by Customer A2 as to 50% from January 2018 to June 2019. From June 2019, Customer A1 was owned by two separate shareholders and Customer A2 no longer owned any shares of Customer A1.

   To the best knowledge and latest understanding of our Directors, in May 2021, Customer A1 and Customer A2 became the subsidiaries of a company incorporated in the PRC, which their ultimate controlling shareholders included an individual and the Municipal Finance Bureau (the Municipal State-owned Assets Supervision and Administration Commission) in Shandong who are Independent Third Parties, and the directors of Customer A1 and Customer A2 were individuals who are Independent Third Parties. Based on the public information available and to the best knowledge and latest understanding of our Directors, Customer A1 and Customer A2 had around 450 and 180 employees, respectively. As at the Latest Practicable Date, Customer A1 had a registered capital of RMB150.0 million, and the revenue and net loss of Customer A1 in 2019 amounted to approximately RMB1.4 billion and RMB36.8 million, respectively; and Customer A2 had a registered capital of RMB3.0 million, and the revenue and net profit of Customer A2 in 2019 amounted to approximately RMB120.7 million and RMB2.1 million, respectively.

2. Customer Group B comprise two private companies, namely Customer B1 and Customer B2. Customer B1 was a private company incorporated in Fujian, the PRC in July 2004, and mainly engaged in the production of paper, paper products and packaging products. Customer B2 was incorporated in Zhejiang, the PRC in December 2018, and mainly engaged in the production of raw paper. Customer B1 and Customer B2 were subsidiaries of a company listed on the Shanghai Stock Exchange ("**Listed Customers Group B**") which is an Independent Third Party with a market capitalisation of approximately RMB15.5 billion as at the Latest Practicable Date.

   Based on the public information available, the revenue and net profit of Listed Customers Group B for the six months ended 30 June 2021 amounted to approximately RMB15.2 billion and RMB1.0 billion, respectively.

3. Customer C is a private company incorporated in Singapore in March 1973, engaged in the trading of industrial materials including papermaking felts.

   To the best knowledge and latest understanding of our Directors, Customer C had around 25 employees. To the best knowledge and latest understanding of our Directors, the ultimate controlling shareholders of Customer C included two individuals who are Independent Third Parties and directors of Customer C. To the best knowledge and latest understanding of our Directors, the directors of Customer C included three individuals who are Independent Third Parties. Based on the public information available and to the best knowledge and latest understanding of our Directors, Customer C had a registered capital of approximately SGD2.5 million as at the Latest Practicable Date.

4. Customer Group D comprises two private companies, namely, Customer D1 and Customer D2, both of which were incorporated in Guangxi, the PRC in June 2012 and March 2011, respectively, and mainly engaged in the trading of daily life necessities and other products. Customer D1 and Customer D2 had common shareholders.

   To the best knowledge and latest understanding of our Directors, Customer D1 had around 10 employees. To the best knowledge and latest understanding of our Directors, the ultimate controlling shareholders of Customer Group D included two individuals who are Independent Third Parties with around or over 10 years of experience in the papermaking industry, and one of the ultimate controlling shareholders of Customer Group D was also the director of Customer Group D. Based on the public information available and to the best knowledge and latest understanding of our Directors, Customer D1 and Customer D2 had a registered capital of RMB2.0 million and RMB0.5 million as at the Latest Practicable Date, respectively, and the revenue and net loss of Customer D1 in 2019 amounted to approximately RMB27.8 million and RMB0.1 million, respectively, and the revenue and net profit of Customer D2 in 2019 amounted to approximately RMB6.3 million and RMB60,000, respectively.

5. Customer E is a private company incorporated in Shandong, the PRC in January 2002, and mainly engaged in the production and sales of pulp, paper and paper products, recycling of waste paper and provision of power generation.

   To the best knowledge and latest understanding of our Directors, the ultimate controlling shareholders of Customer E included two individuals who are Independent Third Parties with around or over 18 years of experience in the papermaking industry, and the directors of Customer E included three individuals who are Independent Third Parties. Based on the public information available and to the best knowledge and latest understanding of our Directors, Customer E had a registered capital of RMB100.0 million as at the Latest Practicable Date, and the revenue and net loss of Customer E in 2019 amounted to approximately RMB416.8 million and RMB45.7 million, respectively.

6. Customer Group F comprises three private companies, namely, Customer F1, Customer F2 and Customer F3, mainly engaged in the production and sales of paper and paper products and the development of environmental protection technologies, which were subsidiaries of a company listed on the Taiwan Stock Exchange Corporation ("**Listed Customers Group F**") which is an Independent Third Party with a market capitalisation of approximately HK$10.2 billion as at the Latest Practicable Date. Customer F1 was incorporated in Zhejiang, the PRC in April

2007; Customer F2 was incorporated in Jiangsu, the PRC in September 1997; and Customer F3 was incorporated in Hubei, the PRC in December 2014. During the Track Record Period, we sold our products to Customer Group F through a service provider.

Based on the public information available, the revenue and net profit of Listed Customers Group F for the six months ended 30 June 2021 amounted to approximately NTD25.1 billion and NTD1.4 billion, respectively.

7. Customer Group G comprises three private companies, namely Customer G1, Customer G2 and Customer G3, all of which were incorporated in Shandong, the PRC in December 2000, January 2008 and September 2017, respectively, and mainly engaged in the production and sales of paper and paper products and provision of papermaking technology services. Customer G1, Customer G2 and Customer G3 were subsidiaries of a company listed on the Main Board of the Stock Exchange ("**Listed Customers Group G**") which is an Independent Third Party with a market capitalisation approximately HK$1.6 billion as at the Latest Practicable Date.

   Based on the public information available, the revenue and net profit of Listed Customers Group G for the six months ended 30 June 2021 amounted to approximately RMB3.8 billion and RMB334.7 million, respectively.

8. Customer H is a private company incorporated in Anhui, the PRC in January 2002, and mainly engaged in the production and sales of packaging paper.

   To the best knowledge and latest understanding of our Directors, Customer H had around 960 employees. To the best knowledge and latest understanding of our Directors, the ultimate controlling shareholder of Customer H was an individual who is an Independent Third Party and also one of the directors of Customer H, and the directors of Customer H included three individuals who are Independent Third Parties. Based on the public information available and to the best knowledge and latest understanding of our Directors, Customer H had a registered capital of RMB50.0 million as at the Latest Practicable Date, and the revenue and net profit of Customer H in 2019 amounted to approximately RMB1.1 billion and RMB4.7 million, respectively.

9. Customer A1 is a private company incorporated in Shandong, the PRC in December 2014, and mainly engaged in the production and sales of paper, paper products and plastic products, and sales of machinery and equipment.

   To the best knowledge and latest understanding of our Directors, Customer A1 had around 450 employees. To the best knowledge and latest understanding of our Directors, the ultimate controlling shareholder of Customer A1 included an individual and the Municipal Finance Bureau (the Municipal State-owned Assets Supervision and Administration Commission) in Shandong who are Independent Third Parties, and the director of Customer A1 was an individual who is an Independent Third Party. Based on the public information available and to the best knowledge and latest understanding of our Directors, Customer A1 had a registered capital of RMB150.0 million as at the Latest Practicable Date, and the revenue and net loss of Customer A1 in 2019 amounted to approximately RMB1.4 billion and RMB36.8 million, respectively.

10. Customer I is a private company incorporated in Shandong, the PRC in June 1998, and mainly engaged in the production and sales of gypsum plasterboards.

   To the best knowledge and latest understanding of our Directors, Customer I had around 1,860 employees. Based on the public information available, Customer I was an associate whose shares were indirectly held by a company listed on the Main Board of the Hong Kong Stock Exchange principally engaged in cement, new materials and engineering services businesses, and whose immediate and ultimate holding company is a state-owned enterprise established in the PRC. To the best knowledge and latest understanding of our Directors, the directors of Customer I included five individuals who are Independent Third Parties. Based on the public information available and to the best knowledge and latest understanding of our Directors, Customer I had a registered capital of approximately RMB155.6 million as at the Latest Practicable Date, and the revenue and net loss of Customer I in 2019 amounted to approximately RMB1.7 billion and RMB1.1 billion, respectively.

11. Customer J is a private company incorporated Shandong, the PRC in February 1990, and mainly engaged in the production and sales of specialty paper. Customer J was a subsidiary of a company listed on the Shenzhen Stock Exchange ("**Listed Customer J**"), which is an Independent Third Party with a market capitalisation of approximately RMB3.4 billion as at the Latest Practicable Date.

    Based on the public information available, the revenue and net profit of Listed Customer J for the six months ended 30 June 2021 amounted to approximately RMB1.9 billion and RMB153.5 million, respectively.

12. Customer K is a private company incorporated in Guizhou, the PRC in December 2011, and mainly engaged in the production and sales of paper.

    To the best knowledge and latest understanding of our Directors, Customer K had around 430 employees. To the best knowledge and latest understanding of our Directors, the ultimate controlling shareholder of Customer K was the Municipal State-owned Assets Supervision and Administration Commission of the State Council in Guizhou, which is an Independent Third Party, and the directors of Customer K included five individuals who are Independent Third Parties. Based on the public information available and to the best knowledge and latest understanding of our Directors, Customer K had a registered capital of RMB46.0 million as at the Latest Practicable Date, and the revenue and net profit of Customer K in 2020 amounted to approximately RMB20.1 million and RMB0.6 million, respectively.

During the Track Record Period, the transaction amounts between our Group and our major customers generally remained stable. However, due to the fragmented nature of our customer base, the five largest customers' composition of our major customers may be changed as a result of the change of relatively small amount. As such, our Directors are of the view that there were no significant changes in the composition of our major customers during the Track Record Period. Most of our major customers purchased considerable amount in each financial year/period during the Track Record Period and maintained stable relationship with our Group. To the best knowledge of our Directors, the revenue attributable to Customer Group B decreased since 2020 from approximately RMB4.8 million for the year ended 31 December 2019 to approximately RMB1.8 million for the year ended 31 December 2020 which was mainly due to the changes in their purchase decision of procuring more from their other suppliers and reducing our proportion. The revenue attributable to Customer E decreased in 2019 which, to the best knowledge of our Directors, was mainly due to that this customer ceased the business with us since early 2019 due to their commercial decision.

Our Directors have confirmed that all of our five largest customers during the Track Record Period are Independent Third Parties and none of our Directors, their respective close associates and our Shareholders who own more than 5% of the issued share capital of our Company had any interest in any of the above five largest customers of our Group during the Track Record Period. Save for the ordinary course of business dealings with our top five customers, to the best knowledge of our Directors, there were no past or present relationships or dealings (including family, business, employment, trust, fund flow, financing or otherwise) between each of our top five customers, their respective shareholders, directors or senior management, or any of their respective associates on one hand and our Group, Shareholders, Directors or senior management or their respective associates on the other hand during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, we commenced certain actions against our customers in relation to the collection of payments from them. Save as the aforesaid, we had no material disputes or claims with our customers which would have had a material impact on our business, financial condition or results of operations during the Track Record Period.

Our Directors confirm that, during the Track Record Period, we did not have any major customers who were also our suppliers.

Credit policy and settlement

While some of our customers are required to settle payment before delivery of our products, we generally grant to our customers a credit period of around 30 to 180 days based on various factors including their years of business relationship with us, their historical payment records and the life span of products they purchase from us. Majority of our customers were granted high-end of the credit period (i.e. 90 days to 180 days) during the Track Record Period. In our standard procedure, we will issue invoices to our customers for payment collection. If we encounter difficulties in collecting payment, we will contact the customer by different means, and if we fail to reach the customer via such arrangement, we will follow our standard collection procedure and commence a series of actions such as initiating legal proceedings before analysing whether to recognise any outstanding amount as bad debt on our accounts.

If a customer fails to pay us punctually, we may also reassess their creditability and adjust credit limits accordingly. We have implemented a system to manage our customers' credit rating, credit limit and credit term. Our sales and marketing department conducts regular visits to our customers to stay updated about their operation conditions and assess their repayment ability. An assessment is made subsequently by our management team and finance and accounting department as to whether or not a provision for trade receivable should be made. For certain customers, we may request for payment of a deposit and settlement of the remaining balance on a cash-on-delivery basis.

Our Directors are of the view that any late payments from individual customers would not adversely affect our financial performance as our Directors believe that any concentration risk among our five largest customers was not significant given their respective contributions to our total revenue.

Our customers generally settle their payment in Renminbi and by way of bank remittance and/or bank acceptance bills. Our Directors confirm that during the Track Record Period, other than the amounts written off as disclosed in the section headed "Financial Information" in this prospectus, we had not experienced any major defaults in payments or bad debts from our customers which may materially affect our financial condition and operating results.

Business activities in Countries subject to International Sanctions

During the Track Record Period, we sold papermaking felts to (i) customers located in Egypt and Russia (excluding Crimea); and (ii) a customer located in the PRC, with the ultimate end destination or end customers being located in Iran, according to the best knowledge of our Directors. The revenue generated from such transactions related to the Countries subject to International Sanctions was approximately RMB29,000, RMB213,000, RMB571,000 and RMB217,000, representing approximately 0.02%, 0.13%, 0.31% and 0.28% of our total revenue for the years ended 31December 2018, 2019 and 2020, and the six months ended 30 June, 2021, respectively.

Whilst Egypt was subject to targeted sanctions during the Track Record Period, Iran is subject to a comprehensive sanctions program administered by OFAC. Russia is not a Sanctioned Country within the meaning of HKEX GL101-19 issued by the Stock Exchange in March 2019. Russia has been subject to a variety of additional sanctions measures since its actions and claims of sovereignty in Crimea were deemed to be illegal by many Western governments and governmental organisations, including additional sanctions measures adopted by the United States in 2018-2021 period. Further, the region of Crimea, which is part of Russia/Ukraine, is subject to comprehensive international sanctions (the rest of Russia and Ukraine are not subject to such sanctions), and while we have not conducted any business transactions in Crimea during the Track Record Period, the end customers of certain transactions were located in Russia (excluding Crimea). For further details, please refer to the paragraph headed "Regulatory Overview — X. Sanctions laws and regulations" in this prospectus.

As at the Latest Practicable Date, our Group has ceased all transactions with customers located in Egypt, Iran and Russia.

As advised by our International Sanctions Legal Advisers, for the reasons set out below, we did not engage in Primary Sanctioned Activity or Secondary Sanctionable Activity that violated any relevant sanctions regulations as a result of our direct and indirect sales to Iran, Egypt and Russia (excluding Crimea) during the Track Record Period:

- our Company is not incorporated or located in the United States (i.e., it does not have U.S. subsidiaries or U.S. offices, and does not have U.S. person employees) and because it does not otherwise have a nexus with the Relevant Jurisdiction (i.e., it did not conduct the transactions involving Iran in U.S. dollars nor did such transactions involve products subject to U.S. law), our Company has not engaged in Primary Sanctioned Activity that could result in any material sanction risk;

- sales of papermaking felts are not among the types of activities targeted by U.S. secondary sanctions, and our transactions did not involve parties designated as Specially Designated Nationals and Blocked Persons ("**SDNs**"). Therefore, our activities during the Track Record Period involving Iran and Russia (excluding Crimea), which did not involve SDNs or types of activities targeted by U.S. secondary sanctions, mean that we did not engage in Secondary Sanctionable Activity and it does not appear likely that our activities would result in the imposition of sanctions;

- our Company has not been designated as a Sanctioned Target, nor are we located, incorporated, organised or resident in a Sanctioned Country; and

- our Company is not a Sanctioned Trader because we did not derive any revenue during the Track Record Period from business activities with Sanctioned Country entities or persons, or with Sanctioned Targets.

In addition, as advised by our International Sanctions Legal Advisers, we did not engage in any Primary Sanctioned Activity or Secondary Sanctionable Activity for the purpose of the guidance letter HKEX-GL101-19 given that our Directors confirm that as of the date of this prospectus, we had not been designated as a Sanctioned Target or subject to penalties due to any violation of International Sanctions nor have engaged in activity that may result in the imposition of sanctions against us. Further, given the scope of the Global Offering and the expected use of proceeds as set out in this prospectus, our International Sanctions Legal Advisers are of the view that the involvement by parties in the Global Offering will not implicate any applicable International Sanctions on such parties, including our Company, our potential investors, Shareholders, the Stock Exchange and the Listing Committee and group companies and accordingly, the sanctions risk exposure to our Company, potential investors and Shareholders, and persons who might, directly or indirectly, be involved in permitting the listing, trading and clearing of our Shares (including the Stock Exchange, the Listing Committee and related group companies) is very low. As a result, we intend to continue to sell our products to customers in Countries subject to International Sanctions except for Sanctioned Country after Listing if and when suitable business opportunity arises, subject to our strict adherence to our sanction risk management measures.

In order to protect the interest of our Group and our Shareholders from economic sanctions risks, we have adopted the following enhanced internal control and risk management measures:

— Know-Your-Client procedures to review the background information (such as identity and nature of business as well as ownership structure) relating to the counterparties to the transaction along with the draft business transaction documentation;

— screening procedures to check the counterparties against the various lists of restricted parties and countries maintained by the U.S., the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in Countries subject to International Sanctions or a Sanctioned Person;

— using a compliance clause in contracts with customers, or request a separate certification from customers, confirming that the Group's products will not be exported outside of the country where the product is sold or will not be exported, directly or indirectly, to any Sanctioned Country; and

— enhanced compliance training to ensure awareness of sanctions risks and timely and effective identification and reporting of actual and potential violations.

For details of our sanction risk management measures, please refer to the paragraph headed "Risk management — Sanction risk management" in this section below.

Our Company has further undertaken to the Stock Exchange that we will:

— not directly or indirectly apply the proceeds from the Share Offer and any other funds raised through the Stock Exchange to (i) finance or facilitate any Primary Sanctioned Activity and/or Secondary Sanctionable Activity; or (ii) pay any damages for terminating or transferring the relevant contracts that constitute Primary Sanctioned Activity and/or Secondary Sanctionable Activity;

— disclose in our annual and interim reports (i) details of any new and/or existing Primary Sanctioned Activity and/or Secondary Sanctionable Activity; (ii) our efforts in monitoring our business exposure to sanctions risks; and (iii) the current status of, and the anticipated plans for, any new and/or existing Primary Sanctioned Activity and/or Secondary Sanctionable Activity; and

— provide all necessary information to our independent non-executive Directors to ensure they can monitor our compliance with these undertakings.

SEASONALITY

During the Track Record Period, our revenue was subject to seasonal fluctuations as the sales order during the months of January and September to December are generally higher than that of other months. 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 Directors confirm that this was because our customers, whom are mainly PRC paper and paper products manufacturers and trading companies, generally placed orders prior to the Chinese New Year holidays.

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. As a result of our pricing policy, our Directors are of the view that we can pass on the increase in costs of raw materials to our customers. Furthermore, our Directors believe that whether or not we can pass the increase in the costs of raw materials to our customers will not have a material impact on our financial condition as the ratio of the costs of raw materials to our total revenue is relatively low, that is, approximately 33.3%, 29.4%, 28.2% and 26.9% for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively.

PRODUCT RETURNS AND WARRANTY

We have implemented procedures to ensure that feedback from customers are handled in a timely and appropriate manner. As a general policy, we accept any product returns due to defects caused by us and bear the costs of such products returned to us after conducting an investigation to ascertain the cause of the defect. Depending on the circumstances of each case, we may replace the defective products or may issue a refund to our customer if the defect is caused by us. Upon receiving a complaint from our customer in relation to a potential product detect, we will conduct an investigation to ascertain the cause of the defect. Our Directors confirm that there was no material product return during the Track Record Period. For the three years ended 31 December 2020 and the six months ended 30 June 2021, warranty provision utilised amounted to approximately RMB2.9 million, RMB2.2 million, RMB3.4 million and RMB1.8 million, respectively.

OUR SUPPLIERS AND RAW MATERIALS

Monofilaments and fibre which are mainly made from nylon are our major raw materials. 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 amount of purchase of raw materials amounted to approximately RMB55.7 million, RMB57.4 million, RMB61.6 million and RMB28.9 million, respectively. The table below sets out the amount of purchase of each of our major raw materials and their respective percentage contributions to the total amount of purchase of raw materials during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
Raw materials	**2018**		**2019**		**2020**		**2020**		**2021**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Monofilaments	20,478	36.7	18,847	32.9	20,128	32.7	7,988	32.4	9,716	33.7
Fibre	28,126	50.5	32,013	55.8	33,166	53.8	14,210	57.6	15,278	52.9
Other raw materials*(Note)*	7,115	12.8	6,511	11.3	8,308	13.5	2,455	10.0	3,874	13.4
Total	55,719	100.0	57,371	100.0	61,602	100.0	24,653	100.0	28,868	100.0

Note: Other raw materials mainly include packaging materials and ancillary materials such as machinery consumables and semi-finished products.

Please refer to the paragraph headed "Financial Information — Key factors affecting our results of operations and financial condition — Fluctuation in our cost of sales" in this prospectus for the sensitivity analysis which illustrates the impact of hypothetical fluctuations in our cost of raw materials on profit before taxation during the Track Record Period.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we had not encountered any material shortage of, or material difficulties in procuring raw materials or products and we had not experienced any significant delay in the delivery of raw materials or products by our suppliers causing material disruption or delay to our delivery schedules. Our Directors do not foresee that our Group will encounter any material difficulty in the procurement of the raw materials in the future.

We closely monitor the prices of our major raw materials. In response to fluctuations in prices of raw materials, we may negotiate with our customers for a price adjustment before they confirm their purchase orders with us. During the Track Record Period, as confirmed by our Directors, depending on the prices of raw materials, we have established an inventory management policy for our raw materials. We also communicate with our major suppliers from time to time to understand the estimated prices of the raw materials in the coming year. We believe that we are able to keep abreast of the latest price trend of our major raw materials, which enables us to make better purchasing decisions.

Our major raw materials are monofilaments and fibre, which made up approximately 87.2%, 88.7%, 86.5% and 86.6% of our total purchase of raw materials for the three years ended 31 December 2020 and the six months ended 30 June 2021.

Selection and evaluation of our suppliers

We maintain a list of approved suppliers that are generally based in the PRC and they are selected based on a number of factors, including product quality, supply capacity, pricing and way of settlement. As confirmed by our Directors, depending on the circumstances, when selecting the approved suppliers, we may request samples of raw materials from suppliers and conduct quality check to ensure that the raw materials supplied are in compliance with our internal quality control standard.

Although we generally source our raw materials from suppliers included in our list of approved suppliers, to avoid reliance on any single supplier, we source each major raw material from more than one supplier. In order to ensure the quality of raw materials, we review our major suppliers' performance periodically by conducting assessment on the quality of their supply of raw materials, their after-sales services, and settlement terms.

We generally enter into procurement agreements with our suppliers and place purchase orders with them from time to time. The salient terms of our typical procurement agreement with the suppliers are summarised as follows:

- *Purchase order* — We shall notify the suppliers of the type, specification, unit price, quantity and date of delivery of the raw materials we need in writing.

- *Price* — Prices will be determined and set out in each purchase order.

- *Inspection and product returns* — Product inspection shall take place within a specified period after delivery of the raw materials to us. We shall be entitled to return to the suppliers the defective raw materials that do not meet the agreed quality standard, and the suppliers shall remedy the same, including product return and replacement.

- *Credit terms and payment method* — The credit period and payment method shall be in accordance with the purchase order.

- *Termination* — The agreements may be terminated by either party: (a) if the other party fails to perform any of its material obligations under the agreements and fails to remedy such default; or (b) if an insolvency, bankruptcy or similar proceeding is brought by or against the other party.

During the Track Record Period and up to the Latest Practicable Date, we had not adopted any arrangement to hedge any fluctuation in the price of our products and raw materials.

Our largest suppliers during the Track Record Period

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.

For the three years ended 31 December 2020 and the six months ended 30 June 2021, the 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.

Despite such concentration of suppliers, our Directors consider that we are not overly reliant on any single supplier, as there are abundant suppliers providing the same kind of raw materials and we can easily source alternative suppliers in the market.

The following tables set out a breakdown of the total purchases from our five largest suppliers during the Track Record Period and their respective background information:

For the year ended 31 December 2018

No.	Supplier	Major raw materials purchased by our Group	Credit term and payment method	Business relationship since	The amount of purchase from the supplier	Percentage of our total amount of purchases
					RMB'000	*%*
1.	Supplier A *(Note 1)*	Imported nylon fibre	45 days; by bank acceptance bills or bank remittance	2009	24,308	43.6
2.	Supplier B *(Note 2)*	Nylon monofilaments	30 days; by bank acceptance bills	2010	7,834	14.1
3.	Supplier C *(Note 3)*	Nylon monofilaments	30-60 days; by bank acceptance bills	2010	5,591	10.0
4.	Supplier D *(Note 4)*	Nylon monofilaments	30-60 days; by bank acceptance bills	2009	4,162	7.5
5.	Supplier E *(Note 5)*	Nylon fibre	30 days; by bank acceptance bills	2010	3,243	5.8
	Total				**45,138**	**81.0**

For the year ended 31 December 2019

No.	Supplier	Major raw materials purchased by our Group	Credit term and payment method	Business relationship since	The amount of purchase from the supplier	Percentage of our total amount of purchases
					RMB'000	*%*
1.	Supplier A *(Note 1)*	Imported nylon fibre	45 days; by bank acceptance bills or bank remittance	2009	29,079	50.7
2.	Supplier B *(Note 2)*	Nylon monofilaments	30 days; by bank acceptance bills	2010	7,940	13.8
3.	Supplier D *(Note 4)*	Nylon monofilaments	30-60 days; by bank acceptance bills	2009	5,503	9.6
4.	Supplier C *(Note 3)*	Nylon monofilaments	30-60 days; by bank acceptance bills	2010	3,635	6.3
5.	Supplier F *(Note 6)*	Nylon fibre	30 days; by bank acceptance bills	2019	1,798	3.1
	Total				**47,955**	**83.5**

For the year ended 31 December 2020

No.	Supplier	Major raw materials purchased by our Group	Credit term and payment method	Business relationship since	The amount of purchase from the supplier	Percentage of our total amount of purchases
					RMB'000	*%*
1.	Supplier A *(Note 1)*	Imported nylon fibre	45 days; by bank acceptance bills or bank remittance	2009	30,814	50.0
2.	Supplier B *(Note 2)*	Nylon monofilaments	30 days; by bank acceptance bills	2010	8,593	13.9
3.	Supplier D *(Note 4)*	Nylon monofilaments	30-60 days; by bank acceptance bills	2009	6,237	10.1
4.	Supplier C *(Note 3)*	Nylon monofilaments	30-60 days; by bank acceptance bills	2010	2,168	3.5
5.	Supplier F *(Note 6)*	Nylon fibre	30 days; by bank acceptance bills	2019	2,036	3.3
	Total				**49,848**	**80.8**

For the six months ended 30 June 2021

No.	Supplier	Major raw materials purchased by our Group	Credit term and payment method	Business relationship since	The amount of purchase from the supplier	Percentage of our total amount of purchases
					RMB'000	*%*
1.	Supplier A *(Note 1)*	Imported nylon fibre	45 days; by bank acceptance bills or bank remittance	2009	14,111	48.9
2.	Supplier B *(Note 2)*	Nylon monofilaments	30 days; by bank acceptance bills	2010	4,936	17.1
3.	Supplier D *(Note 4)*	Nylon monofilaments	30-60 days; by bank acceptance bills	2009	3,122	10.8
4.	Supplier F *(Note 6)*	Nylon fibre	30 days; by bank acceptance bills	2019	959	3.3
5.	Supplier G *(Note 7)*	Nylon monofilaments	30-60 days; by bank acceptance bills	2010	921	3.2
	Total				**24,049**	**83.3**

Notes:

1. Supplier A is a private company incorporated in Guangdong, the PRC in April 2003, which mainly engaged in the sales of commodity goods and provision of technical services.

   To the best knowledge and latest understanding of our Directors, Supplier A had around 20 employees. To the best knowledge and latest understanding of our Directors, the ultimate controlling shareholders of Supplier A included two individuals who are Independent Third Parties, and one of the ultimate controlling shareholders of Supplier A was also the director of Supplier A. Based on the public information available and to the best knowledge and latest understanding of our Directors, Supplier A had a registered capital of RMB1.0 million as at the Latest Practicable Date, and the revenue and net profit of Supplier A in 2019 amounted to approximately RMB88.4 million and RMB1.1 million, respectively. To the best knowledge and latest understanding of the Directors, Supplier A is a designated trading company of a fibre manufacturer based in Switzerland.

2. Supplier B is a private company incorporated in Jiangsu, the PRC in June 2000, which mainly engaged in the production and sales of nylon filaments and plastic products.

   To the best knowledge and latest understanding of our Directors, Supplier B had around 50 employees. To the best knowledge and latest understanding of our Directors, the ultimate controlling shareholders of Supplier B included two individuals who are Independent Third Parties, and one of the ultimate controlling shareholders of Supplier B was also the director of Supplier B. Based on the public information available and to the best knowledge and latest understanding of our Directors, Supplier B had a registered capital of RMB0.6 million as at the Latest Practicable Date, and the revenue and net profit of Supplier B in 2019 amounted to approximately RMB10.1 million and RMB85,000, respectively.

3. Supplier C is a private company incorporated in Henan, the PRC in March 2006, which mainly engaged in the production and sales of plastics and fibre products.

   To the best knowledge and latest understanding of our Directors, Supplier C had around 80 employees. To the best knowledge and latest understanding of our Directors, the ultimate controlling shareholder and director of Supplier C was an individual who is an Independent Third Party. Based on the public information available and to the best knowledge and latest understanding of our Directors, Supplier C had a registered capital of RMB10.0 million as at the Latest Practicable Date, and the revenue and net loss of Supplier C in 2019 amounted to approximately RMB17.4 million and RMB0.4 million, respectively.

4. Supplier D is a private company incorporated in Jiangsu, the PRC in December 1997, which mainly engaged in the production and sales of fibre and textiles and provision of international trading services.

   To the best knowledge and latest understanding of our Directors, Supplier D had around 130 employees. To the best knowledge and latest understanding of our Directors, the ultimate controlling shareholder of Supplier D was a limited company which is an Independent Third Party, and the directors of Supplier D included nine individuals who are Independent Third Parties. Based on the public information available and to the best knowledge and latest understanding of our Directors, Supplier D had a registered capital of USD4.0 million as at the Latest Practicable Date, and the revenue and net profit of Supplier D in 2019 amounted to approximately RMB128.4 million and RMB2.9 million, respectively.

5. Supplier E is a private company incorporated in Jiangsu, the PRC in June 1993, which mainly engaged in the production and sales of textiles.

   To the best knowledge of our Directors, the ultimate controlling shareholder of Supplier E was an individual who is an Independent Third Party. Based on the public information available and to the best knowledge and latest understanding of our Directors, Supplier E had a registered capital of RMB2.5 million as at the Latest Practicable Date, and the revenue and net loss of Supplier E in 2019 amounted to approximately RMB0.4 million and RMB2.7 million, respectively.

6. Supplier F is a private company incorporated in Jiangsu, the PRC in January 2003, which mainly engaged in the production and sales of polyester and nylon fibre.

   To the best knowledge and latest understanding of our Directors, Supplier F had around 100 employees. To the best knowledge and latest understanding of our Directors, the ultimate controlling shareholder and director of Supplier F was an individual who is an Independent Third Party. Based on the public information available and to the best knowledge and latest understanding of our Directors, Supplier F had a registered capital of RMB500,000 as at the Latest Practicable Date, and the revenue and net profit of Supplier F in 2019 amounted to approximately RMB35.0 million and RMB1.1 million, respectively.

7. Supplier G is a private company incorporated in Henan, the PRC in February 2018, which mainly engaged in the production and sales of plastics and fibre products.

   To the best knowledge and latest understanding of our Directors, Supplier G had around 50 employees. To the best knowledge and latest understanding of our Directors, the ultimate controlling shareholders of Supplier G was an individual who is an Independent Third Party, and the director of Supplier G was an individual who is an Independent Third Party. Based on the public information available and to the best knowledge and latest understanding of our Directors, Supplier G had a registered capital of RMB10.0 million as at the Latest Practicable Date, and the revenue and net profit of Supplier G in 2020 amounted to approximately RMB3.4 million and RMB30,000, respectively.

Our Directors have confirmed that all of our five largest suppliers during the Track Record Period are Independent Third Parties and none of our Directors, their respective close associates and our Shareholders who own more than 5% of the issued share capital of our Company had any interest in any of the above five largest suppliers of our Group during the Track Record Period. Save for the ordinary course of business dealings with our top five suppliers, to the best knowledge of our Directors, there were no past or present relationships or dealings (including family, business, employment, trust, fund flow, financing or otherwise) between each of our top five suppliers, their respective shareholders, directors or senior management, or any of their respective associates on one hand and our Group, Shareholders, Directors or senior management or their respective associates on the other hand during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period, we had no disputes or claims with our suppliers which would have a material impact on our business, financial condition or results of operations.

Our Directors confirm that, during the Track Record Period, we did not have any major suppliers who were also our customers.

LOGISTICS

We engage third party logistics service providers to deliver our products to the locations designated by our customers. We settle the logistics fees directly with our third party logistics service providers. To our Directors' belief, our logistics arrangement gives us flexibility over our delivery process and enables us to fulfil urgent orders from our customers. The risk of damage or loss of goods is typically transferred to logistics service providers from the commencement of delivery until the acceptance of the products by our customers, unless otherwise specified in the agreements entered into between our Group and the logistics service providers. Our Directors believe that the operations of third party logistics service providers will ensure sufficient transportation capacity for our future growth.

RESEARCH AND DEVELOPMENT

We believe our research and development capabilities are the driving force of our long-term competitiveness and our future growth and development. Our market-driven research and development efforts focus on the manufacturing technologies applied to our products with a view to increase our customers' operational efficiency. As advised by Frost & Sullivan, papermaking machine efficiency optimisation services are only provided by few competitors in the market, which are mainly leading players such as foreign invested enterprises and our Group.

Riding on our research and development capabilities and data we stored in the system, in order to increase customer stickiness to our products, we currently also provide complementary papermaking machine efficiency optimisation services from pre-sales technical advice in the use of suitable products and/or customisation of our products to after-sales technical advice and evaluation of the effectiveness on our customers' papermaking machine to our customers. We formulate operation efficiency optimisation target for our customers' papermaking machines through horizontal data comparison based on the data collected from the machines. We are also able to determine the best operating state and operating parameters of our customers' papermaking machines through longitudinal data comparison by comparing operating efficiency of different papermaking machines based on our experience in providing complementary papermaking machine efficiency optimisation services.

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 experiences in the production of papermaking felts. In 2012, Sichuan Huanlong was one of the six drafting units, and Mr. Xie, one of our executive Directors who has 18 years of experiences in the papermaking felts manufacturing industry, was a drafter in a group of 10, for the drafting of "China Textile Industry Standard: Batt-on-mesh Papermaking Felts" (中國紡織行業標準：底網造紙毛毯), results of which has subsequently become the industry standard of the papermaking felts manufacturing industry.

Our Directors believe that we are able to select the most appropriate production equipment and processes and apply advanced manufacturing techniques to develop and manufacture products in line with our customers' specific requirements and practical needs. Our research and development department works closely with other departments such as sales and marketing department and operation department to exchange ideas from time to time to keep abreast of the latest developments in our customers' business and product requirements. Our research and development department works directly with our customers to develop new products or improve existing ones based on models, prototypes or concepts developed by us.

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. 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. We are qualified as high and new technology enterprise.

For the three years ended 31 December 2020 and the six months ended 30 June 2021, our research and development expenses amounted to approximately RMB5.4 million, RMB7.3 million, RMB5.7 million and RMB3.0 million, respectively. Our research and development expenditures are primarily used for payment to our external research institutions, our research and development personnel and the procurement of materials used for research.

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 in the PRC. Details of our major patents are set forth below:

Type	Patent number	Patent
Invention patent	ZL200510022040.7	Three-layer seamless bottom net paper press felts* (三層無交織底網造紙壓榨毛毯)
Utility model patent	ZL201220114043.9	Multilayer random seamless papermaking felts* (一種多層任意無交織造紙毛毯)
Utility model patent	ZL201220114041.X	Double-layer blanketless papermaking felts* (一種雙層無毯痕造紙毛毯)
Utility model patent	ZL201420383652.3	Multi-axial press papermaking felts* (用於在紙機上縫合的多軸向壓榨造紙毛毯)
Utility model patent	ZL201420383651.9	Multi-axial base web-looped papermaking felts* (多軸向基網成環的造紙毛毯)
Invention patent	ZL201410330277.0	Base line scribing loop process for seamed papermaking felts* (接縫造紙毛毯的基網劃線成環工藝)

Type	Patent number	Patent
Invention patent	ZL201410330276.6	High-speed press-slant woven seam papermaking felts and its production process* (高車速高線壓斜織接縫造紙毛毯及其生產工藝)
Invention patent	ZL201610720547.8	Felt tape and its preparation process* (一種氈帶及其製備工藝)
Invention patent	ZL201610714115.6	Composite fibre polyester multi-layer papermaking base structure* (一種複合纖維聚酯多層造紙網結構)
Invention patent	ZL201610714114.1	Composite industrial filter fabric structure with high resistance* (一種具備高抗性的複合工業過濾織物結構)
Invention patent	ZL201610713835.0	Papermaking machine mesh felts and process for producing the papermaking machine mesh felts* (一種造紙機網毯及用於生產該造紙機網毯的工藝)
Invention patent	ZL201910720093.8	Seamless paper press felts manufactured with yarns from yarn creel and its manufacturing method* (一種基於紗架供紗的無交織壓榨毛毯及其製備方法)

As at the Latest Practicable Date, we also had 31 applications of patents in the PRC. Details of which our major patent applications are set out below:

Type	Application number	Patent under application
Invention patent	201711087206.2	Constant tension control method for needling machine used for manufacturing papermaking felts* (一種造紙毛毯針刺機用張力恒定控制方法)
Invention patent	201711108635.3	Hot-pressing forming method for random seamless base papermaking felts* (一種任意無交織基網造紙毛毯熱壓成型方法)

Type	Application number	Patent under application
Invention patent	201711087191.X	Multi-layer seamless papermaking felts suitable for various papermaking machines* (一種適用於各種紙機的多層無交織造紙毛毯)
Invention patent	201711087209.6	Method for manufacturing multi-axial warping papermaking felts with seamless base* (一種多軸向經編任意無交織基網造紙毛毯製造方法)
Invention patent	201910003674.X	Papermaking felts production method for preventing uneven surface of papermaking felts and the relevant needling machine* (一種可防止毯面不平整的造紙毛毯生產方法及針刺機)
Invention patent	201910003682.4	Automatic high precision papermaking felts needling machine* (一種自動化高精度的造紙毛毯針刺機)
Invention patent	201910003675.4	A new type of high-efficiency anti-breaking papermaking felts needling machine* (一種新型高效防斷針的造紙毛毯針刺機)
Invention patent	201910720094.2	Seamless paper press felts manufactured with warping technique and its manufacturing method* (一種基於整經工藝的無交織壓榨毛毯及其製備方法)
Invention patent	201910571865.6	Method for manufacturing papermaking felts used in high speed vacuum rotary papermaking machines* (一種應用於高速真空圓網造紙機毛毯的製備方法)
Invention patent	201410079137.0	Warp and weft seamless papermaking felts and its manufacturing method* (一種經緯紗無交織造紙毛毯及其製備方法)

In addition, our efforts in research and development have been recognised by institutions with research and development achievements in which some of our recognised production models have been adopted in our manufacturing process. The following table sets forth our major research and development achievements:

Year	Achievements	Issuing entity
2011	2009-2010 Second Prize of Technology Advancement Award* (2009-2010年度科技進步獎二等獎)	The People's Government of Wenjiang District, Chengdu City* (成都市溫江區人民政府)
2012	China Textile Industry Standard: Batt-on-mesh Papermaking Felts* (中國紡織行業標準：底網造紙毛毯)	Ministry of Industry and Information Technology of People's Republic of China* (中國工業和資訊化部)
2013	High-tech Achievement Transformation Project Certification (High-Speed High Pressure-Resistant Bottom Pressing Papermaking Felts Certificate)* (高新技術成果轉化項目證書(高抗壓底網壓榨造紙毛毯))	Shanghai High-tech Achievement Transformation Project Certification Office; Shanghai High-tech Achievement Transformation Service Centre* (上海市高新技術成果轉化專案認定辦公室、上海市高新技術成果轉化服務中心)
2014	Second Prize of Technology Advancement Award of China National Textile and Apparel Council* (中國紡織工業聯合會科學技術進步二等獎)	China National Textile and Apparel Council* (中國紡織工業聯合會)
2014	Top Ten China Industrial Textile Innovative Products / Technologies* (中國產業用紡織品行業十大創新產品／技術)	China Nonwovens & Industrial Textiles Association* (中國產業用紡織品行業協會)
2017	High-tech Achievement Transformation Project Certification (Multi-axial Multi-layer Papermaking Felts Certificate)* (高新技術成果轉化項目證書(多軸向多層造紙毛毯證書))	Shanghai High-tech Achievement Transformation Project Certification Office; Shanghai High-tech Achievement Transformation Service Centre* (上海市高新技術成果轉化專案認定辦公室、上海市高新技術成果轉化服務中心)

Year	Achievements	Issuing entity
2017	Sichuan Province Technology Advancement Award* (四川省科學技術進步獎證書)	People's Government of Sichuan Province* (四川省人民政府)
N/A	Nonwovens Technology Advancement and Innovation Unit* (非織造材料技術進步、創新先進企業)	National Nonwovens Construction and Technology Research Centre, National Nonwovens Technology and Information Centre* (國家非織造材料工程技術研究中心、全國非織造科技信息中心)

In addition to in-house research and development capabilities, we have also developed strategic cooperation with universities in the PRC. In 2019 and 2020, we entered into cooperative agreements with universities in the PRC for the research and development on the manufacturing of papermaking felts, in which the results of such may be applied to our production process. Our Directors believe that such collaborations can provide us with the advantages of enhancing our production techniques, improving production efficiency and diversifying our products.

For the three years ended 31 December 2020 and the six months ended 30 June 2021, the amounts incurred for the collaborations with the universities were approximately nil, RMB50,000, RMB50,000 and nil, respectively.

INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we were the registered owner of seven domain names and had 18 trademarks in the PRC, two trademarks in Hong Kong, 99 patents in the PRC and two software copyrights in the PRC. We had also applied for the registration of 31 patents in the PRC as at the Latest Practicable Date.

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 Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group was not involved in any disputes or litigation relating to the infringement of the intellectual property rights, nor is our Group aware of any such claims either pending or threatened which had a material adverse effect on our business, results of operations, financial conditions and prospect.

LICENCES, PERMITS AND APPROVALS

Apart from corporate business licences, the following table sets forth the material licences, permits and approvals which are required for our business:

Licences/ Permits/ Approvals	Holder	Issuing entity	Validity period
High and New Technology Enterprise Qualification* (高新技術企業證書)	Sichuan Huanlong	Sichuan Science and Technology Department* (四川省科學技術廳), Sichuan Provincial Department of Finance* (四川省財政廳) and Sichuan Provincial Tax Service, State Taxation Administration* (國家稅務總局四川省稅務局)	From 14 October 2019 to 13 October 2022
Work Safety Standardisation Certificate* (安全生產標準化證書)	Sichuan Huanlong	Emergency Management Bureau of Chengdu Municipality* (成都市應急管理局)	From 15 July 2019 to July 2022
High and New Technology Enterprise Qualification* (高新技術企業證書)	Shanghai Jinxiong	Shanghai Science and Technology Committee* (上海市科學技術委員會), Shanghai Department of Finance* (上海市財政局), Shanghai State Taxation Administration* (上海市國家稅務局) and Shanghai Local Taxation Administration* (上海市地方稅務局)	From 11 November 2020 to 10 November 2023
Work Safety Standardisation Certificate for Small Industry and Trade Enterprises in Shanghai* (上海市工貿小企業安全生產標準化證書)	Shanghai Jinxiong	Shanghai Work Safety Association* (上海市安全生產協會)	Up to December 2022

As advised by our PRC Legal Advisers, during the Track Record Period, we had obtained all material licences, permits and approvals required for our business operation in the PRC.

CERTIFICATIONS AND AWARDS

Certifications

We have implemented quality control and assurance systems that meet the international and industry standards for our products. In recognition of our quality control efforts, we were certified with a number of ISO certificates during our operating history. A summary of which is set forth in the table below:

Certificates	Nature	Holder	Descriptions	Issuing entity	Validity period
ISO 9001:2015	Quality management system certification	Sichuan Huanlong	The quality management system of our Sichuan Production Site has been assessed and certified as meeting the requirements of ISO 9001:2015 for the production and technical services of papermaking felts	Beijing Zhong Da Hua Yuan Certification Center (北京中大華遠認證中心)	From 12 November 2021 to 15 September 2024
ISO 14001:2015	Environmental management system certification	Sichuan Huanlong	The environmental management system of our Sichuan Production Site has been assessed and certified as meeting the requirements of ISO 14001:2015 for the production and technical services of papermaking felts	Beijing Zhong Da Hua Yuan Certification Center (北京中大華遠認證中心)	From 12 November 2021 to 11 November 2024

Certificates	Nature	Holder	Descriptions	Issuing entity	Validity period
ISO 45001:2018	Occupation health and safety management system certification	Sichuan Huanlong	The occupational health and safety management system of our Sichuan Production Site has been assessed and certified as meeting the requirements of ISO 45001:2018 for the production and technical services of papermaking felts	Beijing Zhong Da Hua Yuan Certification Center (北京中大華遠認證中心)	From 12 November 2021 to 11 November 2024
ISO 9001:2015	Quality management system certification	Sichuan Huanlong	The management system of our Sichuan Production Site has been assessed and certified as meeting the requirements of ISO 9001:2015 for the production and technical services of papermaking felts	Beijing Zhong Da Hua Yuan Certification Center (北京中大華遠認證中心)	From 12 November 2021 to 15 September 2024
ISO 9001:2015	Quality management system certification	Shanghai Jinxiong	The quality management system of our Shanghai Production Site has been assessed and certified as meeting the requirements of ISO 9001:2015 for the design, development and production of papermaking felts and industrial fabrics	Beijing Zhong Da Hua Yuan Certification Center (北京中大華遠認證中心)	From 8 September 2020 to 7 September 2023

Certificates	Nature	Holder	Descriptions	Issuing entity	Validity period
ISO 14001:2015	Environmental management system certification	Shanghai Jinxiong	The environmental management system of our Shanghai Production Site has been assessed and certified as meeting the requirements of ISO 14001:2015 for the design, development and production of papermaking felts and industrial fabrics	Beijing Zhong Da Hua Yuan Certification Center (北京中大華遠認證中心)	From 8 September 2020 to 7 September 2023
ISO 45001:2018	Occupational health and safety management system certification	Shanghai Jinxiong	The occupational health and safety management system of our Shanghai Production Site has been assessed and certified as meeting the requirements of ISO 45001:2018 for the design, development and production of papermaking felts and industrial fabrics	Beijing Zhong Da Hua Yuan Certification Center (北京中大華遠認證中心)	From 8 September 2020 to 7 September 2023

During the Track Record Period, we renewed each of the above certifications and did not fail to renew any of them. Our Directors confirm that we do not expect material impediment in renewing any of the above certifications under normal circumstances.

Awards

Our achievements over the years have been recognised by various awards and accreditations:

Year	Awards/ Recognitions	Awarding institution/ authority
2014	2014 Product Development and Contribution Award* (中國紡織工業聯合會產品開發貢獻獎)	China National Textile and Apparel Council* (中國紡織工業聯合會)
2016	Industry Contribution Award* (中國造紙用紡織品行業貢獻獎)	Papermaking Textile Branch of the China Nonwoven & Industrial Textiles Association* (中國產業用紡織品行業協會)
2016	China Specialty Papers Industry Development Contribution Award* (中國特種紙產業發展貢獻獎)	Specialty Papers Committee of China Technical Association of Paper Industry* (中國造紙學會特種紙專業委員會)
2017	Product Development Contribution Award* (產業開發貢獻獎)	China National Textile And Apparel Council* (中國紡織工業聯合會)
2018	Outstanding Private Enterprise of Wenjiang District* (溫江區優秀民營企業)	The People's Government of Wenjiang District, Chengdu* (中共成都市溫江區委成都市溫江區人民政府)
2018	Little Giant of Technology Enterprises* (科技小巨人企業)	Shanghai Jinshan District Science and Technology Committee* (上海市金山區科學技術委員會)
2019	Jinshan District Patent Work Demonstration Unit* (金山區專利工作示範單位)	Jinshan District Intellectual Property Office* (金山區知識產權局)

Year	Awards/ Recognitions	Awarding institution/ authority
2019	Sichuan Provincial Enterprise Technology Centre* (四川省企業技術中心)	Sichuan Provincial Economic and Information Department* (四川省經濟和資訊化廳), Sichuan Provincial Development and Reform Commission* (四川省發展和改革委員會), Sichuan Science and Technology Department* (四川省科學技術廳), Sichuan Provincial Department of Finance* (四川省財政廳), Sichuan Provincial Tax Service, State Taxation Administration* (國家税務總局四川省税務局), Sichuan Customs District P.R. China* (中華人民共和國成都海關)
2020	Shanghai Municipal Little Giant of Technology (Training) Enterprise* 上海市科技小巨人(培育)企業	Shanghai Science and Technology Committee* (上海市科學技術委員會), Shanghai Municipal Commission of Economy and Informatisation* (上海市經濟和信息化委員會)
2020	Chengdu Key New Material Enterprise* (成都重點新材料企業)	Chengdu Municipal Bureau of Economic and Information Technology* (成都市經濟和信息化局)

COMPETITION

We are a specialised manufacturer and supplier of papermaking felts to paper and paper products manufacturers and trading companies in the PRC. We face competition from PRC manufacturers as well as overseas manufacturers of similar products for sale to customers in the PRC. According to the Frost & Sullivan Report, (i) the papermaking felts market in the PRC relatively concentrated with the top five players in aggregate accounting for approximately 48.6% of market share in terms of revenue in 2020; (ii) among the top five papermaking felts manufacturers in the PRC market, we were the only papermaking felts manufacturer headquartered in the PRC with an approximate market share of 5.8% in terms of revenue in 2020.

According to the Frost & Sullivan Report, the principal competitive factors in the papermaking felts manufacturing industry include: (a) product quality, which associates with production efficiency and cost deduction in paper manufacturing process; (b) business relationship with stakeholders, which includes a close business relationship maintained with upstream suppliers, downstream customers and other parties such as research institutions; (c) value-added services, which include pre-sales consulting, customised product design and technical support (including following up of the applicability of papermaking felts in papermaking machines, regular testing of papermaking felts to track the product quality, and assisting customers to enhance the efficiency of papermaking machines); and (d) industry experience and reputation, which indicate proven track record, diversified product portfolio and a professional team of talents that determine the preference of sizeable paper manufacturers.

Furthermore, there are certain major barriers of entry to the papermaking felts manufacturing industry, including: (a) advanced production technology and expertise in developing papermaking felts with enhanced properties, coupled with in-depth experience and know-how in papermaking process; (b) established relationship with customers, as the papermaking felts are often customised based on the type of paper machines and paper products of the customers, paper manufacturers generally show a preference towards established papermaking felts manufacturers as their major suppliers; and (c) ability to acquire and retain technical and management professionals with extensive and comprehensive knowledge and expertise in paper manufacturing, procurement, and research and development of papermaking felts. For details of the competition we face, including the key players in the papermaking felts manufacturing industry in the PRC, please refer to the paragraph headed "Industry Overview — Competitive landscape of papermaking felts manufacturing industry in the PRC" in this prospectus. In addition, our business also faces a number of risks relating to market competition. For further details, please refer to the paragraph headed "Risk Factors — Risks relating to our business and industry" in this prospectus.

EMPLOYEES

As at the Latest Practicable Date, we employed 316 employees in the PRC. The following table sets forth a breakdown of our employees by department as at the Latest Practicable Date:

Department	Number of employees as at the Latest Practicable Date
Management	4
Finance and accounting	19
Human resources and administration	29
Production	214
Sales and marketing	21
Research and development	15
Operation	10
Supply	3
Project	1
Total	316

Recruitment

We recruit our employees based on their work experience, education background and qualifications. We recruit our employees through internet recruitment and career fair. We aim to hire and retain appropriate and suitable personnel to work for our Group. We assess the available human resources on a continuous basis to determine whether additional personnel are required to cope with our business development.

We have entered into employment contracts with our employees, which set out, among other things, the employee's remuneration, benefits, confidentiality obligations and grounds for termination of the employment. These employment contracts either have no fixed term, or if there is a fixed term, the term is generally up to three years, after which we will evaluate renewals based on performance appraisals.

We have set up a labour union for our employees in the PRC. Our Directors believe that our employees are among the most valuable assets of our Group and have contributed to the success of our Group. To ensure the successful implementation of our business and growth strategies, we have valued the importance of attracting and retaining experienced and motivated employees at all levels. Our Directors confirm that, during the Track Record Period, we have not experienced any material labour disputes with our employees which had a material impact on our business, financial conditions or result of our operations. Our Directors consider that we have maintained good relationships with our employees.

Remuneration policy and training

The remuneration package offered to our employees generally includes salary, allowances and payment for welfare contributions, including social insurance contributions and housing provident fund contributions. We determine our employees' remunerations based on each employee's qualification, relevant experience, position and seniority. We conduct annual review on salary increments, bonuses and promotions based on the performance of each employee.

During the Track Record Period and up to the Latest Practicable Date, save for the instances disclosed in the paragraph headed "Legal proceedings and compliance" in this section, we had made contributions for our employees in the PRC to social security funds (including pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing provident fund. Our total staff cost, including salaries, wages and other benefits, and contributions to defined contribution plans, amounted to approximately RMB25.9 million, RMB24.7 million, RMB26.1 million and RMB15.1 million for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively.

We provide regular on-the-job training to our employees and conduct yearly reviews of their performance. We believe that these initiatives have contributed to stronger work incentive among our employees.

PROPERTIES

Owned properties

As at the Latest Practicable Date, we owned a parcel of land in Wenjiang District, Chengdu, Sichuan, the PRC with an aggregate site area of approximately 38,391 sq. m. for our Chengdu Production Site, on which buildings with an aggregate gross floor area of approximately 34,613.25 sq. m. were erected. The table below sets forth the information regarding our owned properties as at the Latest Practicable Date:

Type of property	Address	Main usage	Description
Land	No. 519, Section 2, Xinhua Avenue Chengdu Strait Science and Technology Industry Development Park Wenjiang District, Chengdu Sichuan Province, the PRC	Industrial use	A parcel of land with a site area of approximately 38,391 sq. m.
Buildings	No. 519, Section 2, Xinhua Avenue Chengdu Strait Science and Technology Industry Development Park Wenjiang District, Chengdu Sichuan Province, the PRC	Two factory buildings (namely factory building one and factory building two) *(Note)*, one staff dormitory, one staff cafeteria and two power distribution houses	Buildings built on the parcel of land at No. 519, west section of Xinhua Road, Cross-Strait Science and Technology Industrial Development Park, Wenjiang District, Chengdu, Sichuan, the PRC with an aggregate gross floor area of approximately 34,613.25 sq. m.

Note: According to the original construction plan of the Chengdu Production Site, four factory buildings were proposed to be constructed. As at the Latest Practicable Date, two factory buildings were in operation (namely, factory building one and factory building two), of which factory building two was completed construction after the Track Record Period. As at the Latest Practicable Date, Factory building three had been demolished and our Directors confirm that we have no plans to proceed with the construction of factory building four).

In January 2020, Sichuan Huanlong entered into an agreement with a construction contractor to appoint the latter for the construction of factory building two project. Prior to the commencement of the construction of factory building two project in July 2020, Sichuan Huanlong had submitted and obtained approval for the construction design and drawings and was granted the construction project planning permit (建設工程規劃許可證) and the construction project commencement permit (建設工程施工許可證) in relation to the construction of factory building two project, and the construction of factory building two project is covered by the land planning permit (建設用地規劃許可證) in issue. In September 2021, we obtained the construction acceptance report in relation to factory building two project.

Factory building two project comprises factory building two (with gross floor area of approximately 18,665.64 sq.m.), a power distribution house (with gross floor area of approximately 55.76 sq.m.) and a fire service pump room (which is a structure but not counted as a property). Factory building two may be used for storage of raw materials and finished goods, research and development activities, production process and/or keeping of our machinery and equipment, depending on our operational needs from time to time. After the Track Record Period, the factory building two project have been completed construction and we will apply for the real estate right certificates* (不動產權證書) for it in due course according to the relevant laws. It is estimated that the provisional cost for the development of factory building two project is approximately RMB41.0 million, among which, we have incurred approximately RMB27.5 million as at 30 June 2021. We may use our internal resources and/or bank borrowings as and when further funds are needed for such business expansion.

As at 30 June 2021, we had not obtained the real estate right certificates* (不動產權證書) for the guard room (the "**Guard Room**") and the factory building three (the "**Factory Building Three**", and together with the Guard Room, the "**Two Buildings**"). The absence of the real estate right certificates* in relation to the Two Buildings was due to our misunderstanding and lack of sufficient knowledge of the relevant laws and regulations.

As advised by our PRC Legal Advisers, our rights to transfer and mortgage the Two Buildings are restricted due to the fact that the Two Buildings have not obtained the respective real estate right certificates*. As advised by our PRC Legal Advisers, they were not aware of any PRC laws and regulations penalising us for the failure to obtain real estate right certificate*.

Our Directors confirm that: (i) the Guard Room has been demolished in June 2021; and (ii) the demolition work of the Factory Building Three has been completed in August 2021. We will reconstruct Factory Building Three in accordance with relevant laws and regulation. Our Directors take the view that the estimated costs of the aforesaid demolition is minimal.

Our Directors take the view that the failure to obtain the real estate right certificates* of the Two Buildings will not lead to any material issues in relation to land costs. In addition, our Directors confirm that they are not aware of any potential risks in relation to the safety conditions of the Two Buildings.

In view of the above, our Directors are of the view that the operational and financial impact on our Group in relation to the failure to obtain the real estate right certificates* is minimal. As such, our Directors take the view that the adoption of contingency measures will not be necessary.

Leased properties

As at the Latest Practicable Date, we leased a total of five properties in Fengjing Town, Jinshan District, Shanghai, the PRC with an aggregate gross floor area of approximately 9,006 sq.m. for our Shanghai Production Site. The following table sets forth the particulars of the properties leased by us as at the Latest Practicable Date:

Address	Main usage	Approximate gross floor area	Lease term	Rental rate
Blocks 9-10, No. 78 Shanghai Textile Industry (Jinshan) Park, Jian'an Road, Fengjing Town, Jinshan District, Shanghai, the PRC	Two factory buildings	7,572 sq. m.	From 3 November 2020 to 2 November 2022	RMB1,544,460 per year
Block 3, No. 78, Jian'an Road, Fengjing Town, Jinshan District, Shanghai, the PRC	One factory building	978 sq. m.	From 3 November 2020 to 2 November 2022	RMB177,840 per year
No.70, Jian'an Road, Fengjing Town, Jinshan District, Shanghai, the PRC	Staff dormitory	366 sq. m.	From 1 January 2021 to 31 December 2021	RMB47,304 per year
No. 78-9, Jian'an Road, Fengjing Town, Jinshan District, Shanghai, the PRC	Staff cafeteria	90 sq. m.	From 1 January 2021 to 31 December 2021	RMB11,280 per year

As confirmed by our PRC Legal Advisers, the lease agreements in relation to the above leased properties are legally binding and each respective landlord of the above leased properties has obtained the relevant building ownership certificates.

The above owned and leased properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. Pursuant to Rule 5.01B(2) of the Listing Rules, if the carrying amount (as defined in Rule 5.01(1) of the Listing Rules) of a property interest (as defined in Rule 5.01(3) of the Listing Rules) of an applicant's non-property activities (as defined in Rule 5.01(2) of the Listing Rules) is or is above 15% of its total assets (as defined in Rule 5.01(4) of the Listing Rules), the prospectus shall include the full text of valuation report for such property interest. As the carrying amount of our owned properties, in aggregate, exceeds 15% of our total assets as at 30 June 2021, in order to comply with Rule 5.01B(2) of the Listing Rules, a property valuation report in respect of our owned properties is included in Appendix III to this prospectus.

According to the property valuation report, our owned properties were valued at RMB66.9 million as at 30 June 2021. Except for the above owned properties, no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets as at the Latest Practicable Date.

INSURANCE

As at the Latest Practicable Date, our insurance policies include:

- property insurance that covers loss to our major production machinery caused by natural disasters and accidents, including fire, flood, debris, falling objects and water main bursts;

- automobile insurance that covers property damage, medical expenses, personal injury and other third-party liabilities arising from accidents involving our automobiles; and

- environmental liability insurance that covers the environmental protection liability, medical expenses, casualty compensation and cleaning expenses resulting from pollution incidents caused by us.

Our Directors believe that the insurance coverage taken out by us is adequate and consistent with industry norm, having regard to our current operations and the normal commercial practice of the industry.

Certain risks are disclosed in the section headed "Risk Factors" in this prospectus, such as risks in relation to credit risk of our customers, inventory obsolescence, rising labour costs, inability to renew current leases and increase of rental expenses, etc., which are generally not covered by insurance because they are either uninsurable or it is not cost justifiable to insure against such risk. Please refer to the paragraphs headed "Internal control" and "Risk management" in this section for further details.

To minimise our product liability risk, we have stringent quality control measures in order to reduce the incidence of product defects. For details of our quality control measures, please refer to the paragraph headed "Quality management" in this section.

In addition, we are subject to the PRC's social insurance system and are required to make contributions for our PRC employees. During the Track Record Period, save as disclosed in the paragraph headed "Legal proceedings and compliance — Non-compliances — (2) Non-compliance in relation to social insurance contributions" in this section, we contributed to social security insurance for our employees in compliance with the applicable laws, rules and regulations in the PRC in all material respects.

Save as disclosed in the paragraph headed "Legal proceedings and compliance — Non-compliances — (2) Non-compliance in relation to social insurance contributions" in this section, our Directors confirm that we were not subject to any material insurance claims or liabilities arising from our operations during the Track Record Period and we did not make any material insurance claims during the Track Record Period.

HEALTH AND WORKPLACE SAFETY

We are subject to certain PRC occupational health and safety laws and regulations. For details of the applicable occupational health and safety laws and regulations of the PRC, please refer to the paragraph headed "Regulatory Overview — V. PRC laws and regulations in relation to production safety and product quality" in this prospectus.

We are committed to providing a safe and healthy environment for our employees. We provide safety education and training to employees and have in place safety guidelines and operating manuals for our manufacturing process. We also provide our employees with training programmes on work safety in connection with matters such as the operation of equipment with the view to enhance occupational safety and minimising the possibility of work-related accidents and injuries as well as occupational illness. We have established a policy in recording and handling accidents. Upon occurrence of an accident, the employees shall report to the relevant department head and the human resources and administration department within 24 hours to handle the case. The relevant department head shall prepare a report within 72 hours detailing the accident, including date and time of the accident, employees involved, cause, confirmation of responsibility, suggestion on rectification, and submit to the human resources and administration department. The department shall then carry out an investigation, assess the impact of the accident and recommend appropriate measures to improve safety.

According to our PRC Legal Advisers and as confirmed by the competent PRC authorities, we had not been subject to any material penalty imposed by the competent production safety authorities due to non-compliance with the relevant production safety and occupational health laws and regulations during the Track Record Period.

As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we had complied with all the applicable laws and regulations in the PRC relating to health and safety in all material respects.

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.

In light of the aforesaid development, 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 corresponding period in 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.

Our Directors are closely monitoring the development of outbreak of COVID-19. According to《Law of the People's Republic of China on the Prevention and Treatment of Infectious Diseases》and《Regulation on the Urgent Handling of Public Health Emergencies》, our Group has established the "Contingency Measures in Response to the Outbreak of COVID-19"《突發新型冠狀病毒疫情應急預案》and the "Daily Management Measures"《日常管理方案》in order to protect our staff's health and reduce the risk of infecting coronavirus. The daily precautions included:

(i) All staff has to conduct daily body temperature check before entering into our Group's premises.

(ii) All staff must wear medical mask in our Group's premises.

(iii) If any staff has shown symptoms of upper respiratory tract infection/returned from areas severely affected by COVID-19 in the past 14 days/has close contact with the patient of COVID-19, they should conduct home quarantine for 14 days before on duty.

(iv) The administrative department and production team are responsible for arranging daily disinfection at all our Group's premises.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Our business operation, like other similar business operations in the PRC, is governed by the environmental laws and regulations in the PRC including the Environmental Protection Law of the PRC. For details, please refer to the paragraph headed "Regulatory Overview — VI. PRC laws and regulations in relation to environmental protection" in this prospectus. Our Directors are of the view that our production process does not have a significant adverse effect on the environment, having considered (i) as advised by the relevant authorities in the PRC, business within the heavy pollution industries are not allowed to operate in Chengdu Strait Science and Technology Industry Development Park (where our Chengdu Production Site is situated); (ii) only domestic wastewater and domestic waste gas are discharged or emitted during our production process; and (iii) the amount of energy consumed during our production process is insignificant. Our Directors also confirm that our environmental protection measures are adequate to ensure compliance with all the applicable laws and regulations in the PRC. Nevertheless, we consider the protection of the environment to be important.

We are committed to conducting our business operations to comply with all applicable environmental laws and regulations, and endeavour to mitigate any negative effects of our operations on the environment. The management system of our production facilities has been assessed and certified as meeting the requirements of ISO 14001:2015 for the design, development and production of papermaking felts and industrial fabrics.

The Group has several environmental measures in place. As confirmed by our Directors, it is a common practice within the manufacturing industry to engage a company responsible for waste and sewage collection and treatment in accordance with the PRC laws. For this purpose, we engaged an Independent Third Party during the Track Record Period to handle our non-industrial waste and sewage. In addition, we have also engaged an independent consultant to conduct annual inspection on our production sites in relation to wastewater, waste gas and noise level in order to ensure that we meet the relevant discharge or emission standards. Our costs of compliance with the applicable environmental rules and regulations (which comprised of the cost of waste and sewage collection and treatment, discharge of waste residues, inspections and cleanings) were approximately RMB52,000, RMB45,000, RMB41,000 and RMB21,000 for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. Assuming there are no material changes in the environmental protection laws and regulations in our industry, our Directors expect that we will continue to incur environmental compliance costs annually at a similar level to that incurred for the year ended 31 December 2020 in the future.

We also proactively identify any major environmental and social sustainability risks related to our business, such as environmental and health and safety compliance. We have set up metrics and targets for environmental and health and safety management, to review major environmental and social sustainability risk performance on a regular basis. In respect of water usage and wastewater generation, we evaluate our water usage and wastewater level using the metrics of daily water usage per production site and daily wastewater generated per production site, respectively. We intend to continue to reduce the level of our daily water usage per production site and daily wastewater generated per production site. In respect of waste gas emission, waste gas emitted during our production process is insignificant and cooking oil fumes emitted from our canteen kitchen are treated by a purifier such that the concentration of cooking oil fumes emitted is less than the standard of 2.0 milligram per cubic metre. In respect of noise level, in order to reduce noise generated during our production process, we have adopted comprehensive measures including advanced planning for installation of machinery, sound insulation of buildings and factories, and adopting machinery that generates lower level of noise, to keep the noise level at a level not higher than 90 dB(A). In addition, our Group has been promoting low-carbon office practices including the use of online platform and electronic documents for our business process, restrictions in the use of air-conditioner and the use of reusable tableware. We endeavour to review the energy consumption level of our production process regularly and formulate the relevant solutions where needed.

Our PRC Legal Advisers confirms that we are in compliance with all material respect with the applicable environmental laws and regulations in the PRC. During the Track Record Period, as confirmed by the relevant competent government authorities, no administrative sanctions, penalties or punishments have been imposed upon us for the violation of any environmental laws or regulations in the PRC and, so far as our Directors are aware after making all reasonable enquiries, there was no threatened or pending action by any PRC environmental government agencies in respect thereof.

Our Board has the collective and overall responsibility for establishing, adopting and reviewing the environmental, social and governance ("**ESG**") vision and target of our Group, identifying the key performance indicators and the relevant measurements and evaluating, determining and addressing our ESG-related risks in accordance with Appendix 27 to the Listing Rules. Our Board will assess, evaluate the ESG risks and review our existing strategy, target and internal controls. Necessary improvement will then be implemented to mitigate the risks.

INTERNAL CONTROL

In preparation for the Listing, we have engaged an internal control consultant to conduct an evaluation of our internal control systems and to review our management of business operations, including our inventory, finance, human resource and IT risks and review and follow up on the effectiveness of our enhanced internal control measures. We have also formulated a policy particularly for granting loans to our employees, including (i) the limit of the loan advanced to each employee depending on the position ranking of that employee; (ii) the reasons of advances which cover expenses for business trips, disbursement, special circumstances such as work injuries and other reasons that comply with our internal rules and regulations; and (iii) the term of advances.

Based on the internal control consultant's review and recommendations, we have adopted measures and policies to improve its internal control systems and to ensure its compliance with the applicable laws and regulations in the PRC. After the internal control consultant conducted their follow-up review, they have not identified any material deficiencies in our internal control system.

Based on the above, our Directors are of the view that we have taken reasonable steps to establish an internal control system and procedures to enhance our control on both working and management levels.

RISK MANAGEMENT

In the course of conducting our business, we are exposed to various types of risks, including operational risks, credit risk, market risks and regulatory risks, the details of which have been disclosed in the section headed "Risk Factors" and the paragraph "Financial Information — Key factors affecting our results of operations and financial condition" in this prospectus. Our risk management measures for some of the more particular risks mainly include the following:

- Operational risk management

  - We set up examination and approval procedures for operational issues such as contract signing with our customers and suppliers, employees' attendance management and repair and maintenance of fixed assets. Our employees are required to report to their respective supervisor within the department or escalate any emergency issues to the head of the department where necessary.

  - Our whistle blowing policy provides a channel for our employees to report and investigate any suspected misconduct, malpractice, irregularity, unlawful or improper incidents.

  - For details of our risk management measures in relation to quality management and inventory management, please refer to the paragraphs headed "Quality management" and "Inventory management" in this section.

- Credit risk management

  - Our sales and marketing department is responsible for collecting receivables from our customers. Our sales representatives conduct regular visits to our customers to examine their operational performance and evaluate their financial capacity to settle payment. The credit periods we grant to our customers range from 30 days to 180 days. In addition, some of our customers are required to settle payment before delivery of our products. We monitor and evaluate overdue payments on a case-by-case basis and consider appropriate follow-up actions such as reissuing invoices, actively communicating with customers and temporarily suspending the supply until repayment. We also have an internal assessment system in place to assess the credit rating of our customers.

- Market risk management

  - Our internal procurement policy and pricing policy are formulated to ensure prompt reaction to fluctuations in the papermaking felts and paper product markets. For example, our finance and accounting department requests quotations of raw materials from our potential suppliers regularly. In addition, our Directors take part in industry activities and organisations to understand and keep abreast of the market conditions in order to formulate our procurement, pricing and marketing strategies effectively.

- Regulatory risk management

  - For details of our regulatory risk management measures, please refer to the paragraph headed "Corporate governance" in this section.

- Sanction risk management

  - We have adopted enhanced internal control and risk management measures to help us continuously monitor and evaluate our business and take measures to protect the interest of our Group and our Shareholders from economic sanctions risks. The following measures have been implemented as at the Latest Practicable Date:

    — Know-Your-Client procedures to review the background information (such as identity and nature of business as well as ownership structure) relating to the counterparties to the transaction along with the draft business transaction documentation;

    — screening procedures to check the counterparties against the various lists of restricted parties and countries maintained by the U.S., the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in Countries subject to International Sanctions or a Sanctioned Person;

    — using a compliance clause in contracts with customers, or request a separate certification from customers, confirming that the Group's products will not be exported outside of the country where the product is sold or will not be exported, directly or indirectly, to any Sanctioned Country; and

— enhanced compliance training to ensure awareness of sanctions risks and timely and effective identification and reporting of actual and potential violations.

CORPORATE GOVERNANCE

We recognise the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability, earning the confidence of shareholders and the public. In order to comply with the requirements under the Listing Rules, in particular, the code provisions contained in the corporate governance code and corporate governance report as set out in Appendix 14 (the "**Code**") of the Listing Rules, we have adopted the following measures as at the Latest Practicable Date:

- we have established the audit committee, remuneration committee and nomination committee with respective written terms of reference in accordance with the code provisions contained in the Code. Please refer to the section headed "Directors and Senior Management" in this prospectus for further details;

- our Board has adopted the terms of reference with regard to corporate governance and a shareholders' communication policy in accordance with the code provisions of the Code;

- we have appointed three independent non-executive Directors representing more than one third of the Board and at least one of them has accounting expertise;

- we have established system and manuals in relation to, among others, distribution of annual, interim reports and publication, handling and monitoring of inside information prior to public announcement and other requirements under the Listing Rules;

- our Directors have attended training sessions conducted by our legal advisers as to Hong Kong law on the ongoing obligations and duties of a director of a company whose shares are listed on the Stock Exchange. Our Group will continue to arrange for external training and updates to be provided by its legal advisers on the legal and regulatory requirements applicable to our Group's business operations to its Directors, senior management and relevant employees;

- we will endeavour to comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. To avoid potential conflicts of interest, we will implement corporate governance measures as set out in the paragraph headed "Relationship with Controlling Shareholders — Corporate governance measures" in this prospectus;

- we have engaged CMBC International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to advise and assist our Board on compliance matters in relation to the Listing Rules and/or other relevant laws and regulations applicable to our Company to ensure that, among other things, we are properly guided and advised as to compliance with the Listing Rules;

- we will consider engaging an independent internal control consultant to have an annual review on the adequacy and effectiveness of our internal control system for the financial year ending 31 December 2021, if necessary, including areas of financial, operational, compliance and risk management; and

- when considered necessary and appropriate, we will seek professional advice and assistance from an independent internal control consultant, external legal advisers and/or other appropriate independent professional advisers with respect to matters relating to our internal controls and legal compliance.

Taking into account the internal control measures implemented by us in connection with the non-compliance incidents disclosed under the paragraph headed "Legal proceedings and compliance" in this section, our ongoing monitoring and supervision with the assistance and advice of external professional advisers where required, and the fact that, as confirmed by our Directors and our PRC Legal Adviser, the non-compliance incidents did not involve fraud or dishonesty, our Directors are of the view that (i) our enhanced internal control measures are adequate and effective; (ii) the suitability of our Directors is compliant with Rules 3.08 and 3.09 of the Listing Rules; and (iii) our Company is suitable for listing under Rule 8.04 of the Listing Rule. Based on the review of the internal control report and other due diligence documents, discussions with our Directors and our Director's confirmation, nothing has come to the attention of the Sole Sponsor that would cast doubt on the view of our Directors.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal proceedings

Sichuan Huanlong, being the defendant, was involved in a claim in relation to the dispute on the construction of factory building two. In June 2019, the claimant was notified by Sichuan Huanlong that it was selected as the contractor for the construction of factory building two in an open tender. While the parties were in discussion about the terms of the formal construction contract, the claimant had performed certain site preparation works prior to the commencement of the construction of factory building two. Subsequently, no formal contract was entered into by the parties as they could not agree on the contractual terms. Sichuan Huanlong eventually engaged another construction contractor for the construction of factory building two, details of which are set out in the paragraph headed "Properties" above in this section. In June 2020, the claimant lodged a claim against Sichuan Huanlong at Chengdu Wenjiang People's Court* (成都市溫江區人民法院). The claimant sought compensation for its direct economic loss and notional profit in relation to the tender aforesaid, plus legal costs and interest expenses. Based on the advice of our PRC Legal Advisers, our Directors estimated that the total potential claims payable to the claimant, being the previous constructor, is approximately RMB1.9 million, which included certain site preparation and construction works of approximately RMB0.6 million performed by the claimant (in which the amount have been recognised as part of the additions to the property, plant and equipment for the year ended 31 December 2020) and provision of legal claims of approximately RMB1.3 million recognised in profit or loss for the year ended 31 December 2020. The court made the first-instance judgment on 16 July 2021, according to which Sichuan Huanlong was liable to pay the claimant (i) construction fees in sum of approximately RMB0.7 million together with interest; and (ii) damages in sum of approximately RMB1.3 million. As such, a further provision of legal claims of approximately RMB0.3 million recognised in profit or loss for the six months ended 30 June 2021 and approximately RMB2.2 million in aggregate was recorded as provision for legal claim in the statement of financial position of the Group as at 30 June 2021. No party had lodged an appeal to the court and Sichuan Huanlong settled the amount of approximately RMB2.1 million to the claimant according to the aforesaid judgement on 27 August 2021.

Save as the aforesaid claim, during the Track Record Period, we were not involved in any actual or threatened material litigation, arbitration or claim. Besides, save as the aforesaid claim, as at the Latest Practicable Date, none of our Company, any of our subsidiaries or any of our Directors was a party to any material litigation, arbitration or claim that could have a material adverse effect on our financial condition, results of operations or our reputation. To the best of our knowledge, no material litigation, arbitration or administrative proceedings had been threatened against our Company or any of our subsidiaries.

Legal compliance

We are subject to a number of regulatory requirements and guidelines issued by the regulatory authorities in China. Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, save for otherwise disclosed in this prospectus, we did not commit any material non-compliance, or experience any systemic non-compliance incident, which taken as a whole, would have a material adverse effect on our business, financial condition and results of operations taken as a whole. As advised by our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, save as set out below in the paragraph headed "Legal proceedings and compliance — Non-compliances" in this section, we complied with the relevant laws and regulations in all material respects.

We were involved in certain regulatory non-compliance incidents during the Track Record Period and up to the Latest Practicable Date, the details of which together with a description of the remedial actions are set out below:

Non-compliances

(1) Non-compliance in relation to commencement of construction and delivery of property without obtaining the requisite certificates and permits

Non-compliance incidents	Reason(s) for the non-compliance	Remedial measures and status	Legal consequence and potential financial liabilities
According to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》), Measures for Construction Permission Management of Construction Projects (《建築工程施工許可管理辦法》), Regulation on Quality Management of Construction Projects (《建設工程質量管理條例》), and other relevant laws and regulations, we are required to obtain construction land planning permit (《建設用地規劃許可證》), construction project planning permit (《建設工程規劃許可證》) and construction project commencement permit (《建設工程施工許可證》) prior to commencement of construction. According to the Fire Control Law of the PRC(《中華人民共和國消防法》) and the Rules for the Fire Prevention Oversight and Management of Construction Projects(《建設工程消防監督管理規定》), we are required to complete the fire prevention filing procedure prior to delivery of property. According to the Regulation on Quality Management of Construction Projects and other relevant laws and regulations, we are required to complete the completion acceptance filing before delivery of property. During the Track Record Period, Sichuan Huanlong has failed to obtain construction land planning permit, construction project planning permit and construction project commencement permit prior to commencement of construction of certain buildings over the parcel of land situated at No. 519, west section of Xinhua Road, Cross-Strait Science and Technology Industrial Development Park, Wenjiang District, Chengdu, Sichuan, the PRC. Sichuan Huanlong has also failed to complete the fire prevention filing procedure and completion acceptance filing before delivery of property for use.	The non-compliance was due to our misunderstanding and lack of sufficient knowledge of the relevant laws and regulations.	Upon receipt of advice by our PRC Legal Advisers, Sichuan Huanlong had obtained the Construction Land Planning Permit No. 510115201820160 issued by the Planning Management Bureau of Wenjiang District, Chengdu on 14 May 2018 in respect of the aforementioned parcel of land and Construction Project Planning Permit No. 510115201830558 issued by the Planning Management Bureau of Wenjiang District, Chengdu* (成都市溫江區規劃管理局) on 30 September 2018 in respect of the buildings constructed on the aforementioned parcel of land (except two buildings known as the Factory Building Three and the Guard Room). We have obtained confirmation from the Planning and Natural Resources Bureau of Wenjiang District, Chengdu* (成都市溫江區規劃和自然資源局) on 22 August 2019, 1 July 2020 and 28 January 2021 confirming that no penalty has been imposed on Sichuan Huanlong regarding any breach of the laws and regulations in relation to the failure to obtain construction land planning permit and construction project planning permit on the part of Sichuan Huanlong as at 22 August 2019. Based on an interview with the Planning and Natural Resources Bureau of Wenjiang District, Chengdu, on 23 August 2019, we were informed that no penalty will be imposed on Sichuan Huanlong for our failure to obtain the construction land planning permit and construction project planning permit prior to commencement of construction provided that there are no other illegal construction.	We are advised by our PRC Legal Advisers that according to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》), the relevant authority may order Sichuan Huanlong to demolish the relevant construction within a prescribed time limit, confiscate the relevant property and impose a fine of not more than 10% of the construction cost for our failure to obtain the construction land planning permit and construction project planning permit prior to commencement of construction. We are advised by our PRC Legal Advisers that according to the Measures for Construction Permission Management of Construction Projects (《建築工程施工許可管理辦法》), Regulation on Quality Management of Construction Projects (《建設工程質量管理條例》), and other relevant laws and regulations, the relevant authority may order us to pay a fine of not more than 1% and less than 2% of the contractual construction cost for our failure to obtain construction project commencement permit prior to commencement of construction. We are advised by our PRC Legal Advisers that according to the Fire Control Law of the PRC (《中華人民共和國消防法》) and the Rules for the Fire Prevention Oversight and Management of Construction Projects(《建設工程消防監督管理規定》), the relevant authority may order us to pay a fine of not more than RMB5,000 for our failure to complete the fire prevention filing procedure prior to delivery of property.

Non-compliance incidents	Reason(s) for the non-compliance	Remedial measures and status	Legal consequence and potential financial liabilities
		In respect of the property and buildings on the parcel of land referred to in the Real Estate Right Certificate* (Chuan (2020) Wenjiang District (Real Estate) No.0075516) as at 30 December 2020, Ms. Shen and Mr. Zhou, the actual controllers of Sichuan Huanlong, committed in writing that they will fully and unconditionally compensate for any penalties, expenses or economic losses suffered or incurred by Sichuan Huanlong as a result of any non-compliance in relation to planning, construction works, engineering/property or fire control. Sichuan Huanlong had completed all the fire prevention filing procedures with the fire brigade of Wenjiang District, Chengdu on or before 3 December 2018 in respect of the parcel of land situated at No. 519, west section of Xinhua Road, Cross-Strait Science and Technology Industrial Development Park, Wenjiang District, Chengdu, Sichuan, the PRC (except two buildings known as the Factory Building Three and the Guard Room). We have obtained the construction project commencement permit from the relevant authority on 9 July 2020. In respect of the property and buildings on the parcel of land referred to in the Real Estate Right Certificate* (Chuan (2020) Wenjiang District (Real Estate) No.0075516) as at 30 December 2020, we will not arrange to obtain the construction project commencement permits and complete the completion acceptance filing, for the reasons that (i) the real estate right certificate*, as advised by our PRC Legal Advisers, already represent the legal evidences for titles of the property and buildings based on PRC Property Law; and (ii) based on an interview with Urban and Rural Housing Construction Bureau of Wenjiang District, Chengdu* (成都市溫江區住房和城鄉建設局), on 10 September 2019, we were informed that no penalty will be imposed on Sichuan Huanlong for our failure to obtain the construction project commencement permit prior to commencement of construction of the aforesaid property and buildings and to complete the completion acceptance filing before delivery of the aforesaid property and buildings. We have obtained confirmation from the Urban and Rural Housing Construction Bureau of Wenjiang District, Chengdu* (成都市溫江區住房和城鄉建設局) on 15 July 2020 and 28 January 2021 confirming that no penalty in respect to violations of housing and urban and rural construction and other related laws and regulations has been imposed upon Sichuan Huanlong, and Sichuan Huanlong was not under investigation or liable for an administrative penalty as at the respective dates. We have obtained confirmation from the fire brigade of Wenjiang District, Chengdu on 22 January 2021 confirming that no administrative penalty has been imposed on Sichuan Huanlong from the fire brigade as at 22 January 2021.	We are advised by our PRC Legal Advisers that according to the Regulation on Quality Management of Construction Projects and other relevant laws and regulations, the relevant authority may order us to make rectification and pay a fine of more than RMB200,000 and less than RMB500,000 for our failure to complete the completion acceptance filing before delivery of property. As advised by our PRC Legal Advisers, the Planning and Natural Resources Bureau of Wenjiang District, Chengdu* (成都市溫江區規劃和自然資源局), the Urban and Rural Housing Construction Bureau of Wenjiang District, Chengdu* (成都市溫江區住房和城鄉建設局) and the fire brigade of Wenjiang District, Chengdu are competent to issue the aforesaid confirmations. Our PRC Legal Advisers are of the view that the possibility of having an actual material adverse effect on the existence, operation and production of Sichuan Huanlong due to our failure to (i) obtain construction land planning permit, construction project planning permit and construction project commercial permit within the prescribed period; (ii) complete the fire prevention filing procedure prior to delivery of property; and (iii) complete the completion acceptance filing before delivery of property, is relatively small. Based on the view of our PRC Legal Advisers and the Deed of Indemnity, our Directors confirm that the aforesaid non-compliance incidents would not have material adverse effect on the Group's business operation and financial condition.

Non-compliance incidents	Reason(s) for the non-compliance	Remedial measures and status	Legal consequence and potential financial liabilities
		In respect of properties we have yet to obtain Real Estate Right Certificate*, namely Factory Building Three and Guard Room, the Directors confirmed that:- (i) Factory Building Three was left idle and the demolition work of Factory Building Three has been completed in August 2021. The Company is in the process of arranging for reconstruction of Factory Building Three according to relevant laws and regulations; and (ii) Guard Room has been demolished in June 2021 according to relevant laws and regulations. Our PRC Legal Advisers are of the view that there are flaws in the reporting and construction procedures of the Factory Building Three and the Guard Room of Sichuan Huanlong. Although relevant laws and regulations provide for penalties as already set out in the column "Legal Consequence and potential financial liabilities" in this Prospectus, our PRC Legal Advisers are of the view that Sichuan Huanlong's production and operation is less likely to have a significant adverse impact due to the penalty for such non-compliance incident. As mentioned above, Sichuan Huanlong has undertaken to reconstruct the Factory Building Three in accordance with the regulations of the regulatory authorities.	

(2) Non-compliance in relation to social insurance contributions

Non-compliance incidents	Reason(s) for the non-compliance	Remedial measures and status	Legal consequence and potential financial liabilities
According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) and other relevant regulations, we are required to make social insurance contribution in full for all of our employees. During the three years ended 31 December 2020, Sichuan Huanlong has failed to make full contributions to the social insurance contribution for our employees. The outstanding amounts of the social insurance contribution for the three years ended 31 December 2020 were approximately RMB1.8 million, RMB1.3 million and RMB0.2 million, respectively, totalling RMB3.3 million.	The non-compliance was due to our lack of sufficient knowledge of the relevant laws and regulations that we made social insurance contributions based on a standard which we understood to be acceptable by the local authorities, instead of based on the actual wages of employees.	We have obtained confirmation from Chengdu City Wenjiang District Human Resources and Social Security Bureau* (成都市溫江區人力資源和社會保障局) on 22 July 2019, 13 March 2020, 3 July 2020 and 22 January 2021 confirming that no demand of payment or penalty has been issued against Sichuan Huanlong regarding any breach of the laws and regulations in relation to social insurance contribution. On 21 September 2018, the Ministry of Human Resources and Social Security released an Urgent Notice on Enforcing the Requirement of the General Meeting of the State Council and Stabilization the Levy of Social Insurance Payment (《關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) and required that the policies for both the rate and basis of social insurance contributions shall remain unchanged until the reform on the transfer of the authority for social insurance has been completed. On 16 November 2018, the State Administration of Taxation released the Notice of Certain Measures on Further Supporting and Serving the Development of Private Economy (《關於實施進一步支援和服務民營經濟發展若干措施的通知》), which provides that the policy for social insurance shall remain stable and the State Administration of Taxation will pursue to lower the social insurance contribution rates with the relevant authorities, and ensure the overall burden of social insurance contribution on enterprises will be lowered. Ms. Shen and Mr. Zhou, the actual controllers of Sichuan Huanlong, committed in writing that they will fully and unconditionally make the social insurance contribution since the establishment of Sichuan Huanlong, when required by Chengdu City Wenjiang District Human Resources and Social Security Bureau* (成都市溫江區人力資源和社會保障局) and/or other regulatory authorities; in addition, Ms. Shen and Mr. Zhou will fully and unconditionally compensate for any other expenses or economic losses incurred by Sichuan Huanlong as it failed to make social insurance contributions for its employees as required. Our Directors undertake to use their best endeavours to comply with applicable laws and regulations. As of 30 June 2019, we had increased the amount of social insurance contribution we made for our employees. As of 22 April 2020, we had made reporting of the social insurance contribution in full for all employees. We have established an internal control team to monitor our on-going compliance with the social insurance contribution regulations and oversee the implementation of any necessary measures to comply with the applicable laws and regulations. We will disclose the process of the aforesaid rectification in our interim/annual reports as appropriate.	We are advised by our PRC Legal Advisers that according to the Social Insurance Law of the PRC (中華人民共和國社會保險法), a daily overdue late fee of 0.05% of the outstanding social insurance contribution may be imposed by the competent authorities from the due date. If Sichuan Huanlong fails to make full payment of the outstanding social insurance contribution and the overdue late fee within the prescribed time limit upon notification(s) or request(s) for payment, a fine in the amount of one to three times of the total outstanding contribution may be imposed. As of the Latest Practicable Date, Sichuan Huanlong has not received any notification(s) or request(s) from the relevant government authorities requesting Sichuan Huanlong to pay the outstanding amounts of social insurance contribution and the overdue late fee within a prescribed period. As advised by our PRC Legal Advisers, Chengdu City Wenjiang District Human Resources and Social Security Bureau* (成都市溫江區人力資源和社會保障局) is competent to issue the aforesaid confirmation. Our PRC Legal Advisers is of the view that the possibility of having an actual material adverse effect on the existence operation and production of Sichuan Huanlong due to our failure to make social insurance contribution in full for all of our employees during the Trade Record Period is relatively small. Based on the view of our PRC Legal Advisers and the Deed of Indemnity, our Directors confirm that such non-compliance incident would not have material adverse effect on the Group's business operation and financial condition.

(3) Non-compliance in relation to housing provident fund contributions

Non-compliance incidents	Reason(s) for the non-compliance	Remedial measures and status	Legal consequence and potential financial liabilities
According to the Regulation on Administration of Housing Provident Fund (住房公積金管理條例), we are required to (i) register with the housing provident fund management authority within 30 days from the date of its establishment, and complete the housing provident fund account opening procedures for our employees within 20 days from the date of the aforesaid registration; and (ii) make full contribution to the housing provident fund. During the three years ended 31 December 2020, Sichuan Huanlong has failed to (i) register with the housing provident fund management authority within the time limit and complete the housing provident fund account opening procedures for our employees within the time limit; and (ii) make full contribution to the housing provident fund. The outstanding amounts of the housing provident fund contribution for the three years ended 31 December 2020 were approximately RMB0.5 million, RMB0.4 million and RMB0.1 million, respectively, totalling RMB1.0 million.	The non-compliance was due to our lack of sufficient knowledge of the relevant laws and regulations that failed to: (i) register with the housing provident fund management authority within the time limit and complete the housing provident fund account opening procedures for our employees within the time limit; and (ii) make full contribution to the housing provident fund.	Sichuan Huanlong has (i) registered with the housing provident fund management authority in June 2019 and completed the housing provident fund account opening procedures for our employees in June 2019; and (ii) made contribution to the housing provident fund since June 2019. We have obtained confirmation from Chengdu Housing Provident Funds Management Centre* (成都住房公積金管理中心) on 29 January 2021 confirming that Sichuan Huanlong has made contribution to housing provident fund from June 2019 to January 2021. Based on an interview with Chengdu Housing Provident Funds Management Centre* (成都住房公積金管理中心), on 23 August 2019, we were informed that no penalty order has been issued by Chengdu Housing Provident Funds Management Centre* (成都住房公積金管理中心) against Sichuan Huanlong regarding any breach of the laws and regulations in relation to housing provident fund. In addition, in July 2019, certain employees of Sichuan Huanlong provided written confirmations to us, confirming that (i) they understood and acknowledged the amount and the level of payment of the housing provident funds paid by us; and (ii) they would not make any claims in any forms concerning our payment of housing provident funds. Ms. Shen and Mr. Zhou, the actual controllers of Sichuan Huanlong, committed in writing that they will fully and unconditionally pay for the under-payment of housing provident fund contributions since the establishment of Sichuan Huanlong, when required by Housing Provident Funds Management Centre* (住房公積金管理中心) and/or other regulatory authorities; in addition, Ms. Shen and Mr. Zhou will fully and unconditionally compensate for any other expenses or economic losses incurred by Sichuan Huanlong as it failed to register with the housing provident fund management authority or failed to make contribution to the housing provident fund for its employees as required. Our Directors undertake to use their best endeavours to comply with applicable laws and regulations. As of 30 June 2019, we had increased the amount of housing provident fund contribution we made for our employees. As of 22 April 2020, we had made reporting of the housing provident fund contribution in full for all employees. We have established an internal control team to monitor our on-going compliance with the housing provident fund contribution regulations and oversee the implementation of any necessary measures to comply with the applicable laws and regulations. We will disclose the process of the aforesaid rectification in our interim/annual reports as appropriate.	According to the Regulation on Administration of Housing Provident Fund (住房公積金管理條例), the competent authorities have the power to order the employers who failed to make housing provident fund contribution in accordance with the PRC law and regulations to make contribution within a prescribed time limit. If the employers still fail to make the housing provident fund contribution, an application for compulsory enforcement against the employers can be made by employees to the People's Court of the PRC. As of the Latest Practicable Date, Sichuan Huanlong has not received any notification(s) or request(s) from the relevant government authorities requesting Sichuan Huanlong to pay the outstanding housing provident fund contribution within a prescribed period. As advised by our PRC Legal Advisers, Chengdu Housing Provident Funds Management Centre* (成都住房公積金管理中心) is competent to issue the aforesaid confirmation. Our PRC Legal Advisers is of the view that the possibility of having an actual material adverse effect on the existence operation and production of Sichuan Huanlong due to our failure to make housing provident fund contribution in full for all of our employees during the Trade Record Period is relatively small. Based on the view of our PRC Legal Advisers and the Deed of Indemnity, our Directors confirm that such non-compliance incident would not have material adverse effect on the Group's business operation and financial condition.

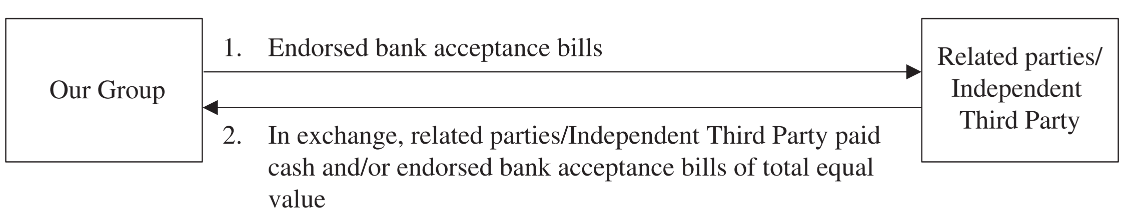
(4) Bills arrangements

During the Track Record Period, we entered into some bills arrangements under the following two scenarios:

Scenario One — Bills-To-Cash/Bills Arrangement

Background

During its ordinary course of business, our Group receives a number of bank acceptance bills with relatively small face value from its customers. During the Track Record Period, our Group had bill transactions with two related parties and an Independent Third Party (who was a former related party) which involved (i) discounting bank acceptance bills for cash for working capital and/or (ii) swapping bank acceptance bills with smaller face value for bank acceptance bills with larger face value ("**Bills-To-Cash/Bills Arrangement**"). The latter arrangement was undertaken because our Company is of the view that the PRC banks are generally more willing to accept bank acceptance bills with larger face value due to administrative convenience as it would involve less administrative work and less time to handle fewer bank acceptance bills with larger face value as compared with a larger number of bank acceptance bills with smaller face value, and because of the administrative convenience to our Company of not having to complete the relevant administrative procedures for larger number of bank acceptance bills with smaller face value. No interest cost or finance cost was paid to the related parties and/or the Independent Third Party under this arrangement. Therefore, the Bills-To-Cash/Bills Arrangement is a financing arrangement (for discounting bank acceptance bills into cash) or a financing facilitating arrangement (for swapping bank acceptance bills with smaller face value to bank acceptance bills with larger face value for more convenient handling by banks when discounting into cash or receiving cash upon maturity of the bank acceptance bills). The following diagram illustrates the processes generally involved:



The tables below set out the total number and corresponding total gross amount of bills endorsed and received by the Group in respect of the Bills-To-Cash/Bills Arrangement for the Track Record Period.

Bills-To-Cash/Bills Arrangement with related parties

For the Track Record Period, our Group endorsed 147, 94, nil and nil bank acceptance bills, amounting to approximately RMB18.4 million, RMB8.8 million, nil and nil, respectively, to two related parties namely Chengdu Huanlong and Sichuan Huanlong New Material Ltd.* (四川環龍新材料有限公司) under the Bills-To-Cash/Bills Arrangement with related parties.

	For the year ended 31 December						For the six months ended 30 June	
	2018		2019		2020		2021	
Number of transactions involved (Note 1)	10		2		Nil		Nil	
	Number of bills	*RMB'000*	*Number of bills*	*RMB'000*	*Number of bills*	*RMB'000*	*Number of bills*	*RMB'000*
Bills transferred out by our Group	147	18,417	94	8,786 (Note2)	Nil	Nil	Nil	Nil
Bills and cash received by our Group in exchange:								
— Bills	Nil	Nil	1	5,000	Nil	Nil	Nil	Nil
— Cash	N/A	18,417	N/A	3,794	N/A	Nil	N/A	Nil
Subtotal	Nil	18,417	1	8,794 (Note2)	Nil	Nil	Nil	Nil

Notes:

1. The number of transactions involved refers to the number of times our Group conducted discounting or swapping of bank acceptance bills with related parties (i.e. multiple number of bills with smaller face value in exchange for one bill with larger face value was treated as one transaction, or multiple number of bills in exchange for a cash payment was treated as one transaction).

2. There was an insignificant difference of RMB8,000 due to the following: In order to match the exact amount of face value of a RMB5.0 million bill received by our Group from the related party in exchange for 57 bills from our Group with aggregate face value of RMB4,992,000 in one of the two transactions in the year ended 31 December 2019, cash of RMB8,000 was paid by our Group to the related party. The remaining 37 bills from our Group with aggregate face value of RMB3,794,000 were entirely exchanged for cash from the related party in another transaction in the year ended 31 December 2019.

Bills-To-Cash/Bills Arrangement with an Independent Third Party

For the Track Record Period, our Group endorsed a total of 20, 47, nil and nil bank acceptance bills, amounting to approximately RMB1.5 million, RMB3.2 million, nil and nil, respectively, under the Bills-To-Cash/Bills Arrangement with an Independent Third Party. Such Independent Third Party was a former related party of our Group from December 2016 to April 2017, respectively.

	For the year ended 31 December						For the six months ended 30 June	
	2018		2019		2020		2021	
Number of transactions involved *(Note)*	2		4		Nil		Nil	
	Number of bills	*RMB'000*	*Number of bills*	*RMB'000*	*Number of bills*	*RMB'000*	*Number of bills*	*RMB'000*
Bills transferred out by our Group	20	1,500	47	3,175	Nil	Nil	Nil	Nil
Received by our Group:								
— Bills	1	500	7	3,165	Nil	Nil	Nil	Nil
— Cash	N/A	1,000	N/A	10	N/A	Nil	N/A	Nil
Subtotal	1	1,500	7	3,175	Nil	Nil	Nil	Nil

Note: The number of transactions involved refers to the number of times our Group conducted discounting or swapping of bank acceptance bills with the Independent Third Party (i.e. multiple number of bills with smaller face value in exchange for one bill with larger face value was treated as one transaction, or multiple number of bills in exchange for a cash payment was treated as one transaction).

Save as the bank acceptance bills involved, during the Track Record Period, there was no written contract or other side agreement entered into between our Group and our related party or the Independent Third Party in relation to the Bills-To-Cash/Bills Arrangement.

PRC laws and regulations

According to Article 10 of the Law on Negotiable Instruments of the PRC (《中華人民共和國票據法》, as amended in 2004 ("**Law on Negotiable Instruments**"), the issuance, acquisition and transfer of a negotiable instrument shall follow the principle of authenticity and credibility and shall possess real underlying transactions and debtor-creditor relationships. As advised by our PRC Legal Advisers, there is no mandatory requirement that the Bills-To-Cash/Bills Arrangement must be carried out with financial institutions. As the amount of bills swapped by our Group for bills or cash with the counterparties under the Bills-To-Cash/Bills Arrangement did not correspond to any transaction of goods and/or services, the act of swapping bills for cash and/or together with bills of total equal value did not comply with the Law on Negotiable Instruments if a prudent legal interpretation was adopted.

Reasons for the Bills-To-Cash/Bills Arrangement

Our Bills-To-Cash/Bills Arrangement was mainly conducted for the purpose of obtaining cash or for subsequent discounting in order to facilitate the business operation and to fulfil the need of working capital of our Group and due to a lack of understanding of the laws and regulations in the PRC by our Directors, which led to such inadvertent and probable breach of the Law on Negotiable Instruments. Our Directors had no intention and no financial incentive to breach the relevant rules and regulations and/or did not obtain any direct and personal benefit from it. As such, there was no issue on our Directors' integrity or suitability as required under Rules 3.08 and 3.09 of the Listing Rules. Further, by swapping our bank acceptance bills with related parties for cash, our Group could save time from engaging in the complicated procedures involved in the bills discounting arrangement with financial institutions. In essence, the swapping of bills with our related parties (being companies controlled by our Controlling Shareholders) for cash is similar in nature to inter-group transaction between our Group and its related parties (e.g. amount due to/due from related parties).

Remedial measures

We ceased all Bills-To-Cash/Bills Arrangement with related parties and the Independent Third Party since June 2019 and July 2019, respectively.

We have obtained written confirmation from the People's Bank of China, Wenjiang Branch (中國人民銀行溫江支行) on 1 July 2020 confirming that no administrative penalty has been imposed on Sichuan Huanlong in relation to any breach of bills related laws and regulations since 1 January 2017 to 1 July 2020.

Our Controlling Shareholders, Ms. Shen and Mr. Zhou, committed in writing that they will fully and unconditionally pay any penalties which may be imposed by People's Bank of China, Wenjiang Branch (中國人民銀行溫江支行) or such other relevant authorities on us together with any related costs in relation to the Bills-To-Cash/Bills Arrangement.

Opinion of our PRC Legal Advisers

Our PRC Legal Advisers advised that, based on Article 4 of the Administrative Penalty Law of the People's Republic of China (as amended in 2017) (《中華人民共和國行政處罰法》(2017 年修正)), administrative penalties for illegal acts shall be published and that unpublished rules shall not be used as basis for administrative penalties. Our PRC Legal Advisers further advised that no relevant laws and regulations stipulate any penalties against our PRC subsidiaries, its legal representative, directors and senior management in respect of its involvement in the Bills-To-Cash/Bills Arrangement. Our PRC Legal Advisers further advised that the People's Bank of China, Wenjiang Branch* (中國人民銀行溫江支行) is competent to issue the aforesaid confirmation.

Given that there has been no official ruling or adjudication on the legality of the Bills-To-Cash/Bills Arrangement and, based on the search performed by our PRC Legal Advisers, there is no precedent case which the relevant regulatory authority in the PRC has adjudicated that similar bills arrangement constituted non-compliance and where the entity involved has been penalised due to such bills arrangement, our PRC Legal Advisers are of the view that the risk of our Group being penalised as a result of such arrangement is relatively low.

Immaterial impact on our business operation and financial condition

We had not ceased the Bills-To-Cash/Bills Arrangement since commencement of the Track Record Period upon the reminder from the reporting accountants that any non-compliant bills arrangement should be ceased because our Directors, at the relevant time, were not aware that the Bills-To-Cash/Bills Arrangement was a probable breach of the Law on Negotiable Instruments. Our Directors further explained that, if they were aware of this probable breach, they would not have undertaken such arrangement. We ceased all Bills-To-Cash/Bills Arrangement with the Independent Third Party since July 2019. Further, as explained in the paragraph above, our exchange of bank acceptance bills with related parties is actually similar in nature to inter-group transaction between our Group and our related parties. Such inter-group transaction between a listing applicant and its related parties is common prior to listing. The listing applicant can generally demonstrate its financial independence from such related parties provided that such financing has ceased and been fully settled on or before listing. Given that all the bills arrangements with our related parties had ceased since June 2019, our Directors are of the view such bill arrangement do not reflect negatively on our ability to operate independently from our Controlling Shareholders.

The financial impact or the finance costs avoided under the Bills-To-Cash/Bills Arrangement was estimated to be approximately RMB0.4 million, RMB45,000, nil and nil, respectively, for the Track Record Period, which was calculated by multiplying the total amount of cash received by our Group for the Track Record Period (i.e. approximately RMB19.4 million, RMB3.8 million, nil and nil, respectively) by the average discount rate which financial institutions would charge our Group for the respective year (i.e. 2.17%, 1.19%, nil and nil, respectively). It is respectfully submitted that there is no financial impact to our Group from swapping bank acceptance bills with smaller face value for bank acceptance bills with larger face value under the Bills-To-Cash/Bills Arrangement as the financial institutions would charge the Group finance costs upon subsequent discounting of such bills with larger face value.

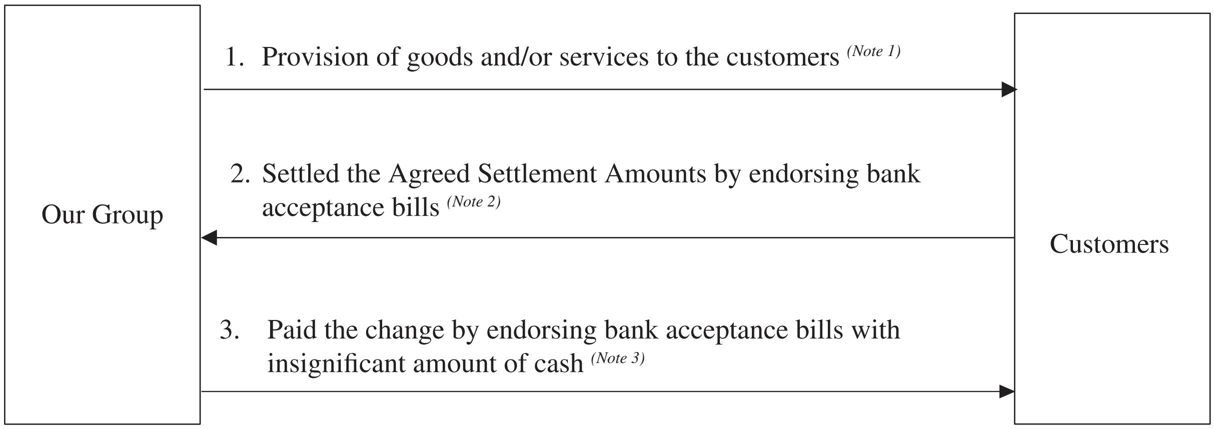
For the Track Record Period, among bills of RMB0.5 million, RMB8.2 million, nil and nil received by our Group under this arrangement, nil, two, nil and nil bank acceptance bills with larger face value, amounting to approximately nil, RMB5.4 million, nil and nil, respectively, were subsequently discounted with financial institutions for cash, while the rest were used to fulfill various payment obligations with our Group's suppliers.

Although there was not a small number of bank acceptance bills involved under the Bills-To-Cash/Bills Arrangement for the Track Record Period, the transactions under such arrangement were infrequent with 12, 6, nil and nil transactions, respectively. There is no financial impact to the Group since 2020 as such arrangement was ceased in the year ended 31 December 2019.

Scenario Two — Bills Change Arrangement

Background

During the Track Record Period, after the provision of goods and/or services by our Group to its customer, our Group generally communicated and discussed payment for the purchases with its customers. Customers of our Group may settle their purchases from time to time at agreed amounts ("**Agreed Settlement Amounts**") which were determined based on factors including but not limited to the amount of goods and/or services provided by our Group, credit terms offered to the customers and outstanding trade receivable balance, after discussion and communication with the Group. Customers of our Group had occasionally settled their purchases by endorsing bank acceptance bills in addition to settlement by cash, where they might not have provided bills with the exact amount equivalent to the Agreed Settlement Amounts but bills with face value larger than the Agreed Settlement Amounts. Under such circumstances, our Group would return the change (being the excess of the amount of bank acceptance bills received over the Agreed Settlement Amounts) to the customer by way of endorsing the customers with bank acceptance bills of a smaller amount (with payment of insignificant amount of cash by our Group to the customers in order to match the exact amount of change payable to the customers) ("**Bills Change Arrangement**"). The following diagram illustrates the processes generally involved:



Notes:

1. Our Group provided goods and/or services to the customers.

2. The customers settled the purchases by endorsing bank acceptance bills with an amount larger than the Agreed Settlement Amounts to our Group. For example, the customer settles part of its cumulative purchases with total amount of RMB1,000,000 at the Agreed Settlement Amounts of RMB450,000 at a particular time by endorsing bank acceptance bills with an amount of RMB500,000.

3. Our Group paid the change to the customers by endorsing bank acceptance bills of a smaller amount with insignificant amount of cash in order to match the exact amount of change payable to the customers. Following the example in note 2 above, our Group would pay the change of RMB50,000 to the customer by endorsing bills with an amount of RMB49,000 and cash of RMB1,000 to the customer.

Save as the contracts or purchase orders with the relevant customers for the provision of goods and/or services by our Group as well as the bank acceptance bills involved, during the Track Record Period, there was no other side agreement entered into between our Group and the relevant customers under the Bills Change Arrangement.

The Bills Change Arrangement was supported by underlying transactions of goods and/or services and arose solely in the course of returning change to customers when our Group received bank acceptance bills from customers. The Bills Change Arrangement was merely a way to return change to its customers on the excess amount between the amount of bank acceptance bills received and the Agreed Settlement Amounts. As confirmed by our Directors, our Group did not receive any cash and/or other financial benefits under the Bills Change Arrangement. Therefore, such arrangement was non-financing in nature. Further, the number of customers involved in the Bills Change Arrangement was relatively small as compared to the total number of customers of our Group, details of which is set out in the table as below:

	For the year ended 31 December			For the six months ended 30 June
	2018	2019	2020	2021
Total number of customers of our Group	498	473	483	371
Number of customers using bills as settlement method	229	209	197	170
Number of customers involved in the Bills Change Arrangement	49 (representing approximately 9.8% of the total number of customers)	46 (representing approximately 9.7% of the total number of customers)	7 (representing approximately 1.4% of the total number of customers)	Nil

The table below sets out the total number and corresponding total gross amount of bills endorsed and received by the Group in respect of the Bills Change Arrangement for the Track Record Period. The Group did not obtain any financial benefit from the Bills Change Arrangement and such arrangement had no financial impact on the Group for the Track Record Period.

	For the year ended 31 December						For the six months ended 30 June	
	2018		2019		2020		2021	
	Number of bills	*RMB'000*	*Number of bills*	*RMB'000*	*Number of bills*	*RMB'000*	*Number of bills*	*RMB'000*
Agreed Settlement Amounts	N/A	6,807	N/A	7,294	N/A	1,040	N/A	Nil
Bills paid by the customer for Agreed Settlement Amounts	91	17,263	81	15,931	9	1,363	Nil	Nil
Change required to be made by our Group	N/A	10,456	N/A	8,637	N/A	323	N/A	Nil
Bills and cash paid by our Group as change:								
— Bills *(Note)*	148	10,263	116	8,429	6	281	Nil	Nil
— Cash	N/A	193	N/A	208	N/A	42	N/A	Nil
Subtotal	148	10,456	116	8,637	6	323	N/A	Nil

Note: Most of the transactions involved changes of bills with relatively small face value, while only a few of transactions involved changes of bills with relatively large face value given the related changes were relatively large.

The details of the bills used as change returned to our Group's customers are set out below:

	Number of transactions involved							
	For the year ended 31 December						For the six months ended 30 June	
	2018		2019		2020		2021	
Bills of the amount *(RMB)*	*Number of bills*	*Aggregate amount (RMB'000) (approximate)*	*Number of bills*	*Aggregate amount (RMB'000) (approximate)*	*Number of bills*	*Aggregate amount (RMB'000) (approximate)*	*Number of bills*	*Aggregate amount (RMB'000) (approximate)*
1 — 100,000	132	7,103	100	5,307	5	81	Nil	Nil
100,001 — 200,000	15	2,660	12	1,934	1	200	Nil	Nil
Over 200,000	1	500	4	1,188	0	—	Nil	Nil
Total:	148	10,263	116	8,429	6	281	Nil	Nil

PRC laws and regulations

According to Article 10 of the Law on Negotiable Instruments, the issuance, acquisition and transfer of a negotiable instrument shall follow the principle of authenticity and credibility and shall possess real underlying transactions and debtor-creditor relationships. As advised by our PRC Legal Advisers, Article 10 of the Law on Negotiable Instruments, which regulates the issue and usage of bank acceptance bills in the PRC, is subject to various interpretations and there has been no official ruling or adjudication on the legality of the Bills Change Arrangement. In the opinion of our PRC Legal Advisers, there is an uncertainty as to whether the Bills Change Arrangement would be classified as non-compliance, and there is no precedent case which the relevant regulatory authority in the PRC has adjudicated that similar bills change arrangement constituted non-compliance and where the entity involved has been penalised due to such bills change arrangement, based on the search performed by our PRC Legal Advisers.

Reasons for the Bills Change Arrangement

In general, owing to the complicated procedures and processing time involved in issuing bank acceptance bills in the PRC, PRC banks generally prefer to issue bank acceptance bills with larger amount due to their own administrative convenience. As a result, the amount of bank acceptance bills issued rarely matches exactly with the value of each subsequent transaction. When the amount of the subsequent transactions of goods and/or services is less than the amount of the bank acceptance bills endorsed by the purchaser, the seller may have to repay the purchaser the difference through the Bills Change Arrangement. Against this background, the primary objective of the Bills Change Arrangement is to assist trade partners to overcome the general difficulty in collecting or obtaining bank acceptance bills which match exactly with the value of each particular transaction of goods and/or services.

In addition, it is administratively inconvenient and cumbersome for holders of bank acceptance bills to apply to the banks to convert them into several bills of smaller amounts. Therefore, where a purchaser intended to settle the invoices of a seller through endorsement of bills, the purchaser might encounter the situation that the amount of the bills held by it exceeded the amount of invoices.

Further, our Group had also carried out the Bills Change Arrangement partly due to our commitment in maintaining business relationship with our customers by accommodating to their payment practices. Our Group used bills to settle the difference between the amount of the bank acceptance bills endorsed by its customers and the Agreed Settlement Amounts under the Bills Change Arrangement as such arrangement was in accordance with market practice and was initiated by our Group's customers and our Directors were not aware of its possible non-compliance when such arrangement was undertaken. Our Directors had no intention and no financial incentive to breach the relevant rules and regulations and/or did not obtain any direct and personal benefit from it. As such, there was no issue on our Directors' integrity or suitability as required under Rules 3.08 and 3.09 of the Listing Rules.

Remedial measures

According to the Frost & Sullivan Report, the Bills Change Arrangement which involves the returning of changes by sellers by endorsing bank acceptance bills to purchasers is common in the manufacturing industry, including the papermaking felts industry in the PRC and Frost & Sullivan is not aware of any bills change arrangement being treated as non-compliance or any penalty arising therefrom in the market practice in the PRC, based on the information available in the public domain such as financial reports of listed manufacturing companies in the PRC. Due to the lack of relevant legal knowledge and professional advice at the material times and the customary practice of the Bills Change Arrangement in the manufacturing industry in the PRC, our executive Directors and senior management were previously unaware of the potential non-compliance in relation to the Bills Change Arrangement. The Bills Change Arrangement was unintentional and did not involve any deliberate attempt to deceive third party for financial gains. We had enhanced our internal control measures upon becoming aware of the potential non-compliance in relation to the Bills Change Arrangement. Since early 2020, our sales and marketing staff began to inform our customers about our plan to gradually cease the Bills Change Arrangement. Since July 2020, if our customers opt to settle their payments to us by bank acceptance bills, the bills provided to us shall exactly match with or be smaller than our invoiced amount. In the latter case, our customers shall be required to settle the remaining amount of payment through other acceptable means such as bank remittance. As advised by our PRC Legal Advisers, such arrangement complies with the relevant laws and regulations. We adopted a gradual approach to cease the Bills Change Arrangement in order to allow time for our customers to adapt to our new practice without causing any material disruption to our business transactions with them. We ceased all Bills Change Arrangement since July 2020.

We have obtained written confirmation from the People's Bank of China, Wenjiang Branch (中國人民銀行溫江支行) on 1 July 2020 confirming that no administrative penalty has been imposed on Sichuan Huanlong in relation to any breach of bills related laws and regulations since 1 January 2017 to 1 July 2020.

Our Controlling Shareholders, Ms. Shen and Mr. Zhou, committed in writing that they will fully and unconditionally pay any penalties which may be imposed by People's Bank of China, Wenjiang Branch (中國人民銀行溫江支行) or such other relevant authorities on us together with any related costs in relation to the Bills Change Arrangement.

Opinion of our PRC Legal Advisers

Our PRC Legal Advisers advised that, based on Article 4 of the Administrative Penalty Law of the People's Republic of China (as amended in 2017) (《中華人民共和國行政處罰法》(2017 年修正)), administrative penalties for illegal acts shall be published and that unpublished rules shall not be used as basis for administrative penalties. Our PRC Legal Advisers further advised that no relevant laws and regulations stipulate any penalties against our PRC subsidiaries, its legal representative, directors and senior management in respect of its involvement in the Bills Change Arrangement. Our PRC Legal Advisers further advised that the People's Bank of China, Wenjiang Branch* (中國人民銀行溫江支行) is competent to issue the aforesaid confirmation.

As mentioned above, the Law on Negotiable Instruments is subject to various interpretations and there has been no official ruling or adjudication on the legality of the Bills Change Arrangement. In the opinion of our PRC Legal Advisers, there is an uncertainty as to whether the Bills Change Arrangement would be classified as non-compliance, and there is no precedent case which the relevant regulatory authority in the PRC has adjudicated that similar bills change arrangement constituted non-compliance and where the entity involved has been penalised due to such bills change arrangement, based on the search performed by our PRC Legal Advisers. Based on an interview attended by the PRC Legal Advisers with the chief of the credit management department of the People's Bank of China, Wenjiang Branch, a competent authority, on 18 December 2020, which the interviewee was acknowledged our Group's Bills Change Arrangement and he confirmed that the Bills Change Arrangement was supported by underlying transactions and that using bank acceptance bills for the settlement of purchases is common in the PRC, our PRC Legal Advisers opine that the risk that our Group's Bills Change Arrangement would be regarded as non-compliance is relatively low, and our PRC Legal Advisers reasonably believes that based on their prudent judgement our Group will not be penalised as a result of the Bills Change Arrangement. Based on the advice of our PRC Legal Advisers, even if the Bills Change Arrangement was prudently interpreted as non-compliance, it should nevertheless be classified as immaterial non-compliance as it did not and will not result in any legal consequences and financial liabilities on our Group. Further, based on a further interview attended by the PRC Legal Advisers and the legal advisers to the Sole Sponsor as to PRC laws with the chief of the credit management department of the People's Bank of China, Wenjiang Branch, a competent authority, on 1 February 2021, no administrative penalty has been imposed on us due to the breach of Law on Negotiable Instruments since 1 January 2018 to the date of interview. According to the information disclosed on the website of the Chengdu Municipal People's Government, the function of Wenjiang Branch of the People's Bank of China includes implementing monetary and credit policies within the jurisdiction, supervising and managing financial markets, participating in the prevention of systemic financial risks in the jurisdiction in accordance with relevant regulations, and maintaining regional financial stability. The credit management department is one of the internal institutions of the People's Bank of China, Wenjiang Branch. Based on the above and the oral confirmation from the chief of the credit management department of the People's Bank of China, Wenjiang Branch, our PRC Legal Advisers are of the view, as concurred by the Sole Sponsor and the legal advisers to the Sole Sponsor as to PRC laws, that (i) the credit management department of the People's Bank of China, Wenjiang Branch is a competent and direct government authority and thus duly authorised to advise on the compliance related matters of our Group's bills arrangements; and (ii) the chief of such department has the appropriate authority to respond to the compliance of our Group's bills arrangements. In addition, based on the responses to the enquiries with the People's Bank of China, Chengdu Branch through official channels, including (i) the oral reply from section chief of the payment and settlement division of the People's Bank of China, Chengdu Branch (being a competent government authority at provincial level) that the People's Bank of China, Chengdu Branch does not issue any regulatory confirmation and the People's Bank of China, Wenjiang Branch under Chengdu Branch is responsible to supervise the relevant actions of the enterprises within Wenjiang region; and (ii) the reply from officer of the money and credit statistics division via general hotline of the People's Bank of China, Chengdu Branch, that issuing regulatory confirmation is not within the service scope of Chengdu Branch as an authority at provincial level and we may consult Wenjiang Branch on the bills related enquiries, our PRC Legal Advisers are of the view, as concurred by the Sole Sponsor and the legal advisers to the Sole Sponsor as to PRC laws, that the possibility of the view of such chief being challenged by higher-level authorities is remote.

Based on the aforesaid, our PRC Legal Advisers are of the view that the possibility of any actual material adverse effect on the existence, operation and production of our Group resulting from our involvement in the Bills Change Arrangement is relatively small.

Immaterial impact on our business operation and financial condition

Our Group had not ceased the Bills Change Arrangement together with the other bills arrangement earlier in 2019 because our Directors were not aware of its possible non-compliance when such arrangement was undertaken and our Directors were still discussing with professional advisers about the legality of this arrangement at that time and our Directors still believed that it would not have material impact on the listing application given such arrangement's impact on our Group is immaterial. Since early 2020, our Group has begun to inform our Group's customers about its plan to gradually cease the Bills Change Arrangement. The amount under the Bills Change Arrangement for the year ended 31 December 2020 therefore decreased significantly and our Group has ceased all Bills Change Arrangement since July 2020. After the cessation of the Bills Change Arrangement, if our Group's customers opt to settle their payments to our Group by bank acceptance bills, as requested by our Group, such bills provided to our Group shall exactly match the Agreed Settlement Amounts. As such, the cessation of the Bills Change Arrangement has no impact on the business operation and cashflow of our Group. As our Group was entitled to the consideration of the respective transactions under the Bills Change Arrangement as goods were sold and delivered to its customers and its customers had the obligation to settle the payments in cash or by other means, our Group could not obtain any financial benefit from the Bills Change Arrangement, regardless of whether our Group returned change by way of endorsing bank acceptance bills of a smaller amount or cash to the customers as change. There would be no negative financial impact on our Group's performance if the Bills Change Arrangement had not been conducted, as such, any hypothetical analysis on the financial impact to our Group on the basis that the Bills Change Arrangement had not been conducted would distort the nature of this arrangement. Our executive Directors consider that the Bills Change Arrangement had no material impact on our liquidity level or financial performance during the Track Record Period and did not and will not have a material impact on our business operation and financial condition.

Deed of Indemnity

Ms. Shen and Mr. Zhou, being our Controlling Shareholders, have entered into a Deed of Indemnity in favour of us to provide indemnities on a joint and several basis in respect of, among other matters, any penalty, claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, administrative or other charges, fees, expenses and fines of whatever nature (which shall include legal fees and costs) which may be imposed on, suffered or incurred by any member of our Group as a result of or in connection with, among others, any non-compliance with the applicable laws, rules or regulations by any member of our Group on or before the date on which the Global Offering becomes unconditional. Please refer to the paragraph headed "Statutory and General Information — E. Other information — 1. Tax and other indemnities" in Appendix V to this prospectus for details of the Deed of Indemnity.

Enhanced Internal Control Measures

A set of policies and procedures has been established to ensure compliance with the relevant PRC laws and regulatory requirements for construction projects, timely account opening procedures and accurate payment of social insurance and housing provident fund, and bills arrangement. The following procedures are included:

Construction projects

- a checklist is established which includes the necessary permits and certificates to be obtained, as well as the timeframe for the relevant registration and filing procedures.

- a designated person in our administration department is responsible to monitor the actual registration and filing status against the construction progress. In particular, land use right certificate(s), construction land planning permit(s), construction project planning permit(s) and construction project commencement permit(s) must be obtained prior to commencement of construction, while fire prevention filing procedure and completion acceptance filing must be completed before delivery of property for use.

Social insurance and housing provident fund

- administrative officer and administrative manager are responsible to prepare and review the breakdown of monthly salaries and ensure that the calculations of social insurance and housing provident fund of each employee are accurate and complied with the related laws.

- when there is any new employment or resignation of staff, the administrative officer is responsible to register and report to the relevant authorities regarding the social insurance and housing provident fund. The administrative manager oversees the abovementioned procedures to ensure such filing is performed within the required timeframe.

Bills arrangement

The management of our Group has established the measures for the administration of commercial bills* (商業匯票管理辦法) to standardise the procedures of bills arrangement, which includes but not limited to the following:

- when there is a need for our Group to obtain immediate cash for its operations, our finance department may consider discounting the bank acceptance bills by filling in the application form(s) for approval of discounting of commercial bills* (商業匯票貼現申請審批表). The above form will be passed to our Director(s), who is/are responsible for checking its validity and ensuring the counterparty is a financial institution. Upon obtaining the approval from our Director(s), our finance department will obtain several quotations from different financial institutions, compare the terms and select the optimal plan for our Group; and

- a register is maintained by the cashier of our Group for monitoring the conditions of bank acceptance bills. Information such as the issuer, issuance date, expiry date and discounted amount will be recorded. The said register, bank acceptance bills and other supporting documents will be submitted to the head of our finance department during month-end closing. Investigations will also be performed by our Group if any irregularity is found.

In addition, we have adopted the following internal control measures to prevent the recurrence of non-compliance incidents in relation to bank acceptance bills:

- all discounting of bank acceptance bills must be carried out with financial institutions which are authorised by the relevant government authorities to engage in such activity;

- our finance department shall ensure each application form for approval of discounting commercial bills* (商業匯票貼現申請審批表) is supported by valid underlying transaction with documentations during the approval process;

- the Bills-To-Cash/Bills Arrangement is strictly forbidden with effect from July 2019, and thereafter, bank acceptance bills shall be used as payment only to the trade partners of our Group in our ordinary course of business;

- since early 2020, our sales and marketing staff began to inform customers about our plan to gradually cease the Bills Change Arrangement;

- the Bills Change Arrangement is strictly forbidden with effect from July 2020, and thereafter, if our customers opt to settle their payments to us by bank acceptance bills, the bills provided to us shall exactly match with or be smaller than our invoiced amount. In the latter case, our customers shall be required to settle the remaining amount of payment through other acceptable means such as bank remittance;

- upon receipt of bank acceptance bills, our finance department shall verify that such bills are endorsed to our Group by its trade partners. When our finance department discovers that the bills endorsed by customers to us is larger than the Agreed Settled Amounts, further checking shall be conducted whether the excess amount is for prepayment, and if not, such bills shall be returned to the customers;

- training was provided by our PRC Legal Advisers to our executive Directors and senior management with respect to major PRC laws and regulatory requirements for bank acceptance bills and training materials were provided by our Hong Kong legal advisers to our executive Directors and senior management with respect to compliance requirements under the guidance letters and/or the listing decisions issued by the Stock Exchange in relation to bank acceptance bills;

- Mr. Xie, our executive Director, and Ms. Liu Jiayan, our financial controller and a joint company secretary, are responsible for monitoring our Group's bills arrangements going forward;

- we will engage appropriate external legal advisers and/or institutions and/or consultants to advise, update the knowledge of and/or provide trainings to our Directors, senior management and/or relevant employees on the relevant laws and regulations, including changes thereto, in relation to bank acceptance bills;

- we will engage an independent internal control consultant to conduct periodic review and assessment of our internal control measures in relation to bank acceptance bills and report to the Board and the Audit Committee the results of such review and assessment for our first financial year after Listing, which will cover (i) receipt, endorsement, discounting and use of bank acceptance bills, (ii) record, approval and monitoring of bank acceptance bills, (iii) verification on the endorsement of bank acceptance bills and their underlying transactions, and (iv) implementation status of our preventive measures for bills arrangements. Our Company will disclose in our first annual report after Listing any non-compliant bills arrangements identified during the internal and external reviews of our internal control system; and

- our Audit Committee, comprising three independent non-executive Directors, continuously provides our Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group and oversees the audit process and performs other duties and responsibilities as assigned by our Directors.

Moreover, regular internal training will be provided to relevant employees and management on compliance policy and all applicable PRC laws and regulations to ensure awareness and compliance of the policies.

We engaged an internal control consultant in January 2021 to review our bills arrangements and the enhanced internal control measures in this regard. Based on the findings and the work performed by the internal control consultant and their follow-up review in July 2021, our internal control consultant has confirmed that there are no major negative findings on our internal control system during the 12-month period after the cessation of our bills arrangement and had no further recommendations in our internal control system in relation to bank acceptance bills. If our Group implemented such enhanced internal control measures continuously, the internal control consultant is also of the view that the enhanced internal control measures are adequately and effectively designed to reasonably prevent any future non-compliance incidents in this regard.

Views of our Directors

Our Directors consider that (a) the abovementioned non-compliance incidents would not affect the suitability of our executive Directors under Rules 3.08 and 3.09 of the Listing Rules or the suitability for Listing of the Company under Rule 8.04 of the Listing Rules; and (b) various internal control measures adopted by our Group are adequate and effective having taken into account that:

(a) facts and circumstances leading to the occurrence of the non-compliance incidents and that our Group has already adopted various remedial procedures as at the Latest Practicable Date as mentioned above;

(b) the non-compliance incidents did not involve any element of fraud or dishonesty of our Directors and were principally unintentional due to the lack of relevant legal knowledge and professional advice at the relevant times;

(c) our Directors did not obtain any personal benefit directly or indirectly from the non-compliance incidents;

(d) remedial internal control measures have been adopted to address deficiencies in our internal control systems, including monitoring the ongoing compliance with the internal control measures, to prevent further incidents of non-compliance and to ensure our compliance with the Listing Rules and the relevant laws in the PRC and Hong Kong;

(e) our Directors and senior management attended training in respect of the duties of directors of companies listed in Hong Kong organised by our legal adviser as to Hong Kong law that they are reminded to seek professional advice whenever necessary to ensure compliance with relevant laws and regulations;

(f) public search including litigation search was conducted on our Group and each of our Directors and no material adverse findings were noted; and

(g) if appropriate, external professional adviser(s) will be appointed to render professional advices to our Directors and assist our Directors in ensuring ongoing compliance with the statutory requirements and the Listing Rules as applicable to our Group from time to time.

CONTROLLING SHAREHOLDERS OF OUR COMPANY

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.

OTHER BUSINESSES

As at the Latest Practicable Date, our Group was principally engaged in the manufacturing and sales of papermaking felts business. For further details of our business, please see the section headed "Business" in this prospectus. Apart from our business, Ms. Shen and Mr. Zhou, and the respective corporations controlled by them as set out in the following paragraphs are interested in and operated certain businesses in the papermaking and paper products industry, details of which are more particularly set out below.

Among businesses in the papermaking and paper products industry, Ms. Shen and Mr. Zhou are interested in Sichuan Huanlong New Material Ltd.* (四川環龍新材料有限公司) ("**Huanlong New Material**"), and Sichuan Xilong Biomass Materials Technology Ltd.* (四川省西龍生物質材料科技有限公司) ("**Sichuan Xilong**") which will not form part of our Group after Listing (the business of the above companies are collectively referred to as the "**Other Businesses**").

Our Directors confirm that there is a clear delineation between the Other Businesses and the business engaged by our Group in terms of (i) product categories; and (ii) customer base. Our Directors therefore take the view that the Other Businesses are neither in competition nor likely to compete, directly or indirectly, with our business of manufacturing and sales of papermaking felts.

Particulars of the Other Businesses are set out below:

Huanlong New Material Group

Huanlong New Material is a company established in the PRC with limited liability on 14 January 2011. Huanlong New Material, together with its subsidiaries (which currently are Sichuan Huanlong Daily Products Ltd.* (四川環龍生活用品有限公司) (formerly known as Anxian Paper Ltd.* (安縣紙業有限公司)), Danni Ecological Life Care Products Ltd.* (四川省丹妮生態生活護理用品有限公司) (formerly known as Sichuan Danni Paper Ltd.* (四川省丹妮紙業有限公司)), Chengdu Babo Base Colour E-commerce Ltd.* (成都斑布本色電子商務有限公司), Beijing Babo Base Colour E-commerce Ltd.* (北京斑布本色電子商務有限公司), Sichuan Babo Base Colour E-commerce Ltd.* (四川斑布本色商貿有限公司), Shanghai Huanlong Eco-technology Ltd.* (上海環龍生態科技有限公司) and Sichuan Huanlong Eco-technology Ltd.* (四川環龍生態科技有限公司)), are principally engaged in the production of ecological bamboo paper and personal care paper products and sales of the same to retail customers under the brands of Bamber Inside and 斑布 BABO. As at the Latest Practicable Date, the equity interest of Huanlong New Material was held as to approximately 36.01% by Chengdu Huanlong, approximately 3.75% by Ms. Shen, approximately 3.37% by Chengdu Yongshuntai Equity Investment Fund Management Centre (Limited Partnership)* (成都涌順泰股權投資基金管理中心(有限合夥)) (which in turn was owned as to approximately 96.96% by Ms. Shen), approximately 13.19% by Beijing Sequoia Mingde Equity Investment Center (L.P.) (北京紅杉銘德股權投資中心(有限合夥)), an Independent Third Party, approximately 5.20% by Ningbo Meishan Bonded Zone Sequoia Zhisheng Equity Investment Partnership (L.P.) (寧波梅山保稅港區紅杉智盛股權投資合夥企業(有限合夥)), also an Independent Third Party and the remaining approximately 8.48% by 8 other Independent Third Parties. Ms. Shen is the chairperson and Mr. Zhou is a Supervisor of Huanlong New Material.

Sichuan Xilong

Sichuan Xilong (formerly known as Sichuan Xilong Paper Ltd.* (四川省西龍紙業有限公司)) is a company established in the PRC with limited liability on 29 September 1998. As at the Latest Practicable Date, the equity interest of Sichuan Xilong was wholly owned by Chengdu Huanlong. Ms. Shen is the executive director and general manager of Sichuan Xilong. Sichuan Xilong was principally engaged in the production and sales of personal care paper products. Our Directors confirm that, as at the Latest Practicable Date, Sichuan Xilong has transferred its properties, plants and equipment to Huanlong New Material and has ceased its principal business operation.

Save for Chengdu Huanlong being interested in our paper felt making business by virtue of its equity holding in Huanlong Lixin, none of the Other Businesses is engaged in or interested in the manufacturing and sales of papermaking felts. As at the Latest Practicable Date, our Controlling Shareholders confirmed that they have no current plan to inject the Other Businesses into our Group.

Apart from the business operated by members of our Group, our Controlling Shareholders confirm that they and their respective close associates do not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with the business of our Group that would require disclosure under Rule 8.10 of the Listing Rules.

Each of Ms. Shen and Mr. Zhou, has executed the Deed of Non-competition in favour of the Group, details of which are set out in paragraph headed "Non-competition Undertakings" in this section below.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors believe that our Group is capable of carrying on our Group's business after the Listing independently from our Controlling Shareholders and their respective close associates and/or companies controlled by them:

(i) Financial independence

Our Group has an independent financial system and makes financial decisions according to our own business needs. Our Group has sufficient capital to operate its business independently, and has adequate internal resources and independent access to third-party financing to support its daily operations.

During the Track Record Period, our Group had certain amounts due to and/or from related parties including our Controlling Shareholders, Ms. Shen and Mr. Zhou, and had received guarantees from Ms. Shen and Mr. Zhou. All loans and advances from our Controlling Shareholders and their respective close associates and all loans and advances to our Controlling Shareholders are expected to be fully settled upon Listing. Our Directors confirm that all guarantees provided by our Controlling Shareholders and their respective close associates on our Group's financing are expected to be fully released on or around Listing. For details, please refer to notes 22 and 29 to the Accountants' Report set out in Appendix I to this prospectus.

Our Directors are of the view that there has been sufficient cash flow to support the operation of our Group's business. For the three years ended 31 December 2020 and the six months ended 30 June 2021, our Group has relied principally on cash generated from operations and bank borrowings to carry on our businesses and this is expected to continue after the Global Offering. Our Directors also believe that our Group is capable of obtaining financing from Independent Third Parties, if necessary, without reliance on our Controlling Shareholders after the Listing. Therefore, the Group will be financially independent from our Controlling Shareholders after the Listing.

(ii) Operational independence

Our Group has established our own organisational structure made of individual departments, each with specific areas of responsibilities. Our Directors confirm that our Group did not share our operational resources, such as contractors, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their close associates during the Track Record Period. Our Group has also established a set of internal controls to facilitate the effective operation of its business. To the best knowledge of our Directors, our Group's customers and suppliers are all independent from our Controlling Shareholders and we do not rely on our Controlling Shareholders or their close associates and have independent access to our customers and suppliers. Our Directors are of the view that our Group is able to operate independently from our Controlling Shareholders after the Listing.

(iii) Management independence

Our Company aims at establishing and maintaining a strong and independent Board to oversee our Group's business. The main function of the Board includes the approval of our overall business plans and strategies, monitoring the implementation of these policies and strategies and the management of our Company. We have an independent management team, which is led by a team of senior management with substantial experience and expertise in our business, to implement our Group's policies and strategies.

Our Board consists of seven Directors, comprising four executive Directors and three independent non-executive Directors. Notwithstanding this, our management and operational decisions are made by our executive Directors and senior management, most of whom have served our Group for a long time and have substantial experience in the industry in which we are engaged. The balance of power and authority is ensured by the operation of the senior management and our Board.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant meetings of the Board in respect of such transactions and shall not be counted in the quorum. In addition, the senior management team of our Group is independent from our Controlling Shareholders. The three independent non-executive Directors will also bring independent judgement to the decision-making process of the Board. We have also adopted certain corporate governance measures for conflict situation. Please refer to the paragraph "Corporate governance measures" in this section below for further details.

Most members of the senior management of our Group have, for all or substantially all of the Track Record Period, undertaken senior management supervisory responsibilities in the business of our Group. The responsibilities of the senior management team of our Group include dealing with operational and financial matters, making general capital expenditure decisions and the daily implementation of the business strategy of our Group. This ensures the independence of the daily management and operations of our Group. Further details of our senior management are set out in the section headed "Directors and Senior Management" in this prospectus.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team are able to perform the managerial role independently.

(iv) Independence of major suppliers

To the best of our Directors' knowledge, information and belief, none of our Controlling Shareholders, our Directors and their respective close associates have any relationship with the top five suppliers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

(v) Independence of major customers

To the best of our Directors' knowledge, information and belief, none of our Controlling Shareholders, our Directors and their respective close associates have any relationship with the top five customers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period. Hence, our Directors are of the view that our Group does not unduly rely on our Controlling Shareholders and/or their respective close associates.

NON-COMPETITION UNDERTAKINGS

In order to avoid any possible future competition among our Group, Ms. Shen and Mr. Zhou entered into the Deed of Non-competition on 9 December 2021 in favour of our Company (for itself and for the benefit of each other member of our Group). Pursuant to the Deed of Non-competition, during the period that the Deed of Non-competition remains effective, Ms. Shen and Mr. Zhou irrevocably and unconditionally undertakes to our Company (for itself and for the benefit of each other member of our Group) that he/she shall not, and shall procure his/her close associates (other than members of our Group) not to, directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group or any business activity to be conducted by any member of our Group from time to time after the Listing, save for the holding of not more than 5% shareholding interests (individually or with his/her close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/her close associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Controlling Shareholders (individually or with his/her close associates).

Ms. Shen and Mr. Zhou further undertakes that if he/she or his/her close associates (other than any member of our Group) is offered or becomes aware of any business opportunity which may compete with the existing business activity of any member of our Group or any business activity to be conducted by any member of our Group from time to time after the Listing, he/she shall (and he/she shall procure his/her close associates to) notify our Group in writing and our Group shall have a right of first refusal to take up such business opportunity. Our Group shall, within 30 days after receipt of the written notice (or such longer period if our Group is required to complete any approval procedures as set out under the Listing Rules from time to time), notify Ms. Shen and/or Mr. Zhou whether our Group will exercise the right of first refusal.

Our Group shall only exercise the right of first refusal upon the approval of all our independent non-executive Directors (who do not have any interest in such opportunities). Each of the Controlling Shareholders and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of our Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of our independent non-executive Directors for considering whether or not to exercise the right of first refusal.

The Deed of Non-competition is conditional upon the Listing Committee granting the approval for the listing of, and permission to deal in, our Shares; and the conditions precedent under the Underwriting Agreements having been fulfilled (or where applicable waived) and the Underwriting Agreements not being terminated in accordance with their respective terms.

If any of such conditions is not fulfilled on or before the date agreed between the Underwriters and our Company or the Underwriters and our Company have agreed to terminate the Underwriting Agreements thereafter, the Deed of Non-competition shall become null and void and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed of Non-competition.

The Deed of Non-competition shall terminate when (i) Ms. Shen and/or Mr. Zhou, whether individually or taken together with his or her close associates, ceases to be interested in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of our Company; or (ii) our Shares shall cease to be listed and traded on the Stock Exchange (except for temporary suspension of trading of our Shares on the Stock Exchange due to any reason).

CORPORATE GOVERNANCE MEASURES

In order to safeguard the interests of our Shareholders and to strengthen its corporate governance practice, our Group will implement the following measures:

(i) Ms. Shen and Mr. Zhou, will make an annual confirmation as to compliance with his/her undertaking under the Deed of Non-competition for inclusion in the annual report of our Company;

(ii) our Board is committed to the view that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on our Board which can effectively exercise independent judgement. Our Company has appointed three independent non-executive Directors. Our Directors believe that our independent non-executive Directors are of sufficient calibre, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide impartial and professional advice to protect the interests of the minority Shareholders. Details of our independent non-executive Directors are set out in the section headed "Directors and Senior Management" in this prospectus;

(iii) our Company has appointed CMBC International Capital Limited as the compliance adviser, which will provide advice and guidance to our Company in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and internal controls. Please refer to the paragraph headed "Directors and Senior Management — Compliance adviser" in this prospectus for further details in relation to the appointment of the compliance adviser;

(iv) Ms. Shen and Mr. Zhou undertake to provide all information requested by our Group which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition; and

(v) our independent non-executive Directors will, based on the information available to them, review on an annual basis the compliance with the Deed of Non-competition and all the decisions taken in relation to whether to pursue the new opportunity under the Deed of Non-competition.

OVERVIEW

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 Controlling Shareholders, Ms. Shen, Mr. Zhou, Perfect Angle, and Wonderful Advisor will directly or indirectly hold approximately 74.99% of the issued share capital of our Company. Pursuant to Chapter 14A of the Listing Rules, our Controlling Shareholders and our Directors, and their respective associates are our connected persons.

Accordingly, our transactions with such connected persons will constitute connected transactions and continuing connected transactions under Chapter 14A of the Listing Rules upon the Listing.

CONNECTED PERSONS

Set out below is the list of connected persons which had transactions with our Group during the Track Record Period and will continue to have transactions with our Company upon the Listing:

(1) Sichuan Huanlong New Material Ltd.* (四川環龍新材料有限公司) ("**Huanlong New Material**"), a limited liability company established in the PRC on 14 January 2011, the equity interest of which was approximately held as to approximately 36.01% by Chengdu Huanlong, approximately 3.75% by Ms. Shen, approximately 3.37% by Chengdu Yongshuntai Equity Investment Fund Management Centre (Limited Partnership)* (成都涌順泰股權投資基金管理中心(有限合夥)) (which in turn was owned as to approximately 96.96% by Ms. Shen), approximately 13.19% by Beijing Sequoia Mingde Equity Investment Center (Limited Partnership)* (北京紅杉銘德股權投資中心(有限合夥)), an Independent Third Party, and the remaining interest of approximately 43.68% by 9 other Independent Third Parties, respectively, as at the Latest Practicable Date. Hence Huanlong New Material is an associate of our Controlling Shareholders, Ms. Shen and Mr. Zhou, and our connected person. Huanlong New Material is principally engaged in the production of ecological bamboo paper and personal care paper products and sale of the same to retail customers;

(2) Sichuan Huanlong Daily Products Ltd.* (四川環龍生活用品有限公司) ("**Huanlong Daily Products**"), formerly known as Anxian Paper Ltd.* (安縣紙業有限公司), is a limited liability company established in the PRC on 21 April 1999 and was a wholly-owned subsidiary of Huanlong New Material as at the Latest Practicable Date. Hence, Huanlong Daily Products is an associate of our Controlling Shareholders, Ms.

Shen and Mr. Zhou, and our connected person. Huanlong Daily Products principally engages in the research and development, the production of bamboo pulp, base paper, personal care paper products and the sale of the same to Huanlong New Material;

(3) Ms. Xie Shuying (謝淑英), sister of Mr. Xie; and

(4) Mr. Chen Wantian (陳萬田), spouse of Ms. Xie Shuying and brother-in-law of Mr. Xie.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Master Supply Agreements with Huanlong New Material and Huanlong Daily Products (the "Master Supply Agreements")

(i) Master Supply Agreement with Huanlong New Material

During the Track Record Period, our Group has been supplying papermaking felts to Huanlong New Material in the ordinary and usual course of our Group's business.

On 9 December 2021, Sichuan Huanlong (as seller/supplier) and Huanlong New Material (as purchaser) entered into a master supply agreement (the "**Huanlong New Material Master Supply Agreement**") in order to govern the sale of papermaking felts by our Group to Huanlong New Material upon the Listing. Pursuant to the Huanlong New Material Master Supply Agreement, Sichuan Huanlong may sell papermaking felts to Huanlong New Material on a non-exclusive basis. The selling price, payment time and method, and other specific terms or conditions (if any) shall be fixed by the relevant parties in the purchase order on a case-by-case basis. The term of the Huanlong New Material Master Supply Agreement commenced on the Listing Date and shall expire on 31 December 2023.

(ii) Master Supply Agreement with Huanlong Daily Products

During the Track Record Period, our Group has been supplying papermaking felts to Huanlong Daily Products in the ordinary and usual course of our Group's business.

On 9 December 2021, Sichuan Huanlong (as seller/supplier) and Huanlong Daily Products (as purchaser) entered into a master supply agreement (the "**Huanlong Daily Products Master Supply Agreement**") in order to govern the sale of papermaking felts by our Group to Huanlong Daily Products upon the Listing. Pursuant to the Huanlong Daily Products Master Supply Agreement, Sichuan Huanlong may sell papermaking felts to Huanlong Daily Products on a non-exclusive basis. The selling price, payment time and method, and other specific terms or conditions (if any) shall be fixed by the relevant parties in the purchase order on a case-by-case basis. The term of the Huanlong Daily Products Master Supply Agreement commenced on the Listing Date and shall expire on 31 December 2023.

The contract periods of the Master Supply Agreements are fixed for around three years since the Company would like to ensure stable sale of products and/or the continuance of the transactions with Huanlong New Material and Huanlong Daily Products.

Pricing Policy of the Master Supply Agreements

The selling prices of the papermaking felts under the Master Supply Agreements are calculated with reference to the prevailing market prices of the same or comparable kind of papermaking felts, or the price to be agreed between the parties after having considered the market price in accordance with the Master Supply Agreements. Such market price shall be determined with reference to (i) the prevailing market price of the same or similar papermaking felts obtained from third-party suppliers in the same or neighbourhood regions based on normal commercial terms and in the ordinary and usual course of business; (ii) if (i) is not applicable, the selling prices of same or similar papermaking felts obtained from third-party suppliers in the PRC based on normal commercial terms and in the ordinary and usual course of business; or (iii) if both (i) and (ii) are not available, the selling prices of the same papermaking felts offered by the seller to its third-party customers based on normal commercial terms and in the ordinary and usual course of business.

Reasons for entering into the Master Supply Agreements

The papermaking felts to be supplied by our Group under the Master Supply Agreements are mainly used by Huanlong New Material and Huanlong Daily Products in their manufacturing process as a raw material for the production of various paper related products. Since supply of papermaking felts is in the ordinary and usual course of business of our Group, the transactions under the Master Supply Agreements will provide a steady income of our Group. Our Directors consider that transactions contemplated under the Master Supply Agreements are fair and reasonable, on normal commercial terms and in the interest of our Company and the Shareholders as a whole.

Historical Amounts

The historical transaction amounts for supply of papermaking felts by our Group to Huanlong New Material and Huanlong Daily Products during the Track Record Period are approximately as follows:

	For the year ended 31 December			For the six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Supply to Huanlong New Material	604	500	371	68	8
Supply to Huanlong Daily Products	488	1,333	617	84	353
Total	1,092	1,833	988	152	361

Listing Rules Implications

Since the terms and nature of the Master Supply Agreements are substantially the same, and the counterparties and/or the ultimate beneficial owner of the counterparties under both Master Supply Agreements are connected person of each other, the transactions contemplated under both Master Supply Agreements should be aggregated pursuant to the Listing Rules.

Based on the historical sales amounts between our Group and Huanlong New Material and Huanlong Daily Products, and the expected demand from Huanlong New Material and Huanlong Daily Products for our products, it is currently estimated that the aggregate sales to Huanlong New Material and Huanlong Daily Products under the Master Supply Agreements for each of the three years ending 31 December 2023 will be less than HK$3,000,000 per year. Pursuant to the Master Supply Agreements, in the event that the total amount of the transactions contemplated under the Master Supply Agreements shall exceed HK$3,000,000 per year, our Group shall forthwith cease to supply any further products to Huanlong New Material and Huanlong Daily Products. Based on the foregoing, as the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the sale of products contemplated under the Master Supply Agreements are below 5% and the total annual transaction amount payable by Huanlong New Material and Huanlong Daily Products to our Group under the Master Supply Agreements shall be less than HK$3,000,000 per year, such transactions contemplated under the Master Supply Agreements constitute de minimis continuing connected transactions under Rule 14A.76(1)(c) of the Listing Rules, and are exempt from reporting, annual review, announcement and independent shareholders' approval requirements. No annual cap is therefore set for such transactions contemplated under the Master Supply Agreements.

(iii) Employment Agreement with Ms. Xie Shuying

Ms. Xie Shuying is the sister of Mr. Xie, our executive Director, hence Ms. Xie is a connected person of our Company under Rule 14A.12(2)(a) of the Listing Rules. On 17 December 2019, Ms. Xie entered into a new written employment agreement (the "**Employment Agreement with Ms. Xie**") with Sichuan Huanlong as a worker for a term ending on 16 December 2022. We expect Ms. Xie shall continue to be employed by our Group in the same position upon and following the Listing. Our Directors estimate that the annual salary payable to Ms. Xie shall not exceed RMB40,000 for each of the three years ending 31 December 2023, as determined by our Directors with reference to the contractual amount payable under the Employment Agreement with Ms. Xie. For the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021, the aggregate salary paid by our Group to Ms. Xie were approximately nil, RMB24,000, RMB23,800 and RMB12,000, respectively.

Our Directors consider that entering into the Employment Agreement with Ms. Xie is in our ordinary and usual course of business and the terms therein are on normal commercial terms and are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

Listing Rules implications

Since all of the applicable percentage ratios for the Employment Agreement with Ms. Xie is less than 5% and the total consideration is less than HK$3,000,000, the Employment Agreement with Ms. Xie will be fully exempt under Chapter 14A of the Listing Rules upon the Listing.

(iv) Employment Agreement with Mr. Chen Wantian

Mr. Chen Wantian is the spouse of Ms. Xie and brother-in-law of Mr. Xie, our executive Director, hence Mr. Chen is a deemed connected person of our Company under Rule 14A.21(1)(a) of the Listing Rules. On 7 June 2018, Mr. Chen entered into a new written employment agreement (the "**Employment Agreement with Mr. Chen**") with Sichuan Huanlong as a worker for a term ending on 28 June 2021. We expect Mr. Chen shall continue to be employed by our Group in the same position upon and following the Listing. Our Directors estimate that the annual salary payable to Mr. Chen shall not exceed RMB70,000 for each of the three years ending 31 December 2023, as determined by our Directors with reference to the contractual amount payable under the Employment Agreement with Mr. Chen, and the expected increase in his salary during the contractual period. For the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021, the aggregate salary paid by our Group to Mr. Chen were approximately RMB61,800, RMB61,400, RMB62,900 and RMB32,400, respectively.

Our Directors consider that entering into the Employment Agreement with Mr. Chen is in our ordinary and usual course of business and the terms therein are on normal commercial terms and are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

Listing Rules implications

Since all of the applicable percentage ratios for the Employment Agreement with Mr. Chen is less than 5% and the total consideration is less than HK$3,000,000, the Employment Agreement with Mr. Chen will be fully exempt under Chapter 14A of the Listing Rules upon the Listing.

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the following persons will have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:

LONG POSITION IN THE SHARES

Name	Capacity/nature of interest	Number of Shares held/interested in after completion of the Capitalisation Issue and the Global Offering	Percentage of shareholding after completion of the Capitalisation Issue and the Global Offering
Ms. Shen *(Note 2)*	Founder of a discretionary trust; interest of spouse	359,947,200	74.99%
Mr. Zhou *(Note 2)*	Founder of a discretionary trust; interest of spouse	359,947,200	74.99%
Vistra Trust *(Note 3)*	Trustee	359,947,200	74.99%
Perfect Angle *(Note 1)*	Beneficial Owner	269,960,400	56.24%
Wonderful Advisor *(Note 1)*	Beneficial Owner	89,986,800	18.75%

Note 1: Perfect Angle is wholly-owned by Vistra Trust acting as the trustee of the SGL Trust. The SGL Trust is an irrevocable discretionary trust established by Fame Attain, which is wholly-owned by Ms. Shen, as the settlor. The beneficiaries of the SGL Trust are Ms. Shen and the children of Ms. Shen. Ms. Shen is deemed to be interested in 269,960,400 Shares held by the SGL Trust under the SFO. Wonderful Advisor is wholly-owned by Vistra Trust acting as the trustee of the ZJ Trust. The ZJ Trust is an irrevocable discretionary trust established by South Source, which is wholly-owned by Mr. Zhou, as the settlor. The beneficiaries of the ZJ Trust are Mr. Zhou and the children of Ms. Shen. Mr. Zhou is deemed to be interested in 89,986,800 Shares held by the ZJ Trust under the SFO.

Note 2: Ms. Shen and Mr. Zhou are wife and husband. Therefore, each of them is deemed to be interested in all the Shares the other party is interested in for the purpose of the SFO.

Note 3: Vistra Trust is the trustee of the SGL Trust and ZJ Trust and holds 100% issued share capital of both Perfect Angle and Wonderful Advisor, thus Vistra Trust is deemed to be interested in all the Shares held by Perfect Angle and Wonderful Advisor for the purpose of the SFO.

For details of our Director's interests in Shares immediately following the completion of the Global Offering, please refer to the paragraph headed "Statutory and General Information — C. Further information about substantial shareholders, directors and experts" in Appendix V to this prospectus.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), have interests or short positions in the Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any of its subsidiaries.

CORNERSTONE INVESTMENTS

We, the Sole Sponsor and the Sole Global Coordinator have entered into cornerstone investment agreements with the following investors (the "**Cornerstone Investors**", each a "**Cornerstone Investor**"), pursuant to which the Cornerstone Investors have agreed to, subject to certain conditions, subscribe at the Offer Price for certain number of our Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) that may be purchased for an aggregate amount of HK$40,000,000 (the "**Cornerstone Placing**").

Assuming the Offer Price is set at HK$1.10, being the Offer Price subjected to a Downward Offer Price Adjustment, the total number of Shares to be allocated to the Cornerstone Investors will be 36,360,000 Shares, (i) representing approximately 31.84% of the Offer Shares and approximately 7.58% of our total issued share capital immediately upon completion of the Global Offering, assuming Over-allotment Option is not exercised; or (ii) representing approximately 27.69% of the Offer Shares and approximately 7.31% of our total issued share capital immediately upon completion of the Global Offering, assuming Over-allotment Option is fully exercised.

Assuming the Offer Price is set at HK$1.22, being the low-end of the indicative Offer Price range set out in this prospectus, the total number of Shares to be allocated to the Cornerstone Investors will be 32,784,000 Shares, (i) representing approximately 28.71% of the Offer Shares and approximately 6.83% of our total issued share capital immediately upon completion of the Global Offering, assuming Over-allotment Option is not exercised; or (ii) representing approximately 24.96% of the Offer Shares and approximately 6.59% of our total issued share capital immediately upon completion of the Global Offering, assuming Over-allotment Option is fully exercised.

Assuming the Offer Price is set at HK$1.33, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of Shares to be allocated to the Cornerstone Investors will be 30,072,000 Shares, (i) representing approximately 26.33% of the Offer Shares and approximately 6.27% of our total issued share capital immediately upon completion of the Global Offering, assuming Over-allotment Option is not exercised; or (ii) representing approximately 22.90% of the Offer Shares and approximately 6.05% of our total issued share capital immediately upon completion of the Global Offering, assuming Over-allotment Option is fully exercised.

Assuming the Offer Price is set at HK$1.44, being the high-end of the indicative Offer Price range set out in this prospectus, the total number of Shares to be allocated to the Cornerstone Investors will be 27,776,000 Shares, (i) representing approximately 24.32% of the Offer Shares and approximately 5.79% of our total issued share capital immediately upon completion of the Global Offering, assuming Over-allotment Option is not exercised; or (ii) representing approximately 21.15% of the Offer Shares and approximately 5.59% of our total issued share capital immediately upon completion of the Global Offering, assuming Over-allotment Option is fully exercised.

Our Company is of the view that, leveraging on the Cornerstone Investors' investment experience, the Cornerstone Placing will help to raise the profile of our Company and to signify that such investors have confidence in our business and prospect.

The Cornerstone Placing will form part of the International Placing and the Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering (other than pursuant to the Cornerstone Investment Agreements). The Offer Shares to be subscribed by the Cornerstone Investors will rank *pari passu* in all respect with the fully paid Shares in issue and will be counted towards the public float of our Company. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will become a substantial shareholder of our Company, and the Cornerstone Investors will not have any Board representation in our Company. To the best knowledge of our Company, (i) each of the Cornerstone Investors is an Independent Third Party and is not our connected person or its associate (as defined in the Listing Rules); (ii) none of the Cornerstone Investors is accustomed to take instructions from our Company, the Directors, chief executive, Controlling Shareholders, substantial shareholders, existing Shareholders or any of its subsidiaries or their respective close associates; (iii) none of the subscription of the relevant Offer Shares by any of the Cornerstone Investors is financed by our Company, the Directors, chief executive, Controlling Shareholders, substantial shareholders, existing Shareholders or any of its subsidiaries or their respective close associates. Other than a guaranteed allocation of the relevant Offer Shares at the final Offer Price, the Cornerstone Investors do not have any preferential rights in the Cornerstone Investment Agreements compared with other public Shareholders. There are no side arrangements or agreements between our Company and the Cornerstone Investors or any benefit, direct or indirect, conferred on the Cornerstone Investors by virtue of or in relation to the Cornerstone Placing, other than a guaranteed allocation of the relevant Offer Shares at the final Offer Price.

The Company, the Sole Sponsor, the Sole Global Coordinator and each of Mr. Gong Chaohui and Mr. Chen Xiong confirm that:

(a) no benefits (in whatever form, including rebate, discount, incentive, commission, loan or otherwise) have been or will be given by the Company, any of its controlling shareholders, subsidiaries, directors, senior management or any of their respective associates, to (aa) the Sole Sponsor, (bb) the Sole Global Coordinator or (cc) the respective Cornerstone Investor (including the ultimate beneficial owners, subsidiaries, directors, senior management or the respective associates of the parties referred to in (aa), (bb) and (cc)) (together, the "**Relevant Parties**") directly or indirectly in connection with the Cornerstone Placing and/or the Global Offering other than those set out in the respective cornerstone investment agreement, Sole Sponsor engagement letter, placing and sub-placing agreements and/or underwriting agreements (as the case may be) and this prospectus;

(b) no benefits (in whatever form, including rebate, discount, incentive, commission, loan or otherwise) have been or will be given by the Sole Global Coordinator (including its ultimate beneficial owner, subsidiaries, directors, senior management or their respective associates) to the respective Cornerstone Investor (including the ultimate beneficial owners, subsidiaries, directors, senior management or the respective associates of the respective Cornerstone Investor) directly or indirectly in connection with the Cornerstone Placing and/or the Global Offering other than those set out in the respective cornerstone investment agreement, the placing and sub-placing agreements and/or underwriting agreements (as the case may be) and this prospectus; and

(c) no side agreement, arrangement, undertaking or otherwise (verbal or written) has been or will be entered into by the Company (including its controlling shareholders, subsidiaries, directors, senior management or their respective associates) and the Relevant Parties in connection with the Cornerstone Placing and/or the Global Offering or any subsequent dealings in respect of the Company's securities, other than those set out in the cornerstone investment agreement, the respective Sole Sponsor engagement letter, placing and sub-placing agreements and/or underwriting agreements (as the case may be) and this prospectus.

The Offer Shares to be subscribed by the Cornerstone Investors may be affected by reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed "Structure and Conditions of the Global Offering — The Hong Kong Public Offering — Basis of Allocation of the Offer Shares" in this prospectus. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement of our Company to be published on or around 10 January 2022.

If there is over-allocation in the International Placing, the over-allocation may be effected through delayed delivery of the Offer Shares to be subscribed by all of the Cornerstone Investors under the Cornerstone Placing. Where delayed delivery takes place, the Cornerstone Investor that may be affected by such delayed delivery has agreed that it shall nevertheless pay for the relevant Offer Shares on the Listing Date. As such, there will be no delayed settlement. If there is no over-allocation in the International Placing, delayed delivery will not take place. For details of the Over-allotment Option, please refer to the sections headed "Structure and Conditions of the Global Offering — Over-allotment Option" in this prospectus.

Cornerstone Investors

The following information about the Cornerstone Investors was provided to our Company by the Cornerstone Investors in relation to the Cornerstone Placing.

Mr. Gong Chaohui

Mr. Gong Chaohui (龔朝暉) ("**Mr. Gong**") has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) which may be purchased for an aggregate amount of HK$20,000,000 at the Offer Price. Based on the Offer Price of HK$1.10, HK$1.22, HK$1.33 and HK$1.44 (being the Offer Price subject to a Downward Offer Price Adjustment, low-end, mid-point and high-end of the Offer Price range), the number of Shares that Mr. Gong will subscribe for will be approximately 18,180,000, 16,392,000, 15,036,000 and 13,888,000 Shares, respectively, representing (i) approximately 15.92%, 14.35%, 13.17% and 12.16%, respectively, of the Offer Shares upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised); (ii) approximately 3.79%, 3.42%, 3.13% and 2.89%, respectively, of the issued share capital of the Company upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised); (iii) approximately 13.84%, 12.48%, 11.45% and 10.57%, respectively, of the Offer Shares upon completion of the Global Offering (assuming that the Over-allotment Option is fully exercised); and (iv) approximately 3.66%, 3.30%, 3.02% and 2.79%, respectively, of the issued share capital of the Company upon completion of the Global Offering (assuming that the Over-allotment Option is fully exercised).

Mr. Gong is currently a director of Fuhui Innovation Venture Capital Management Co., Ltd.* (富匯創新創業投資管理有限公司) which is a fund management company with assets under management valued at nearly RMB3 billion, the chairman of Shanghai Luning Medical Investment Management Co., Ltd.* (上海睦寧醫療投資管理有限公司) and a governor (院董) of Shanghai Medical College of Fudan University* (復旦大學上海醫學院).

Mr. Gong is a long-time acquaintance of Ms. Shen. We acquainted with Mr. Gong through Ms. Shen's introduction but neither our Company nor Ms. Shen had any relationship with Mr. Gong prior to the introduction. To the best of the knowledge, information and belief of our Company and after making reasonable enquiries, Mr. Gong will use his own funds as source of funding for the subscription.

Mr. Chen Xiong

Mr. Chen Xiong (陳雄) ("**Mr. Chen**") has agreed to subscribe for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) which may be purchased for an aggregate amount of HK$20,000,000 at the Offer Price. Based on the Offer Price of HK$1.10, HK$1.22, HK$1.33 and HK$1.44 (being the Offer Price subject to a Downward Offer Price Adjustment, low-end, mid-point and high-end of the Offer Price range), the number of Shares that Mr. Chen will subscribe for will be approximately 18,180,000, 16,392,000, 15,036,000 and 13,888,000 Shares, respectively, representing (i) approximately 15.92%, 14.35%, 13.17% and 12.16%, respectively, of the Offer Shares upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised); (ii) approximately 3.79%, 3.42%, 3.13% and 2.89%, respectively, of the issued share capital of the Company upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised); (iii) approximately 13.84%, 12.48%, 11.45% and 10.57%, respectively, of the Offer Shares upon completion of the Global Offering (assuming that the Over-allotment Option is fully exercised); and (iv) approximately 3.66%, 3.30%, 3.02% and 2.79%, respectively, of the issued share capital of the Company upon completion of the Global Offering (assuming that the Over-allotment Option is fully exercised).

Mr. Chen is the chairman and a controlling shareholder of Guangdong Kelun Pharmaceutical Co., Ltd.* (廣東科倫藥業有限公司), a controlling shareholder of Guangdong Dongyue Kelun Pharmaceutical Co., Ltd.* (廣東東粵科倫藥業有限公司), the legal representative, an executive director and a controlling shareholder of Meizhou Nanyue Kelun Trading Co., Ltd.* (梅州市南粵科倫商貿有限公司). Guangdong Kelun Pharmaceutical Co., Ltd.* (廣東科倫藥業有限公司) is previously a subsidiary of Sichuan Kelun Pharmaceutical Co., Ltd.* (四川科倫藥業股份有限公司)(stock code: SZ002422), a company the shares of which are listed on Shenzhen Stock Exchange. Mr. Chen is also a substantial shareholder of Gongqingcheng Chuangjie Investment Management Partnership (Limited Partnership)* (共青城創傑投資管理合夥企業(有限合夥)), which has various investment projects, including a medical project company.

Mr. Chen is a long-time acquaintance of Ms. Shen. We acquainted with Mr. Chen through Ms. Shen's introduction but neither our Company nor Ms. Shen had any relationship with Mr. Chen prior to the introduction. To the best of the knowledge, information and belief of our Company and after making reasonable enquiries, Mr. Chen will use his own funds as source of funding for the subscription.

Closing Conditions

The obligation of each Cornerstone Investor to subscribe for the Offer Shares under the respective Cornerstone Investment Agreement is subject to, among other things, the following closing conditions:

(a) the Hong Kong Underwriting Agreement and the International Placing Agreement being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in the Hong Kong Underwriting Agreement and the International Placing Agreement, and neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement having been terminated;

(b) the Offer Price having been agreed according to Underwriting Agreements and Price Determination Agreement to be signed among the parties thereto in connection with the Global Offering;

(c) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Shares in issue or to be issued as described in this prospectus (including such Shares subscribed by the relevant Cornerstone Investor under the Cornerstone Placing) as well as other applicable waivers and approvals and such approval, permission or waiver having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

(d) no Laws shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or herein and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and

(e) the respective representations, warranties, acknowledgements, undertakings and confirmations of the relevant Cornerstone Investor under the respective cornerstone investment agreement are (as at the date of the relevant cornerstone investment agreement) and will be (as at the Listing Date and, where applicable, the delayed delivery date) accurate and true in all respects and not misleading and that there is no breach of this Agreement on the part of the relevant Cornerstone Investor.

Restrictions on disposals by the Cornerstone Investors

Each of the Cornerstone Investors has agreed that he will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of any of the Offer Shares he has purchased pursuant to the relevant cornerstone investment agreements.

SHARE CAPITAL

The share capital of our Company immediately following the Capitalisation Issue and the Global Offering, without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, will be as follows:

Authorised share capital		*HK$*
2,000,000,000	Shares	20,000,000

Issued and to be issued, fully paid or credited as fully paid upon completion of the Capitalisation Issue and the Global Offering		*HK$*
12,000	Shares in issue at the date of this prospectus	120
365,788,000	Shares to be issued pursuant to the Capitalisation Issue	3,657,880
114,200,000	Shares to be issued pursuant to the Global Offering	1,142,000
480,000,000	Total	4,800,000

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the issue of Shares pursuant thereto are made as described herein. The above table takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme; or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to our Directors to allot and issue or repurchase Shares as described below.

The minimum level of public float to be maintained by our Company after the Global Offering is 25% of the issued share capital of our Company.

RANKING

The Offer Shares will rank *pari passu* in all respects with all other existing Shares in issue or to be issued as mentioned in this prospectus, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on our Shares in respect of a record date which falls after the date of Listing other than participation in the Capitalisation Issue.

CAPITALISATION ISSUE

Pursuant to the resolutions of our Shareholders passed on 9 December 2021, subject to the share premium account of our Company being credited as a result of the Global Offering, our Directors are authorised to allot and issue a total of 365,788,000 Shares credited as fully paid at par to the holders of the Shares on the register of members of our Company at the close of business on 8 December 2021 in proportion to their shareholdings (save that no Shareholder shall be entitled to be allotted or issued any fraction of a Share) by way of capitalisation of the sum of HK$3,657,880 standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued Shares.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarised in the paragraph headed "Statutory and General Information — D. Share Option Scheme" set out in Appendix V to this prospectus.

Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our Shares as at the Latest Practicable Date.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the paragraph headed "Structure and Conditions of the Global Offering — Conditions of the Global Offering" in this prospectus, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate number of our Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by our Shareholders) shall not exceed:

(a) 20% of the total number of Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (not including Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme); and

(b) the total number of Shares of our Company repurchased pursuant to the authority granted to our Directors referred to in the paragraph headed "General mandate to repurchase shares" in this section.

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or pursuant to the exercise of any option which may be granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until the earliest of:

(a) the conclusion of the next annual general meeting of our Company;

(b) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Act or any other applicable laws of the Cayman Islands to be held; or

(c) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

For further details of this general mandate, please refer to the paragraph headed "Statutory and General Information — Further Information about our Company — 3. Written resolutions of our Shareholders passed on 9 December 2021 and 22 December 2021" set out in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the conditions as stated in the paragraph headed "Structure and Conditions of the Global Offering — Conditions of the Global Offering" in this prospectus, our Directors have been granted a general unconditional mandate to exercise all powers to repurchase Shares (Shares which may be listed on the Stock Exchange or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose) with an aggregate number of not more than 10% of the total number of Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (excluding Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in connection with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Statutory and General Information — A. Further information about our Company — Repurchase of our Shares by our Company" in Appendix V to this prospectus.

The general mandate to repurchase Shares will remain in effect until the earliest of:

(a) the conclusion of the next annual general meeting of our Company; or

(b) the expiration of the period within which the next annual general meeting is required by the Articles or the Companies Act or any other applicable laws of the Cayman Islands to be held; or

(c) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to the paragraphs headed "Statutory and General Information — A. Further information about our Company — 3. Written resolutions of our Shareholders passed on 9 December 2021 and 22 December 2021" and "Statutory and General Information — A. Further information about our Company — Repurchase of our Shares by our Company" set out in Appendix V to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETINGS ARE REQUIRED

As a matter of the Companies Act, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, we will hold general meetings as prescribed for under our Articles, a summary of which is set out in the section headed "Summary of the Constitution of our Company and Cayman Islands Company Law" in Appendix IV to this prospectus.

The Board currently consists of seven Directors comprising four executive Directors and three independent non-executive Directors. Our Directors are supported by our senior management in the day-to-day management of our business.

DIRECTORS

The following table sets out the information regarding our Directors:

Name	Age	Present Position	Date of joining our Group	Date of appointment as a Director	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Ms. Shen Genlian (沈根蓮)	54	Chairperson and executive Director	November 2018	5 November 2018	Strategic development and providing advice on the operation and management	Spouse of Mr. Zhou Jun
Mr. Zhou Jun (周駿)	58	Chief executive officer and executive Director	February 2007	5 November 2018	Overall management, strategic and major decisions on the development and daily operation	Spouse of Ms. Shen Genlian
Mr. Xie Zongguo (謝宗國)	49	Executive Director	February 2007	29 September 2019	Overall daily operation and research and development management, and participating in decision-making in respect of major matters	Nil
Ms. Yuan Aomei (袁傲梅)	40	Executive Director	September 2019	29 September 2019	Providing advice on the operation and management	Nil
Mr. Wang Yunchen (王運陳)	37	Independent non-executive Director	9 December 2021	9 December 2021	Supervising and providing independent advice on the operation and management	Nil

Name	Age	Present Position	Date of joining our Group	Date of appointment as a Director	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Mr. Zhang Shenjin (張慎金)	51	Independent non-executive Director	9 December 2021	9 December 2021	Supervising and providing independent advice on the operation and management of our Group	Nil
Mr. Ip Wang Hoi (葉耘開)	45	Independent non-executive Director	9 December 2021	9 December 2021	Supervising and providing independent advice on the operation and management of our Group	Nil

Executive Directors

Ms. Shen Genlian (沈根蓮) ("Ms. Shen"), aged 54, was appointed as a Director on 5 November 2018, and redesignated as an executive Director on 29 September 2019. She was further appointed as the chairperson of the Board on 9 December 2021. She is responsible for strategic development and providing advice on the operation and management of our Group. Ms. Shen is also a director of each of Lion Courage, Vanov Tianhe, Virtuous Way, Marvel Dragon and Sichuan Huanlong. She is the chairman of the Nomination Committee.

Ms. Shen obtained a Bachelor Degree in Mechanical Engineering (Instrumentation and Test System) from East China Institute of Technology* (華東工學院) (currently known as Nanjing University of Science and Technology* (南京理工大學)) in July 1990 and completed a study of Advanced Studies Course for Postgraduate in Business Administration (企業管理學科專業研究生課程進修班) at Southwestern University of Finance and Economics* (西南財經大學) in December 2000.

Ms. Shen has more than 18 years' experience in papermaking felts manufacturing industry. Ms. Shen was appointed as an executive director of Chengdu Huanlong on 2 January 2003. Ms. Shen together with Mr. Zhou are the controlling shareholders of Chengdu Huanlong, which previously owned 93.09% equity interest of Sichuan Huanlong immediately prior to the commencement of the Reorganisation. For details, please refer to the paragraph headed "History, Reorganisation and Corporate Structure — Reorganisation" in this prospectus.

Set out below are companies established in the PRC which were dissolved during the period when Ms. Shen was a director, supervisor and/or management:

Name of company	Nature of business before dissolution	Date of revocation of business licence/dissolution	Nature of dissolution proceeding
Beijing Zhongjitian Technology Co., Ltd.* (北京中基天科技有限公司)	Providing storing service for medical imaging	Revoked on 17 October 2007	Revocation of business licence due to failure to renew business licence
Huanlong Industrial Group Co., Ltd. Shijiazhuang Branch* (成都環龍工業用呢集團有限公司石家莊分公司)	Manufacturing and sales of papermaking felts	Deregistered on 1 November 2011	Voluntary deregistration
Sichuan Hecheng Investment Development Co., Ltd.* (四川省合成投資發展有限責任公司)	Project investment and industrial investment	Revoked on 24 November 2005	Revocation of business licence due to failure to renew business licence
Weifang Zhenxing Huanlong Industrial Fabrics Co., Ltd.* (濰坊振興環龍工業用呢有限公司)	Manufacturing and sales of industrial use felt	Revoked on 18 November 2005	Revocation of business licence due to failure to renew business licence
Chengdu Zhongce Paper Technology Co., Ltd.* (成都中策紙業科技有限責任公司)	Manufacturing and sales of paper products	Revoked on 23 December 2012 and deregistered on 29 September 2014	Revocation of business licence due to failure to renew business licence and subsequent deregistration on voluntary dissolution by shareholders' resolution

Name of company	Nature of business before dissolution	Date of revocation of business licence/dissolution	Nature of dissolution proceeding
Chengdu Taohe Mechanical Equipment Co., Ltd.* (成都陶和機械設備有限公司)	Processing and sales of machinery and household appliance	Revoked on 12 June 2009 and deregistered on 28 February 2014	Revocation of business licence due to failure to renew business licence and subsequent deregistration on voluntary dissolution by shareholders' resolution
Beijing Zhongjitian Technology Co., Ltd. XiNan Branch* (北京中基天科技有限公司西南分公司)	Providing storing service for medical imaging	Revoked on 15 February 2005 and deregistered on 24 July 2014	Revocation of business licence due to failure to renew business licence and subsequent deregistration
Chengdu Danni Paper Co., Ltd.* (成都丹妮紙業有限公司)	Manufacturing and sales of paper products	Revoked on 23 December 2012 and deregistered on 29 September 2014	Revocation of business licence due to failure to renew business licence and subsequent deregistration on voluntary dissolution by shareholders' resolution
Chengdu Yuanwei Hi-tech Co., Ltd.* (成都遠維高科技有限責任公司)	Wholesale and retail of electronics	Revoked on 15 February 2007 and deregistered on 22 September 2014	Revocation of business licence due to failure to renew business licence and subsequent deregistration on voluntary dissolution by shareholders' resolution

As confirmed by Ms. Shen, the above deregistered companies were solvent and in compliance with all relevant laws and regulations immediately before their dissolutions and so far as she was aware, the dissolutions of the above companies have not resulted in any liability or obligation being imposed against her. As confirmed by Ms. Shen, the above companies whose business licences had been revoked had no actual business operations at the material time and were at a non-operation status. Ms. Shen was not involved in the annual inspection procedures of these companies. The failure of these companies to go through the formality of annual inspection were due to the negligence of the then designated staff of these relevant companies, and was not due to any default on the part of Ms. Shen. As advised by our PRC Legal Advisers, based on the aforesaid confirmation of Ms. Shen, the revocation of business licences of such companies would not adversely affect the legality and validity of Ms. Shen's directorship and her positions in our Group.

Mr. Zhou Jun (周駿) ("Mr. Zhou"), aged 58, was appointed as a Director on 5 November 2018, and redesignated as an executive Director on 29 September 2019. He was appointed as the chief executive officer of the Company on 9 December 2021. He is primarily responsible for overall management, strategic and major decisions on the development and planning and operation of our Group. Mr. Zhou is also director of each of Lion Courage, Huanlong Funeng, Huanlong Lixin, Sichuan Huanlong and Shanghai Jinxiong. He is a member of the Remuneration Committee.

Mr. Zhou graduated from the Technical School of China Academy of Engineering Physics* (中國工程物理研究院技工學校) in July 1982 and completed a study of Advanced Studies Course for Postgraduate (In-service Programme) in Business Administration (企業管理研究生課程進修班(在職學習)) at the Business School of Sichuan University* (四川大學商學院) in July 2000. Mr. Zhou is a Vice President of the 6th Council of Sichuan Papermaking Industry Association* (四川省造紙行業協會第六屆理事會副會長), a Vice Chairman of the 6th Council of Sichuan Papermaking Industry Association* (四川省造紙行業協會第六屆理事會副理事長), a Vice Chairman of the 9th Council of Sichuan Province Papermaking Association* (四川省造紙學會第九屆理事會副理事長), a Standing Director of the 10th Council of Sichuan Textile Engineering Society* (四川省紡織工程學會第十屆理事會常務理事), a Standing Vice President of the 2nd Council of Sichuan Papermaking Industry Association Household Paper Branch* (四川省造紙行業協會生活用紙分會第二屆理事會常務副會長), an Individual Director of the 8th Council of China Technical Association of Paper Industry (中國造紙學會第八屆理事會個人理事) and was a Vice President of the 4th Council of China Nonwovens & Industrial Textiles Association* (中國產業用紡織品行業協會第四屆理事會副會長).

Mr. Zhou has more than 19 years' experience in papermaking felts manufacturing industry. Mr. Zhou was appointed as an executive director of Chengdu Huanlong on 5 September 2001. Mr. Zhou together with Ms. Shen (spouse of Mr. Zhou and one of the directors of Chengdu Huanlong) are the controlling shareholders of Chengdu Huanlong, which previously owned 93.09% equity interest of Sichuan Huanlong immediately prior to the commencement of the Reorganisation. For details, please refer to the paragraph headed "History, Reorganisation and Corporate Structure — Reorganisation" in this prospectus. He was appointed as the executive director of Sichuan Huanlong on 6 February 2007, and redesignated as a director and the chairman of Sichuan Huanlong on 26 April 2019, primarily responsible for the overall management, strategic and major decisions on its development and daily operation.

Set out below are companies established in the PRC which were dissolved during the period when Mr. Zhou was a director, supervisor and/or management:

Name of company	Nature of business before dissolution	Date of revocation of business licence/dissolution	Nature of dissolution proceeding
Beijing Zhongjitian Technology Co., Ltd.* (北京中基天科技有限公司)	Providing storing service for medical imaging	Revoked on 17 October 2007	Revocation of business licence due to failure to renew business licence
Sichuan Huanlong Technology Fabrics Co., Ltd. Shijiazhuang Branch* (四川環龍技術織物有限公司石家莊分公司)	Manufacturing and sales of papermaking felts	Deregistered on 10 October 2015	Voluntary deregistration
Chengdu Danni Paper Co., Ltd.* (成都丹妮紙業有限公司)	Manufacturing and sales of paper products	Revoked on 23 December 2012 and deregistered on 29 September 2014	Revocation of business licence due to failure to renew business licence and subsequent deregistration on voluntary dissolution by shareholders' resolution
Mianyang Boyuan Technology Co., Ltd.* (綿陽博遠科技有限公司)	Production and sales of computer products and home appliances	Deregistered on 5 April 2005	Voluntary deregistration

As confirmed by Mr. Zhou, the above deregistered companies were solvent and in compliance with all relevant laws and regulations immediately before their dissolutions and so far as he was aware, the dissolutions of the above companies have not resulted in any liability or obligation being imposed against him. As confirmed by Mr. Zhou, the above companies whose business licence had been revoked had no actual business operations at the material time and were at a non-operation status. Mr. Zhou was not involved in the annual inspection procedures of these companies, and the failure of these companies to go through the formality of annual inspection were due to the negligence of the then designated staff of these relevant companies, and was not due to any default on the part of Mr. Zhou. As advised by our PRC Legal Advisers, based on the aforesaid confirmation of Mr. Zhou, the revocation of business licence of such companies would not adversely affect the legality and validity of Mr. Zhou's directorship and his positions in our Group.

Mr. Xie Zongguo (謝宗國) ("Mr. Xie"), aged 49, was appointed as an executive Director on 29 September 2019, responsible for the overall daily operation and research and development management, and participating in decision-making in respect of major matters. Mr. Xie is also a director of Sichuan Huanlong.

Mr. Xie obtained a Bachelor Degree in Textile Engineering from the Tianjin Textile Institute* (天津紡織工學院) (currently known as Tianjin Polytechnic University* (天津工業大學)) in July 1993.

Mr. Xie has more than 20 years' experience in papermaking felts manufacturing industry. He currently serves as general manager and director of Sichuan Huanlong. He is responsible for daily operation and management of the Group. Before joining our Group, Mr. Xie has worked for Chengdu Huanlong since February 2001 and was promoted to deputy executive officer in 2005. Mr. Xie left Chengdu Huanlong and joined Sichuan Huanlong in February 2007. Mr. Xie is an individual director of the 8th Council of China Technical Association of Paper Industry (中國造紙學會第八屆理事會個人理事) and a technical expert of the PRC papermaking felt industry jointly awarded by the China Non-wovens & Industrial Textile Association, Papermaking Textile Branch* (中國產業用紡織品行業協會造紙用紡織品分會) and the Dewatering Equipment Profession Committee of China Technical Association of Paper Industry* (中國造紙學會脫水器材專業委員會).

Ms. Yuan Aomei (袁傲梅) ("Ms. Yuan"), aged 40, was appointed as a non-executive Director on 29 September 2019 and re-designated as an executive Director on 14 April 2021, responsible for providing advice on the operation and management. Ms. Yuan obtained a graduation certificate of Top-up Undergraduate Degree (專科升本科畢業證書) in Business Administration (part-time) from Southwestern University of Finance and Economics* (西南財經大學) in July 2010.

Ms. Yuan has more than 12 years' experience in business administration. Ms. Yuan joined Chengdu Huanlong in August 2008 and worked as the director of capital operations management centre* (資金運營管理中心總監) of Chengdu Huanlong from 2014 to December 2020. Ms. Yuan left Chengdu Huanlong and joined Sichuan Huanlong as head of treasury since January 2021. Before joining our Group, Ms. Yuan worked as office manager of Chengdu Zhishan Tea Cultural Development Ltd.* (成都至善茶文化發展有限公司) from January 2007 to August 2008, and as capital representative* (資金外勤) of Chengdu Tianyou Development Ltd.* (成都天友發展有限公司) from January 2003 to December 2006.

Independent Non-executive Directors

Mr. Wang Yunchen (王運陳) ("Mr. Wang"), aged 37, was appointed as an independent non-executive Director on 9 December 2021. He is responsible for supervising and providing independent advice on the operation and management of our Group. He is also the chairman of the Audit Committee, and a member of the Nomination Committee. Mr. Wang is our Director who has the appropriate professional accounting or related financial management expertise for the purpose of Rule 3.10(2) of the Listing Rules through his experience listed below.

Mr. Wang obtained a Bachelor Degree, a Master Degree and a Doctorate Degree in Financial Management from Southwestern University of Finance and Economics* (西南財經大學) in June 2007, March 2010 and December 2013, respectively. Mr. Wang was awarded the professorship of Accounting qualification issued by Sichuan Agricultural University (四川農業大學) in December 2020. Mr. Wang has been working for College of Management of Sichuan Agricultural University (四川農業大學) since January 2014 and currently serves as the head of its department of financial management. Mr. Wang currently serves as a postdoctoral researcher at the Postdoctoral Program Research Station of business administration* (工商管理博士後科研流動站) at Fudan University. Mr. Wang was awarded the third prize of the 18th Social Science Outstanding Achievement of Sichuan Province* (四川省第十八次社會科學優秀成果三等獎) in August 2019.

Mr. Wang obtained a listed company senior management training* (上市公司高級管理人員培訓) graduation certificate issued by the Shenzhen Stock Exchange in March 2017. Mr. Wang was an independent director of Sichuan Jinyu Automobile City (Group) Co., Ltd.* (四川金宇汽車城(集團)股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000803) from October 2019 to December 2019. Mr. Wang currently serves as an independent director of Chengdu Xingrong Environmental Co., Ltd.* (成都市興蓉環境股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000598) and an independent director of Sichuan Crun Co., Ltd.* (四川川潤股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 002272).

Mr. Wang has been and remains responsible for the following areas in his capacity as a professor of Accounting and an independent director of listed company, through which he has gained the financial management expertise required under Rule 3.10(2) of the Listing Rules:

- lecturing on and teaching accounting, corporate governance and financial management related courses as professor of Accounting at Sichuan Agricultural University (四川農業大學);

- was the head of ACCA education centre at College of Management of Sichuan Agricultural University* (四川農業大學管理學院);

- acting as a specialist in audit committees of the listed company mentioned above and involvement in their financial management and corporate governance matter, including in annual budget meetings, periodic financial reviews, annual financial audits and reporting; and

- working closely with the listed company in the preparation of their financial statements, valuation analysis, participation in pricing and negotiation of transaction terms and other related financial documents in advance of their publication on the Shenzhen Stock Exchange.

Mr. Zhang Shenjin (張慎金, formerly known as Zhang Shenlian 張慎蓮) ("Mr. Zhang"), aged 51, was appointed as an independent non-executive Director on 9 December 2021. He is responsible for supervising and providing independent advice on the operation and management of our Group. He is also a member of each of the Audit Committee and the Remuneration Committee.

Mr. Zhang has over 14 years of experience in financial news reporting. Mr. Zhang worked for China Business Times Shandong Reporter Station* (中華工商時報山東記者站) from September 1992 to July 2006 and worked as reporter stationmaster* (記者站站長) from 1997. Mr. Zhang has served as the fourth secretary-general of China Paper and Pulp Industry Chamber of Commerce* (中華全國工商業聯合會紙業商會) since November 2017. Mr. Zhang obtained a graduation certificate of Junior College Program (專科畢業證書) in Chinese Language and Literature by correspondence education from Shandong Heze Education University* (山東省菏澤教育學院) (currently known as Heze University* (菏澤學院)) in June 1992.

Set out below are companies established in the PRC which were dissolved during the period when Mr. Zhang was the director, supervisor and/or management:

Name of company	Nature of business before dissolution	Date of revocation of business licence/dissolution	Nature of dissolution proceeding
Beijing Zhonglun Lianhe Paper Industry Information Consultation Center* (北京中倫聯合紙業信息諮詢中心)	Provide consultation services	Deregistered on 30 June 2008	Voluntary deregistration by shareholders' resolution
Huazhi Shidai (Beijing) Culture Co., Ltd.* (華紙時代(北京)文化傳播有限公司)	Provide consultation services	Deregistered on 20 July 2016	Voluntary deregistration by shareholders' resolution

As confirmed by Mr. Zhang, the above companies were solvent and in compliance with all relevant laws and regulations immediately before their dissolutions and so far as he was aware, the dissolutions of the above companies have not resulted in any liability or obligation being imposed against him.

Mr. Ip Wang Hoi (葉耘開) ("Mr. Ip"), aged 45, was appointed as an independent non-executive Director on 9 December 2021. He is responsible for supervising and providing independent advice on the operation and management of our Group. He is also the chairman of the Remuneration Committee, and a member of each of the Audit Committee and the Nomination Committee.

Mr. Ip obtained his Bachelor of Business Administration in Accounting and Finance from the University of Hong Kong in December 1998 and Master of Business Administration from the University of Chicago Graduate School of Business in March 2008. Mr. Ip has been a member of Hong Kong Institute of Certified Public Accountants since September 2001 and a fellow of CPA Australia since November 2020. Mr. Ip was designated as a Chartered Financial Analyst by the CFA Institute in September 2005.

Mr. Ip has more than 20 years' experience in accounting, investment banking and corporate finance. Mr. Ip joined Arthur Andersen in September 1998 and was transferred to PricewaterhouseCoopers with effect from 1 July 2002. Mr. Ip left PricewaterhouseCoopers in April 2004 and his last position was a manager. Mr. Ip was employed by J.P. Morgan Securities (Asia Pacific) Limited from March 2011 to March 2016 and his last position was an executive director in the global investment banking department. Mr. Ip was employed by Tuspark Financial Holdings

(HK) Limited from March 2017 to February 2020 and his last position was the chief executive officer of the corporate finance department — TUS Corporate Finance Limited. Mr. Ip has been the responsible officer of Wings Securities Limited since February 2020.

To the best of the knowledge, information and belief of our Directors, having made all reasonable enquires, save as disclosed above, none of our Directors has any other directorships in listed companies during the three years immediately prior to the date of this prospectus, and there is no information of each of the Directors which needs to be disclosed pursuant to the requirements under Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules, and there are no other matters that need to be brought to the attention of the Shareholders under Rule 13.51(2) of the Listing Rules in connection with his/her appointment as a Director.

SENIOR MANAGEMENT

The following table sets out the information regarding our senior management:

Name	Age	Present Position	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Ms. Liu Jiayan (劉家燕)	40	Financial controller and a joint company secretary	October 2020	Overall company secretarial and financial matters	Nil
Mr. Gao Qiang (高強)	47	Sales director	February 2007	Creation of sales strategies and the management of sales goals and targets	Nil
Ms. Lin Xiaoyan (林曉燕)	39	Director of operation department	February 2007	Promotion of the operational efficiency and quality for the Group's overall marketing	Nil

Ms. Liu Jiayan (劉家燕) ("Ms. Liu"), aged 40, was appointed as the financial controller of our Group since October 2020 and one of the joint company secretaries of our Company since 9 December 2021, responsible for our Group's overall company secretarial and financial matters.

Ms. Liu has more than 10 years' experience in accounting and finance industry and has been registered as a certified public accountant in the PRC since September 2012. Before joining our Group, Ms. Liu has worked for Chengdu Huanlong as the responsible officer of the finance department since December 2018, responsible for capital operation, financing and tax planning. Ms. Liu left Chengdu Huanlong and joined Sichuan Huanlong as financial controller in October 2020.

Ms. Liu worked at Chengdu Colorful Polymer Materials Co., Ltd (成都卡樂福高分子材料股份有限公司), a company listed on the National Equities Exchange and Quotations (stock code: 872870), as a director from December 2017 to February 2019, and a secretary of board and finance controller from December 2017 to January 2019. Ms. Liu worked at Changjiang Securities Ltd. Chengdu Guanghua Village Street Securities Business Department* (長江證券股份有限公司成都光華村街證券營業部) from August 2015 to February 2017, Chengdu New Hope Properties Ltd.* (成都新希望置業有限公司) from June 2014 to July 2015 and WUYIGE Certified Public Accountants LLP, Sichuan branch* (大信會計師事務所四川分所) from September 2010 to June 2014 and was mainly responsible for accounting and auditing.

Ms. Liu obtained a bachelor degree (distance learning) in accountancy from Southwestern University of Finance and Economics (西南財經大學) in July 2014.

Mr. Gao Qiang (高強) ("Mr. Gao"), aged 47, was appointed as the sales director of our Group since January 2019, responsible for the creation of sales strategies and the management of sales goals and targets.

Mr. Gao has more than 19 years' experience in sales and papermaking felts manufacturing industry. Before joining our Group, Mr. Gao has worked for Chengdu Huanlong as sales manager since December 2001, responsible for the creation of sales strategies and the management of sales goals and targets. Mr. Gao left Chengdu Huanlong and joined Sichuan Huanlong as sales manager in February 2007 and currently serves as the sales director of our Group. Mr. Gao obtained a graduation certificate of Junior College Program (專科畢業證書) in Textile Engineering issued by the Wuhan Textile Industry College* (武漢紡織工學院) (currently known as Wuhan Textile University* (武漢紡織大學)) in July 1998.

Ms. Lin Xiaoyan (林曉燕) ("Ms. Lin"), aged 39, was appointed as the director of the operation department of our Group since April 2019, responsible for the promotion of the operational efficiency and quality for the Group's overall marketing.

Ms. Lin has more than 14 years' experience in corporate management and operation. She joined Sichuan Huanlong since its establishment in February 2007 and was promoted to operation director in April 2019. Ms. Lin obtained a graduation certificate of Junior College Program (專科

畢業證書) in Industrial Enterprise Management jointly issued by the Southwestern University of Finance and Economics* (西南財經大學) and the Sichuan Province Higher Education Self-study Examination Committee* (四川省高等教育自學考試委員會) in December 1999 and a graduation certificate of Specialized Secondary School Program (普通中等專業學校畢業證書) in Pulp and Paper Making Process from the Sichuan Light Industry School* (四川省輕工業學校) in July 2000.

JOINT COMPANY SECRETARIES

Ms. Liu Jiayan (劉家燕), aged 39, was appointed as the financial controller of our Group since October 2020 and one of the joint company secretaries of our Company since 9 December 2021, responsible for our Group's overall company secretarial and financial matters. For biographical details of Ms. Liu, please refer to the paragraph headed "Senior management" above in this section.

Ms. Mak Po Man Cherie (麥寶文) ("Ms. Mak") was appointed as one of the joint company secretaries of our Company on 9 December 2021. Ms. Mak is the Vice President of SWCS Corporate Services Group (Hong Kong) Limited. She has worked for various companies in Hong Kong, including professional firms and listed companies, with over 16 years of experience in the fields of audit, accounting, corporate finance, compliance and corporate secretarial. Ms. Mak obtained a Master of Corporate Governance degree from The Hong Kong Polytechnic University in September 2017. She was admitted as an associate member of The Hong Kong Institute of Chartered Secretaries and The Chartered Governance Institute (previously known as The Institute of Chartered Secretaries and Administrators) in the United Kingdom in December 2017, a certified public accountant chartered by the Hong Kong Institute of Certified Public Accountants in January 2003, and a fellow of The Association of Chartered Certified Accountants in October 2006.

BOARD DIVERSITY POLICY

Our Company will adopt a board diversity policy (the "**Board Diversity Policy**") upon Listing, which sets out its approach to achieve and maintain diversity on the Board in order to enhance the effectiveness of the Board. The Company recognises and embraces the benefits of the Board diversity to enhance the quality of its performance and endeavours to ensure that the Board has appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. The Company seeks to achieve Board diversity by selection of candidates for the Board through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, professional experience, skills, knowledge and length of service. The Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of the Board. All Board appointments will be based on meritocracy having due regard for the benefits of diversity on the Board. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Our Board comprises of seven members, including two female Directors. Our Directors also have a balanced mix of knowledge and experience in the areas of papermaking felts, business administration, finance and accounting. Save as Mr. Zhou and Ms. Shen being spouse of each other, none of the Directors are related to one another. We have three independent non-executive Directors with different industry backgrounds, representing one-third of the members of our Board.

We will review the objectives of the Board Diversity Policy from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. After Listing, the Nomination Committee will review the Board Diversity Policy and monitor its implementation. The Nomination Committee will report annually to shareholders in the corporate governance section of the annual report of the Company on the process adopted in relation to the Board appointments and the consideration given to the diversity on the Board.

REMUNERATION POLICY

The Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses with reference to salaries paid by the comparable companies, time commitment and the performance of our Group. Our Group regularly reviews and determines the remuneration and compensation package of the Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of the Directors and senior management and the performance of our Group.

After the Listing, our remuneration committee will review and determine the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, the time devoted to our Group and the performance of our Group. The Directors may also receive options to be granted under the Share Option Scheme.

REMUNERATIONS OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive compensation in the form of fees, salaries, allowances, benefits-in-kind and pension scheme contribution. We determine the remuneration of our Directors and senior management with reference to their respective experience, responsibilities, individual performance, salaries paid by comparable companies and the performance of our Group.

For the three years ended 31 December 2020 and the six months ended 30 June 2021, the aggregate remuneration (including Director's fee, basic salary, allowance, non-cash benefit and retirement scheme contribution) paid by our Group to the Directors, were approximately RMB409,000, RMB226,000, RMB414,000 and RMB873,000, respectively.

For the three years ended 31 December 2020 and the six months ended 30 June 2021, the aggregate remuneration paid by our Group to the five highest paid individuals of our Group were approximately RMB2,336,000, RMB1,985,000, RMB2,330,000 and RMB1,274,000, respectively.

Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment of any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of the Directors will be as follows:

	RMB
Executive Directors	
Ms. Shen Genlian	1
Mr. Zhou Jun	800,000
Mr. Xie Zongguo	700,000
Ms. Yuan Aomei	240,000
Independent Non-executive Directors	
Mr. Wang Yunchen	120,000
Mr. Zhang Shenjin	120,000
Mr. Ip Wang Hoi	120,000

During the Track Record Period, no other payments have been paid by our Group to, or received by, our Directors or our five highest paid individuals as: (i) an inducement to join or upon joining our group or (ii) as compensation for the loss of office as a director or management of any members of our Group.

None of our Directors waived any emoluments for the three years ended 31 December 2020 and the six months ended 30 June 2021. Save as disclosed above, no other payments have been made or are payable by any member of our Group to any of our Directors and the five highest paid individuals during the Track Record Period.

For information on Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to note 9 of the Accountants' Report set out in Appendix I to this prospectus.

BOARD COMMITTEES

Audit Committee

Our Company established the Audit Committee on 9 December 2021 with its written terms of reference in compliance with the Corporate Governance Code and the Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are, among other things, to review and supervise our financial reporting process and internal control and risk management system, nominate and monitor external auditors, provide advice and comments to the Board on matters related to corporate governance and perform other duties and responsibilities as assigned by the Board.

The Audit Committee consists of three members, being Mr. Wang Yunchen, Mr. Zhang Shenjin and Mr. Ip Wang Hoi. Mr. Wang Yunchen currently serves as the chairman of the Audit Committee.

Remuneration Committee

Our Company established the Remuneration Committee on 9 December 2021 with its written terms of reference in compliance with the Corporate Governance Code and the Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are, among other things, to make recommendations to the Board on our Company's policy for human resource management as well as establish and review policies and structure in relation to remuneration for our directors and senior management.

The Remuneration Committee consists of three members, being Mr. Ip Wang Hoi, Mr. Zhou Jun and Mr. Zhang Shenjin. Mr. Ip Wang Hoi currently serves as the chairman of the Remuneration Committee.

Nomination Committee

Our Company established the Nomination Committee on 9 December 2021 with its written terms of reference in compliance with the Corporate Governance Code and the Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are, among other things, to make recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management.

The Nomination Committee consists of three members, being Ms. Shen Genlian, Mr. Ip Wang Hoi and Mr. Wang Yunchen. Ms. Shen Genlian currently serves as the chairman of the Nomination Committee.

CORPORATE GOVERNANCE CODE

Our Company is committed to achieving high standards of corporate governance with a view to safeguarding the interest of the Shareholders. To accomplish this, our Company intends to comply with the code provisions set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules after Listing.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the "comply or explain" principle in our corporate governance report which will be included in our annual reports upon Listing.

COMPLIANCE ADVISER

We have agreed to appoint CMBC International Capital Limited to be our compliance adviser upon Listing on the Stock Exchange in compliance with Rule 3A.19 of the Listing Rules. We have entered into a compliance adviser's agreement with CMBC International Capital Limited prior to the Listing Date, the material terms of which are as follows:

(i) the term of appointment of the compliance adviser will commence on the Listing Date of our Company and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;

(ii) the compliance adviser will provide us with certain services, including guidance and advice as to compliance with the requirements under the Listing Rules and applicable laws, rules, codes and guidelines and advice on the continuing requirements under the Listing Rules and applicable laws and regulations;

(iii) our Company will consult with and, if necessary, seek advice from CMBC International Capital Limited as our compliance adviser in the following circumstances:

    (1) before the publication of any regulatory announcement, circular or financial report;

    (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(3) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and

(4) where the Stock Exchange makes any enquiry to our Company under Rule 13.10 of the Listing Rules.

(iv) the compliance adviser will serve as a channel of communication with the Stock Exchange.

You should read this section in conjunction with our consolidated financial information as set out in the Accountants' Report included as Appendix I to this prospectus and selected historical consolidated financial data, in each case, together with the accompanying notes thereto included elsewhere in this prospectus. The financial information included in the Accountants' Report has been prepared in accordance with HKFRSs.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in the section headed "Risk Factors" in this prospectus.

Any discrepancies in any table or elsewhere in this prospectus between totals and sums of amounts listed herein are due to rounding.

OVERVIEW

We principally engage in the design, manufacture and sale of papermaking felts under the brands of VANOV and Gobear. Our papermaking felts can be broadly categorised into the following five types according to the type of papermaking machines that the papermaking felts are applied to: (i) packaging papermaking felts; (ii) specialty papermaking felts; (iii) printing papermaking felts; (iv) household papermaking felts; and (v) pulp papermaking felts. According to the Frost & Sullivan Report, we were one of the top five papermaking felts manufacturers in the PRC market, among which, we ranked fourth and were the only papermaking felts manufacturer headquartered in the PRC, with an approximate market share of 5.8% in terms of revenue in 2020. For further details of our business, please refer to the paragraph headed "Business — Overview" in this prospectus.

Our revenue was approximately RMB159.4 million, RMB167.3 million, RMB182.8 million and RMB76.5 million for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. Our profit and total comprehensive income for the year/period was approximately RMB37.2 million, RMB35.1 million, RMB41.0 million and RMB14.3 million for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively.

The following discussion and analyses are based on the financial results of our Group during the Track Record Period as presented in the Accountants' Report contained in Appendix I to this prospectus.

The historical financial information has been prepared on the historical cost basis. The historical financial information is presented in RMB, which is also the functional currency of our Group.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our financial performance and results of operations have been and will continue to be affected by a number of factors, including those set out below and in the section headed "Risk Factors" in this prospectus.

In the event that there are unexpected changes in the demand for machine-made paper and paperboard, especially in the PRC, our business, financial condition and results of operations may be adversely affected.

Production capacity and product range

Our competitiveness depends, to a larger extent, on our ability to expand production capacity and product range, in order to increase our market share. We manufactured our products in our production facilities located in Chengdu and Shanghai, the PRC. The production volumes of our Chengdu Production Site were approximately 547 tonnes, 587 tonnes, 608 tonnes and 276 tonnes and the effective utilisation rates 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. The production volumes of our Shanghai Production Site were approximately 498 tonnes, 537 tonnes, 603 tonnes and 259 tonnes and the effective utilisation rates 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 more information about our production capacity, utilisation rates and seasonality, please refer to the paragraphs headed "Business — Production — Our production capacity and utilisation rate" and "Business — Seasonality" in this prospectus. Given the high effective utilisation rates as mentioned above, our Directors believe that it is critical to expand our production capacity in order to capture the expected growth in total sales volume and sales value of papermaking felts in the PRC as stated in the Frost & Sullivan Report.

We will continue to expand our production capacity and product range to capture market opportunities. For details of our future expansion plans, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

Our business strategies are subject to significant business, economic and competitive uncertainties and contingencies in the market, many of which are beyond our control and may delay or increase the costs of implementation. Such uncertainties and contingencies may include, inability to finance or obtain capital to finance our expansion plans, delays in the delivery and installation of manufacturing equipment, labour shortage and related issues, raw materials and other cost increases or the promulgation of new laws and regulations related to environmental protection, delays or failure in securing the necessary governmental approvals and further downturn in the economy. If we are unable to further expand our production capacity and develop our product range, we may lose our competitiveness in the market, which could materially and adversely affect our financial condition and results of operations, as well as the growth of our revenue and profits.

Fluctuation in our cost of sales

Our cost of sales include: (i) raw materials; (ii) direct labour costs; (iii) manufacturing overhead; (iv) utilities; (v) depreciation; and (vi) provision for warranty. We engage suppliers mainly in the PRC where we mainly purchase raw materials like monofilaments and fibre from them. Please refer to the paragraph headed "Business — Our suppliers and raw materials" in this prospectus for more information.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations of the major components of our cost of sales, namely, costs of raw materials and direct labour, on our profit before income tax during the Track Record Period. The hypothetical fluctuation rate for nylon monofilaments and fibre, which are the major raw materials used in our production, is set at 3.0%, being the CAGR of its import price from 2016 to 2020 as stated in the Frost & Sullivan Report and are therefore considered reasonable for the purpose of this sensitivity analysis. The hypothetical fluctuation rate for direct labour costs is set at 7.7%, being the CAGR of the average monthly salary of employed persons in the manufacturing industry from 2016 to 2020 as stated in the Frost & Sullivan Report and are therefore considered reasonable for the purpose of this sensitivity analysis. Please refer to the paragraph headed "Industry overview — Overview of papermaking felts manufacturing industry in the PRC — Cost structure analysis" in this prospectus for more information.

Hypothetical fluctuations in costs of raw materials	**-3.0%**	**+3.0%**
	RMB'000	*RMB'000*
Increase/(decrease) in profit before income tax*Note*		
For the year ended 31 December 2018	1,594.1	(1,594.1)
For the year ended 31 December 2019	1,474.2	(1,474.2)
For the year ended 31 December 2020	1,545.9	(1,545.9)
For the six months ended 30 June 2021	618.4	(618.4)

Hypothetical fluctuations in direct labour costs	-7.7%	+7.7%
	RMB'000	*RMB'000*
Increase/(decrease) in profit before income tax[Note]		
For the year ended 31 December 2018	910.7	(910.7)
For the year ended 31 December 2019	909.2	(909.2)
For the year ended 31 December 2020	991.9	(991.9)
For the six months ended 30 June 2021	544.0	(544.0)

Note: Our profit before income tax was approximately RMB43.5 million, RMB41.5 million, RMB48.5 million and RMB16.5 million for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively.

Market Competition

According to the Frost & Sullivan Report, the papermaking felts manufacturing industry is featured with several foreign invested market participants with strong capability in research and development and demonstrate premium product quality. Foreign invested papermaking felts manufacturers are highly competitive in the high-speed and high-performance segment of papermaking felts. In contrast, domestic market participants in the papermaking felts manufacturing industry are relatively competitive in terms of pricing and service level. From 2016 to 2020, the sales volume of papermaking felts in the PRC grew from approximately 12,820.1 tonnes to approximately 17,487.9 tonnes, representing a CAGR of approximately 8.1%. Driven by the expected growth of domestic paper production and strong demand for papermaking felts in Southeast Asia, the sales volume of papermaking felts has seen a rapid growth from 2016 onwards, with the improvement in quality, the growth is set to maintain at a CAGR of approximately 6.3% during 2021 to 2025. Similarly, the sales value of papermaking felts in the PRC has achieved an overall growth from approximately RMB2,189.9 million in 2016 to approximately RMB3,166.1 million in 2020, representing a CAGR of approximately 9.7%. With the expanding production of high-speed papermaking felts among local enterprises, the sales value of papermaking felts is expected to increase at a CAGR of approximately 7.6% during 2021 to 2025.

Our Directors consider that we are able to compete in terms of our customer base, cost control, research and development capabilities and the quality of our products. If we fail to maintain our competitive strengths or the competition in the papermaking felts manufacturing industry is intensified unexpectedly, our operation and financial results will be adversely affected.

BASIS OF PRESENTATION

Pursuant to the Reorganisation as further explained in the paragraph headed "History, Reorganisation and Corporate Structure — Reorganisation" in this prospectus, our Company became the holding company of the companies now comprising our Group on 13 August 2019 as an exempted company with limited liability under the Companies Act. The companies now comprising our Group were under the common control of our Controlling Shareholders throughout the Track Record Period. Accordingly, for the purpose of the preparation of our Group's historical financial information, our Company has been considered as the holding company of the companies now comprising our Group throughout the Track Record Period. Our Group comprising our Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended 31 December 2018 and 2019, which include the financial performance, changes in equity and cash flows of all the companies now comprising our Group have been prepared using the principles of merger accounting under the Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation, where it is a shorter period. The consolidated statement of financial position of our Group as at 31 December 2018 have been prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence as at those respective dates.

BASIS OF PREPARATION

The historical financial information has been prepared in accordance with HKFRSs which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA effective for the accounting period beginning from 1 January 2020 and our Group has early adopted amendments to HKFRS 16 "COVID-19-Related Rent Concessions" and "COVID-19-Related Rent Concessions beyond 30 June 2021" throughout the Track Record Period. The historical financial information also complies with the applicable disclosure provisions of the Listing Rules.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

We have identified certain accounting policies that are significant to the preparation of our audited consolidated financial statements in accordance with HKFRSs. In the application of our accounting policies, our management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These significant accounting policies, estimates and assumptions are important for an understanding of the financial condition and results of operation of our Group. Our estimates and other associated assumptions are based on historical experience and other factors that our management believes that are considered to be relevant and reasonable under the circumstances. Actual results may however differ from these estimates and assumptions under different conditions. These estimates and assumptions are subject to change in the future, if necessary, for accommodating different conditions which will be closely monitored by our management on an ongoing basis. The following include our critical accounting policies, estimates and judgments applied in the preparation of our financial information:

Revenue recognition

Revenue is recognised to depict the transfer of promised goods and services to customers in an amount that reflect the consideration to which our Group expects to be entitled in exchange for those goods and services. Our Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Control of the goods or services may be transferred over time or at a point in time.

Revenue from sales of papermaking felts products are recognised at a point in time when the legal title of the finished good is transferred and our Group has present right to payment and the collection of the consideration is probable. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Sales-related warranties associated with papermaking felts cannot be purchased separately and are served as an assurance that the products sold comply with agreed-upon specifications (i.e. assurance-type warranties). Accordingly, our Group accounts for warranties in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Impairment of trade and other receivables

Our Group follows the guidance of HKFRS 9 to determine when a receivable is impaired. In making this estimation and judgement, our Group evaluate, among other factors, the ageing analysis of receivables, the financial healthiness and collection history of the individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measure, change in macro-economic indicators, etc.

The carrying amount of our Group's trade and other receivables as at 31 December 2018, 2019 and 2020 and 30 June 2021 amounted to approximately RMB107.1 million, RMB123.6 million, RMB135.5 million and RMB119.6 million, respectively, and allowance of expected credit loss as at 31 December 2018, 2019 and 2020 and 30 June 2021 amounted to approximately RMB8.1 million, RMB4.3 million, RMB5.7 million and RMB6.0 million, respectively. Please refer to note 16 of the Accountants' Report in Appendix I to this prospectus for details.

Provision for inventories

Our Group reviews the carrying amount of inventories based on consideration of obsolescence of raw materials and the net realisable value of finished goods. The identification of inventory obsolescence and estimated selling price in the ordinary course of business require the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of inventories in the period in which such estimate has been changed. Provision for inventories of approximately RMB0.1 million, RMB42,000, RMB0.8 million (reversal) and RMB0.2 million were recognised during the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021, respectively. Please refer to note 15 of the Accountants' Report in Appendix I to this prospectus for details.

SUMMARY OF RESULTS OF OPERATIONS

The following table sets out the selected information extracted from our consolidated statements of profit or loss and other comprehensive income relating to the results of operation of our Group during the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this prospectus:

	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

	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*
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

DISCUSSION OF MAJOR ITEMS FROM THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

We generated our revenue from the design, manufacturing and sales of various types of papermaking felts during the Track Record Period. Our revenue increased during the Track Record Period, which were approximately RMB159.4 million, RMB167.3 million and RMB182.8 million for the three years ended 31 December 2020, respectively, and approximately RMB66.2 million and RMB76.5 million for the six months ended 30 June 2020 and 2021, respectively. Our revenue is generally affected by the selling price and sales volume of our products.

Revenue breakdown by type of papermaking felts

The table below 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	*% 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 (%)*
	(unaudited)											
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

Notes:

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

2. Certain amounts and percentage figures included in this table have been subject to rounding adjustments, or have been rounded to one decimal place. Any discrepancies between totals and sums of amount listed therein are due to rounding.

Packaging papermaking felts

Our revenue generated from packaging papermaking felts increased during the Track Record Period, from approximately RMB106.0 million for the year ended 31 December 2018 to approximately RMB114.7 million for the year ended 31 December 2019, further to approximately RMB124.9 million for the year ended 31 December 2020, and 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. In particular, the revenue growth from 2018 to 2019 was mainly due to the increase in its average selling price from approximately RMB145,000 per tonne to approximately RMB154,000 per tonne, resulting from more high speed products were sold in 2019. The revenue growth from 2019 to 2020 and from the six months ended 30 June 2020 to the six months ended 30 June 2021 were mainly due to the increase of sale volume, resulting from 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. The gross profit generated from such type of papermaking felts generally consistent with the trend of its revenue during the Track Record Period.

Our gross profit margin generated from packaging papermaking felts remained relatively stable at 50.0%, 53.9% and 54.1% during the three years ended 31 December 2018, 2019 and 2020, respectively, and 52.5% and 52.0% during the six months ended 30 June 2020 and 2021, respectively.

Specialty papermaking felts

Our revenue generated from specialty papermaking felts increased during the Track Record Period, from approximately RMB25.8 million for the year ended 31 December 2018 to approximately RMB27.0 million for the year ended 31 December 2019, further to approximately RMB32.1 million for the year ended 31 December 2020, and from approximately RMB11.5 million for the six months ended 30 June 2020 to approximately RMB12.7 million for the six months ended 30 June 2021. In particular, the revenue growth from 2018 to 2019 was mainly due to the increase in its average selling price from approximately RMB152,000 per tonne to approximately RMB160,000 per tonne, mainly due to the increase in revenue generated from the sales of our high-speed specialty papermaking felts which generally command a relatively higher selling price during the period. The revenue growth from 2019 to 2020 mainly due to the increase of sale volume from 168.5 tonnes to 191.8 tonnes, resulting from our business focus on products of specialty papermaking felts and our prioritisation of our production capacity on such business. The slightly increase of revenue from the six months ended 30 June 2020 to the six months ended 30

June 2021 were mainly due to increase of sale volume from 68.1 tonnes to 76.2 tonnes, resulting from the same reason as mentioned above. The gross profit generated from such type of papermaking felts generally consistent with the trend of its revenue during the Track Record Period.

Our gross profit margin generated from specialty papermaking felts increased from approximately 52.7% for the year ended 31 December 2018 to 56.3% for the year ended 31 December 2019, and further to 58.2% for the year ended 31 December 2020, mainly due to the increase in revenue generated from the sales of our high-speed specialty papermaking felts which generally command a relatively higher selling price during the period. Our gross profit margin decreased slightly from approximately 56.4% for the six months ended 30 June 2020 to approximately 54.3% for the six months ended 30 June 2021 mainly due to temporary change in our product mix which the proportion of the products with lower gross profit margin increased slightly.

Printing papermaking felts

The decrease in revenue generated from printing papermaking felts from approximately RMB14.9 million the year ended 31 December 2018 to approximately RMB11.5 million the year ended 31 December 2019, and further to approximately RMB10.7 million the year ended 31 December 2020, was mainly due to the decrease of sale volume from 130.8 tonnes in 2018, to 93.3 tonnes in 2019, and further to 87.0 tonnes in 2020, resulting from our business focus on products of packaging papermaking felts and specialty papermaking felts and our prioritisation of our production capacity on such business given our utilisation rates had reached maximum capacity. Our revenue generated from printing papermaking felts slightly increased from approximately RMB4.2 million for the six months ended 30 June 2020 to approximately RMB5.0 million for the six months ended 30 June 2021, mainly due to the slightly increase of sale volume from 34.1 tonnes in the six months ended 30 June 2020 to 41.3 tonnes in the six months ended 30 June 2021. The gross profit generated from such type of papermaking felts generally consistent with the trend of its revenue during the Track Record Period.

Our gross profit margin generated from printing papermaking felts increased from approximately 41.4% for the year ended 31 December 2018 to 46.0% for the year ended 31 December 2019, and further to 46.6% for the year ended 31 December 2020, mainly due to the increase in revenue generated from the sales of our high-speed printing papermaking felts which generally command a relatively higher selling price during the period. Our gross profit margin decreased slightly from approximately 42.7% for the six months ended 30 June 2020 to approximately 40.2% for the six months ended 30 June 2021 mainly due to the temporary change in our product mix which the proportion of the products with lower gross profit margin increased slightly.

Household papermaking felts

Our revenue generated from household papermaking felts remained relatively stable at approximately RMB10.0 million, RMB10.6 million, RMB9.5 million, RMB4.2 million and RMB4.4 million respectively during the Track Record Period. Notwithstanding that our sale volume recorded a decrease from 94.2 tonnes in 2018, to 88.7 tonnes in 2019, and further to 71.4 in 2020, we can maintained a similar level of revenue as the average selling price increased from approximately RMB106,000 per tonne in 2018, to approximately RMB120,000 per tonne in 2019, and further to approximately RMB133,000 per tonne in 2020, as more high speed products were sold during the periods. The gross profit generated from such type of papermaking felts generally consistent with the trend of its revenue during the Track Record Period.

Our gross profit margin generated from household papermaking felts increased from approximately 37.8% for the year ended 31 December 2018 to 48.0% for the year ended 31 December 2019, and further to 53.7% for the year ended 31 December 2020, mainly due to the increase in revenue generated from the sales of our high-speed household papermaking felts which generally command a relatively higher selling price during the period. Our gross profit margin decreased from approximately 51.1% for the six months ended 30 June 2020 to approximately 43.9% for the six months ended 30 June 2021 mainly due to 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.

Pulp papermaking felts

Our revenue generated from pulp papermaking felts increased during from approximately RMB2.7 million for the year ended 31 December 2018 to approximately RMB3.6 million for the year ended 31 December 2019, further to approximately RMB5.6 million for the year ended 31 December 2020. Both the sale volume and the average selling price increased from 19.0 tonnes and RMB144,000 per tonne in 2018, to 22.5 tonnes and RMB162,000 per tonne in 2019, and further to 31.8 tonnes and RMB176,000 per tonne in 2020, mainly due to the increase in revenue generated from the sales of our high-speed pulp papermaking felts which generally command a relatively higher selling price during the period. Our revenue generated from pulp papermaking felts slightly decreased from approximately RMB2.3 million for the six months ended 30 June 2020 to approximately RMB1.8 million for the six months ended 30 June 2021 mainly due to the decreased of average selling price from RMB198,000 per tonne in the six months ended 30 June 2020 to RMB152,000 per tonne in the six months ended 30 June 2021. The gross profit generated from such type of papermaking felts generally consistent with the trend of its revenue during the Track Record Period.

Our gross profit margin generated from pulp papermaking felts increased from approximately 50.8% for the year ended 31 December 2018 to 55.7% for the year ended 31 December 2019, and further to 58.1% for the year ended 31 December 2020, mainly due to the increase in revenue generated from the sales of our high-speed pulp papermaking felts which generally command a relatively higher selling price during the period. Our gross profit margin decreased from approximately 57.3% for the six months ended 30 June 2020 to approximately 48.2% for the six months ended 30 June 2021 mainly due to 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.

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. As advised by Frost & Sullivan, regarding the classification of papermaking felts by speed, there is no standard threshold for the respective category of the speed of papermaking machine due to large variations of paper types by weight and the threshold of the respective speed category may increase along with technological advancement. The categorisation of speed is different based on paper types and papermaking machine. In view of the aforesaid reasons and considering the advancement of papermaking technology with higher speed for certain paper categories such as printing and packaging paper, higher speed papermaking machines have been developed and the range and threshold for speed categories for these paper types could be higher. The development and variation in the product mix of our Group can also be better reflected through the aforesaid categorisation. The following table sets out a breakdown of our revenue, sales volume, average selling price and gross profit of our papermaking felts during the Track Record Period based on the operating speed of the applicable papermaking machine:

	Year ended 31 December														
	2018					2019					2020				
	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit
	RMB '000		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*	*RMB '000*		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*	*RMB '000*		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*
High-speed papermaking felts	31,770	20.0	160.8	198	19,709	39,093	23.4	177.9	220	25,772	54,952	30.1	256.5	214	36,208
Medium-speed papermaking felts	90,433	56.7	622.5	145	43,895	92,940	55.5	599.2	155	48,958	91,429	50.0	623.5	147	46,635
Low-speed papermaking felts	37,153	23.3	358.6	104	14,280	35,281	21.1	340.4	104	14,599	36,378	19.9	323.3	113	16,776
Total	159,356	100.0	1,141.9		77,884	167,314	100.0	1,117.5		89,329	182,759	100.0	1,203.3		99,619

	Six months ended 30 June									
	2020					2021				
	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit	Revenue	% of total revenue	Sales volume	Average selling price	Gross profit
	RMB '000 *(unaudited)*		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*	*RMB '000*		*(tonnes)*	*(RMB'000 per tonne)*	*RMB '000*
High-speed papermaking felts	18,338	27.7	82.2	223	11,964	23,709	31.0	113.9	208	15,184
Medium-speed papermaking felts	32,222	48.7	214.8	150	16,043	36,914	48.2	252.5	146	17,832
Low-speed papermaking felts	15,645	23.6	141.0	111	6,847	15,892	20.8	147.9	107	6,061
Total	66,205	100.0	438.0		34,854	76,515	100.0	514.3		39,077

Among the five types of products, revenue generated from sales of our packaging papermaking felts accounted for approximately 66.5%, 68.6% and 68.3% of our total revenue for the three years ended 31 December 2020, respectively, and approximately 66.5% and 68.8% of our total revenue for the six months ended 30 June 2020 and 2021, respectively, being our largest contributing product type. Please refer to the paragraphs headed "Year to year comparison of results of operations" and "Period to period comparision of results of operations" in this section for the reasons of the fluctuations in our revenue during the Track Record Period.

The average selling prices of our papermaking felts generally increased from the year ended 31 December 2018 to the year ended 31 December 2020 which was mainly due to the increase in the production and sales volume of high-speed papermaking felts. The average selling price of our papermaking felts decreased from the six months ended 30 June 2020 to the six months ended 30 June 2021 which was 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. 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 during the Track Record Period.

Revenue breakdown by customer types

The following table sets forth the revenue breakdown by our customer types during the Track Record Period:

	Year ended 31 December									Six months ended 30 June					
	2018			2019			2020			2020			2021		
	RMB'000	*%*	*No. of customers*	*RMB'000*	*%*	*No. of customers*	*RMB'000*	*%*	*No. of customers*	*RMB'000* (unaudited)	*%*	*No. of customers*	*RMB'000*	*%*	*No. of customers*
Paper and paper products manufacturers															
— The PRC	138,232	86.7	437	140,396	83.9	411	157,825	86.4	409	54,924	83.0	312	64,646	84.5	316
— Overseas	541	0.4	5	639	0.4	7	957	0.5	9	511	0.8	6	523	0.7	7
	138,773	87.1	442	141,035	84.3	418	158,782	86.9	418	55,435	83.8	318	65,169	85.2	323
Trading companies															
— The PRC (Note)	15,153	9.5	47	19,314	11.5	45	17,346	9.5	50	7,634	11.5	36	8,166	10.7	42
— Overseas	5,430	3.4	9	6,965	4.2	10	6,631	3.6	15	3,136	4.7	8	3,180	4.1	6
	20,583	12.9	56	26,279	15.7	55	23,977	13.1	65	10,770	16.2	44	11,346	14.8	48
Total:	159,356	100.0	498	167,314	100.0	473	182,759	100.0	483	66,205	100.0	362	76,515	100.0	371

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

During the Track Record Period, we derived a significant portion of our revenue from the sales of papermaking felts to the PRC and overseas paper and paper products manufacturers, which accounted for approximately 87.1%, 84.3% and 86.9% of our total revenue for the three years ended 31 December 2020, respectively, and approximately 83.8% and 85.2% of our total revenue for the six months ended 30 June 2020 and 2021, respectively.

Revenue generated from the PRC and overseas trading companies increased during the Track Record Period, which accounted for approximately 12.9%, 15.7% and 13.1% of our total revenue for the three years ended 31 December 2020, respectively, and approximately 16.2% and 14.8% of our total revenue for the six months ended 30 June 2020 and 2021, respectively.

Revenue breakdown by geographical location of our customers

The following table sets forth information on the geographical locations of our revenue determined based on geographical region of our customers 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*	*%*
PRC										
— North China *(Note 1)*	50,030	31.4	49,980	29.9	63,491	34.8	19,472	29.4	28,042	36.6
— East China *(Note 2)*	50,532	31.7	56,936	34.0	60,159	32.9	22,724	34.3	22,112	28.9
— South China *(Note 3)*	36,670	23.0	37,404	22.4	31,513	17.2	12,290	18.6	13,355	17.5
— West China *(Note 4)*	10,529	6.6	11,123	6.7	11,496	6.3	4,608	7.0	6,334	8.3
— North-East China *(Note 5)*	4,378	2.8	2,212	1.3	5,539	3.0	2,402	3.6	1,873	2.4
— North-West China *(Note 6)*	1,246	0.8	2,054	1.2	2,973	1.6	1,062	1.6	1,096	1.4
Sub-total	153,385	96.3	159,709	95.5	175,171	95.8	62,558	94.5	72,812	95.1
Overseas *(Note 7)*	5,971	3.7	7,605	4.5	7,588	4.2	3,647	5.5	3,703	4.8
Total	159,356	100.0	167,314	100.0	182,759	100.0	66,205	100.0	76,515	100.0

Notes:

1. North China includes Henan, Hebei, Shandong, Shanxi, Tianjin, Beijing and Inner Mongolia.

2. East China includes Hubei, Anhui, Jiangsu, Zhejiang and Shanghai.

3. South China includes Hunan, Jiangxi, Fujian, Guangxi and Guangdong.

4. West China includes Sichuan, Chongqing, Guizhou and Yunnan.

5. North-East China includes Heilongjiang, Jilin and Liaoning.

6. North-West China includes Shaanxi, Ningxia, Gansu and Xinjiang.

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

During the Track Record Period, we derived a significant portion of our revenue from the sales of papermaking felts in the PRC, which accounted for approximately 96.3%, 95.5% and 95.8% of our revenue for the three years ended 31 December 2020, respectively, and approximately 94.5% and 95.1% of our revenue for the six months ended 30 June 2020 and 2021, respectively.

Revenue generated from overseas increased by approximately RMB1.6 million or 27.4% from approximately RMB6.0 million for the year ended 31 December 2018 to approximately RMB7.6 million for the year ended 31 December 2019 because according to our Directors, we devoted more resources to promote our brands overseas and remained stable at approximately RMB7.6 million for the year ended 31 December 2020. Revenue generated from overseas remained stable at approximately RMB3.7 million for the six months ended 30 June 2021 as compared with approximately RMB3.6 million for the six months ended 30 June 2020.

Cost of sales

Our cost of sales consisted of raw materials, direct labour costs, manufacturing overhead, utilities, depreciation and provision for warranty. 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

(a) raw materials included monofilaments, fibre and other raw materials. Other raw materials mainly include other raw materials used in our production, such as packaging materials, ancillary materials like machinery consumables and semi-finished products purchased from suppliers;

(b) direct labour costs consisted of wages and benefits of our workers directly engaged in the production facilities;

(c) manufacturing overhead mainly consisted of equipment maintenance costs, transportation costs in relation to the delivery of raw materials and other overhead costs incurred in the production of our products;

(d) utilities represented the electricity and water costs of our Chengdu Production Site and Shanghai Production Site and fuel for our machinery;

(e) depreciation represented the depreciation expenses of property, plant and equipment in relation to the depreciation of our plant and machinery and right-of-use assets; and

(f) provision for warranty represented management's best estimate of our liability under 45 to 120 days warranty granted on papermaking felts, based on prior experience and industry averages for defective products. Please refer to note 19 of the Accountants' Report in Appendix I to this prospectus for details.

Please refer to the paragraphs headed "Year to year comparison of results of operations" and "Period to period comparison of results of operation" in this section for the reasons of the fluctuations in our cost of sales during the Track Record Period.

Gross profit and gross profit margin

Our gross profit and gross profit margin during the Track Record Period are set out below:

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
				(unaudited)	
Revenue (RMB'000)	159,356	167,314	182,759	66,205	76,515
Gross profit (RMB'000)	77,884	89,329	99,619	34,854	39,077
Gross profit margin	48.9%	53.4%	54.5%	52.6%	51.1%

Our gross profit was approximately RMB77.9 million, RMB89.3 million and RMB99.6 million for the three years ended 31 December 2020, respectively, and approximately RMB34.9 million and RMB39.1 million for the six months ended 30 June 2020 and 2021, respectively. Our gross profit margin was approximately 48.9%, 53.4% and 54.5% for the three years ended 31 December 2020, respectively, and approximately 52.6% and 51.1% for the six months ended 30 June 2020 and 2021, respectively.

During the Track Record Period, our overall gross profit margin was 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. For the reasons of the fluctuations in our gross profit and gross profit margin during the Track Record Period, please refer to the paragraphs headed "Year to year comparison of results of operations" and "Period to period comparision of results of operation" in this section.

Other income

The table below sets forth a breakdown of our other income 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*
Bank interest income	75	105	191	63	89
Sale of scrap materials	1,551	1,465	1,836	733	873
Government subsidies	5,934	2,865	3,509	310	133
Exchange gains	282	—	—	140	—
Rental income	—	149	—	—	—
Rent concessions	—	—	387	231	—
Sundry income	241	177	102	50	169
Total	8,083	4,761	6,025	1,527	1,264

(a) sale of scrap materials was in relation to the sale of raw materials which were mainly the leftover materials scrapped from our finished goods as a result of customising the sizes of our papermaking felts according to customers' requirements;

(b) government subsidies represented government subsidies in the form of various non-recurring subsidies and incentives received from local governmental authorities for the purpose of supporting our operations, in particular, for the recognition of our research projects. All of the government subsidies are subject to the discretion of the relevant governmental authorities and are provided typically on a one-off basis. The table below sets forth a breakdown of our government subsidies:

Project	Governmental authority	Nature of government grants	Conditions for obtaining government subsidy	Year ended 31 December			Six months ended 30 June
				2018	2019	2020	2021
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
High-tech Achievements Transformation Project Supporting Fund* (高新技術成果轉化項目扶持資金) — the government subsidy for the years ended 31 December 2018, 2019 and 2020 resulted in the registration of seven patents, as set out in the paragraph headed "Statutory and General Information — B. Further information about the business — 2. Intellectual property rights" in Appendix V to this prospectus.	Shanghai Jinshan District Finance Bureau* (上海市金山區財政局)	Municipal financial support funds	The subsidy was to support research and development projects being recognised as Shanghai High-tech Achievement Transformation Project* (上海市高新技術成果轉化項目認定). The subsidy was issued to us based on our production of high-speed and high-resistance multi-axial stam papermaking felts products* (高車速高抗壓多軸向接縫造紙毛毯) by using our technology that was being recognised as Shanghai High-tech Achievement Transformation Project* on 4 August 2017.	2,825	2,175	1,082	—
Sichuan Action Special Fund* (四川行動資金) — the government subsidy in the year ended 31 December 2018 resulted in the registration of two patents and the application for registration of seven patents, as set out in the paragraph headed "Statutory and General Information — B. Further information about the business — 2. Intellectual property rights" in Appendix V to this prospectus.	Chengdu Wenjiang District Economic and Information Technology Bureau* (成都市溫江區經濟和信息化局)	Provincial financial support funds	The subsidy was to support transformation, upgrading, innovation and development of industrial enterprises pursuant to Made in China 2025 Sichuan Action Plan* (中國製造2025四川行動計劃). The subsidy was issued to us based on our research project on multi-axial and multi-ply papermaking felts technology* (多軸向多層造紙毛毯技術研究與產業化).	1,400	—	—	—
Financial Support Funds* (財政扶持資金)	Shanghai Jinshan District Finance Bureau* (上海市金山區財政局)	Financial support funds	The amount of subsidy is a certain percentage of tax paid. Selected enterprises shall submit application to the government authorities for subsidy. We received subsidy from Shanghai Jinshan District Finance Bureau* as we are able to satisfy the financial requirements.	—	212	—	—

Project	Governmental authority	Nature of government grants	Conditions for obtaining government subsidy	Year ended 31 December 2018	2019	2020	Six months ended 30 June 2021
				RMB'000	RMB'000	RMB'000	RMB'000
Special Funds for Industrial and Information Projects in Wenjiang District* (溫江區工業和信息化項目專項資金)	Chengdu National Strait Liang'an Technology Industrial Park Management Committee* (成都海峽兩岸科技產業開發園管委會)	Municipal financial support funds	The subsidy was to support industrial enterprises which are located and subject to taxation in Chengdu Wenjiang District pursuant to Certain Policies Regarding the Acceleration of Industrial Transformation and Upgrade of the Development of High-end and Green Technologies* (關於進一步加快工業提質增效轉型升級步伐實現高端綠色科技發展的若干政策措施). The subsidy was issued to us based on our technical transformation and participation in industrial exhibitions.	—	371	150	—
First batch of provincial science technology plan project in 2020* (2020年第一批省級科技計劃專案)	Chengdu Wenjiang District New Economy and Technology Bureau* (成都市溫江區新經濟和科技局)	Provincial financial support	The subsidy was issued based on our research project on multi-axial and multi-ply papermaking felts key technology achievement transformation project* (多軸向多層造紙毛毯關鍵技術成果轉化項目).	—	—	800	—
Little Giant of Technology Enterprises* (科技小巨人企業)	Shanghai Jinshan District Finance Bureau* (上海市金山區科財政局) and/or Shanghai Municipal Finance Bureau* (上海市市級科財政局)	Municipal and/or district level financial support	The subsidies were issued since we were recognised as Little Giant of Technology Enterprises* (科技小巨人企業) and subsequently evaluated as good performance by Shanghai Science and Technology Commission* (上海科學技術委員會).	240	—	960	—
Others	Various governmental authorities			1,469	107	517	133
Total:				5,934	2,865	3,509	133

(c) rental income was generated from the rental of a part of the production facility on our Chengdu Production Site to Sichuan Huanlong New Material Ltd.* (四川環龍新材料有限公司). Please refer to note 30 of the Accountants' Report set out in Appendix I to this prospectus for more information.

(d) rent concessions represented concessions of rental expenses of our Shanghai Production Site by our landlord due to the outbreak of COVID-19.

Please refer to the paragraphs headed "Year to year comparison of results of operations" and "Period to period comparison of results of operations" in this section for the reasons of the fluctuations in our other income during the Track Record Period.

Selling and distribution expenses

The following table sets forth a breakdown of our selling and distribution expenses 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*	*%*
Salaries and benefits	4,589	36.5	4,158	28.0	4,938	27.8	1,513	23.9	2,205	31.1
Travel and entertainment expenses	2,341	18.6	2,977	20.0	3,073	17.3	993	15.7	1,891	26.7
Logistics expenses	1,739	13.8	1,903	12.8	2,035	11.5	864	13.6	934	13.2
Agency service fees	3,268	26.0	4,911	33.1	7,165	40.3	2,779	43.8	1,949	27.5
Others	650	5.1	906	6.1	553	3.1	191	3.0	104	1.5
Total	12,587	100.0	14,855	100.0	17,764	100.0	6,340	100.0	7,083	100.0

(a) salaries and benefits were mainly the salaries and benefits and contributions to defined contribution retirement plans of our sales and marketing staff;

(b) travel and entertainment expenses were the costs incurred for our sales and marketing activities;

(c) logistics expenses were mainly the costs incurred in relation to the delivery of our products to our customers;

(d) agency service fees generally represented fees incurred for services in relation to customers' matters such as receiving purchase orders, handling export tax rebate applications, promoting our brands and identifying potential customers. Please refer to the paragraph headed "Business — Our business model" in this prospectus for more information; and

(e) others mainly included depreciation of furniture and fixtures in relation to our sales and marketing department, exhibition and advertising expenses and telecommunication expenses incurred by our sales and marketing staff.

Please refer to the paragraphs headed "Year to year comparison of results of operations" and "Period to period comparison of results of operations" in this section for the reasons of the fluctuations in our selling and distribution expenses during the Track Record Period.

Administrative and other operating expenses

The following table sets forth a breakdown of our administrative and other operating expenses 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*	*%*
Research and development costs	5,438	24.2	7,292	23.5	5,681	17.7	1,777	14.6	3,006	23.1
Staff costs	3,892	17.3	4,092	13.2	4,377	13.6	1,922	15.8	3,059	23.5
Depreciation and amortisation	3,111	13.9	3,539	11.4	4,509	14.0	2,239	18.4	2,431	18.7
Provision of allowance on receivables and inventories	2,385	10.6	1,381	4.4	1,793	5.6	2,032	16.7	736	5.7
Legal and professional fee	1,100	4.9	2,582	8.3	3,514	10.9	1,135	9.4	1,151	8.9
Office and motor vehicle expenses	654	3.0	686	2.2	589	1.9	208	1.7	309	2.4
Listing expenses	3,782	16.9	8,751	28.1	6,394	19.9	1,434	11.8	470	3.6
Professional bodies membership fees	279	1.2	158	0.5	102	0.3	16	0.1	70	0.5
Others	1,796	8.0	2,607	8.4	5,186	16.1	1,379	11.5	1,766	13.6
Total	22,437	100.0	31,088	100.0	32,145	100.0	12,142	100.0	12,998	100.0

(a) research and development costs were mainly our costs incurred on product development, mainly including raw materials consumed and staff costs. Please refer to the paragraph headed "Business — Research and development" in this prospectus for more information in relation to our research and development achievements. The table below sets forth a breakdown of our research and development costs during the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered patents *(note 1)*	4,348	566	1,432	1,034
Patents under application for registration *(note 2)*	—	1,023	1,023	1,081
Others *(note 3)*	1,090	5,703	3,225	891
	5,438	7,292	5,681	3,006

Notes:

1. Such costs represent the costs incurred in the research and development for the respective year or period where, as at the last date of the Track Record Period (i.e. 30 June 2021), a patent has been registered.

2. Such costs represent the costs incurred in the research and development for the respective year or period where, as at the last date of the Track Record Period (i.e. 30 June 2021), an application for registration of a patent has been made as a result.

3. Others represents costs incurred in the continuing research and development projects where, as at the respective year or period end date, neither a patent has been registered nor an application for registration of a patent has been made as a result.

(b) staff costs represented the salaries and benefits and contribution to defined contribution retirement plans of our general administrative staff other than direct labour and sales and marketing staff;

(c) depreciation and amortisation included the following: (i) lease charges and depreciation expenses of property, plant and equipment in relation to the depreciation of our leasehold improvements, furniture and fixtures, motor vehicles and right-of-use assets; and (ii) the amortisation of prepaid land lease in relation to the land on which our Shanghai Production Site is located and intangible assets including our intellectual properties and capitalised research and development costs;

(d) provision of allowance on receivables and inventories represented our determination of impairment of trade receivables and the identification of inventory obsolescence and estimated selling price in the ordinary course of business based on estimation and judgement. Please refer to note 3.1 of the Accountants' Report set out in Appendix I to this prospectus for more information;

(e) legal and professional fee mainly represented fees paid to tax advisor and property valuer, and the appointment of professional parties in relation to the Proposed PRC Listing and application fee for trademarks and patents;

(f) office and motor vehicle expenses were the utility expenses of our offices and the fuel expenses and toll road fees incurred by our administrative staff;

(g) listing expenses were expenses in relation to the Listing;

(h) professional bodies membership fees represented membership fees paid to associations like the China Nonwovens & Industrial Textiles Association. Please refer to the paragraph headed "History, Reorganisation and Corporate Structure — Business development — Overview" in this prospectus for more information on our business milestones;

(i) others mainly included insurance expense, other tax expenses such as stamp duty, property tax and land tax, incorporate expense representing costs in relation to the incorporation of our companies and provision made for a claim in relation to the dispute on the construction of factory building two. Please refer to the paragraph headed "Business — Legal proceedings and compliance" in this prospectus for more information of the claim.

Please refer to the paragraphs headed "Year to year comparison of results of operations" and "Period to period comparison of results of operations" in this section for the reasons of the fluctuations in our administrative and other operating expenses during the Track Record Period.

Finance costs

Finance costs comprised of interest expenses on our discounted bills financing, bank borrowings, other borrowing and lease liabilities. Our finance costs amounted to approximately RMB7.5 million, RMB6.7 million and RMB7.2 million for the three years ended 31 December 2020, respectively, and approximately RMB3.6 million and RMB3.8 million for the six months ended 30 June 2020 and 2021, respectively. We utilised discounted bills financing and bank borrowings in the PRC to maintain the level of our working capital for our business operation.

Please refer to the paragraph headed "Indebtedness — Bank borrowings" in this section for details of our bank borrowings and the paragraphs headed "Year to year comparison of results of operations" and "Period to period comparison of results of operations" in this section for the reasons of the fluctuations in our finance costs during the Track Record Period.

Income tax expense

Taxation represents income tax paid or payable by us at the applicable tax rates in accordance with the relevant laws and regulations in each of the tax jurisdictions that we operate or are domiciled in. We had no tax payable in other jurisdictions other than in the PRC during the Track Record Period. Based on the compliance confirmations issued by the relevant tax authorities in the PRC in respect of our Group's operating subsidiaries, our PRC Legal Advisers are of the view that each of our PRC operating subsidiaries has completed the necessary tax registrations and the tax rates implemented by it are in compliance with the relevant PRC laws during the Track Record Period. Our PRC Legal Advisers have not revealed any of our PRC operating subsidiaries which is subject to administrative penalties imposed by the relevant tax authorities due to serious violations of the relevant laws and regulations during the Track Record Period. Our PRC subsidiaries have filed tax filing in accordance with the relevant laws and regulations during the Track Record Period and up to the Latest Practicable Date. Our Company confirms that our Group was not subject to any tax investigation, penalties or surcharges in material respect up to the Latest Practicable Date.

Cayman Islands profit tax

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

BVI income tax

Lion Courage and Virtuous Way were incorporated in the BVI and have not been subject to any taxation in the BVI.

Hong Kong

Vanov Tianhe and Marvel Dragon were incorporated in Hong Kong and have not been subject to any taxation in Hong Kong. No provision for Hong Kong profits tax has been provided as our Group did not have any assessable profits derived in Hong Kong during the Track Record Period.

The PRC

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, PRC EIT is calculated at 25% of the assessable profits for subsidiaries established in the PRC.

Pursuant to the relevant laws and regulations in the PRC, Sichuan Huanlong, our subsidiary in the PRC, was qualified under the development strategy of the PRC's western region and was able to enjoy a preferential income tax rate of 15% for the three years ended 31 December 2020 and the six months ended 30 June 2021. In 2014, Shanghai Jinxiong, our subsidiary in the PRC, was accredited as a high and new technology enterprise in 2014 and further renewed in 2017 and 2020, and was therefore entitled to a preferential tax rate of 15% during the Track Record Period and up to the year ending 31 December 2022. In addition, both Sichuan Huanlong and Shanghai Jinxiong are eligible for a tax deduction of up to 175%, 175%, 175% and 175% of approved research and development costs incurred for each of the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively.

The following table sets forth the breakdown of our income tax expense of our Group 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*
Current tax					
PRC EIT	4,818	6,187	7,181	1,913	2,221
Over-provision in prior year	—	—	(253)	—	(40)
	4,818	6,187	6,928	1,913	2,181
Deferred tax					
Current year	1,436	214	553	834	(10)
Income tax expense	6,254	6,401	7,481	2,747	2,171

Reconciliation between income tax expense and accounting profit at applicable tax rate:

	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*
Profit before income tax	43,460	41,478	48,494	14,259	16,457
Tax at the applicable income tax of 25%	10,865	10,370	12,124	3,565	4,115
Tax effects of non-deductible expenses *(note)*	1,177	2,801	2,314	454	198
Tax effects of non-taxable income	(1,053)	—	—	(44)	(10)
Tax effect of temporary differences previously not recognised	718	—	—	449	18
Utilisation of temporary differences previously not recognised	—	(582)	(92)	—	—
Additional deduction for research and development expenses	(1,803)	(2,200)	(1,291)	(435)	(921)
Over-provision in prior year	—	—	(253)	—	(40)
Effect of income taxed at concessionary rate	(3,650)	(3,988)	(5,321)	(1,242)	(1,189)
Income tax expenses	6,254	6,401	7,481	2,747	2,171

Note: Tax effects of non-deductible expenses primarily included the tax effects of listing expenses of approximately RMB0.9 million, RMB2.2 million, RMB1.6 million and RMB0.1 million for the Track Record Period, respectively. The remaining amount was due to other non-deductable of insignificant amount such as certain entertainment expenses that are not deductible as according to the relevant laws, only 60% of the entertainment expenses incurred by the enterprise relating to the production and operation activities, but not higher than 0.5% of the revenue of the relevant year, is deductible, and the expenses incurred by Huanlong Lixin and Huanlong Funeng, as both companies did not generate any assessable income.

Our effective tax rates were approximately 14.4%, 15.4% and 15.4% for the three years ended 31 December 2020, respectively, and approximately 19.3% and 13.2% of our total revenue for the six months ended 30 June 2020 and 2021, respectively. Please refer to the paragraphs headed "Year to year comparison of results of operations" and "Period to period comparison of results of operations" in this section for the reasons of the fluctuations in our income tax expenses and effective tax rates during the Track Record Period. Please refer to note 8 of the Accountants' Report set out in Appendix I to this prospectus for more information.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2020 compared with year ended 31 December 2019

Revenue

Our revenue increased by approximately RMB15.5 million or 9.3% 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.

Cost of sales

Our overall cost of sales increased by approximately RMB5.1 million or 6.5% from approximately RMB78.0 million for the year ended 31 December 2019 to approximately RMB83.1 million for the year ended 31 December 2020, which is generally in line with (i) the increase of revenue for the year ended 31 December 2020; and (ii) the increase in our overall sales volume of our papermaking felts from approximately 1,117.5 tonnes for the year ended 31 December 2019 to

1,203.3 tonnes for the year ended 31 December 2020. Such increase is partially offset by the decrease in the average price of raw material of the Group for the year ended 31 December 2020, which is consistent with the trend of market price in the industry for the years ended 31 December 2019 and 2020.

Gross profit and gross profit margin

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.

Other income

Our other income increased by approximately RMB1.2 million or 25.0% from approximately RMB4.8 million for the year ended 31 December 2019 to approximately RMB6.0 million for the year ended 31 December 2020. Such increase was mainly attributable to the combined effect of (i) the rent concessions of our Shanghai Production Site in relation to the COVID-19 outbreak of approximately RMB0.4 million; (ii) the increase of sales of scrap material by approximately RMB0.4 million; and (iii) the increase in government subsidies by approximately RMB0.6 million for the year ended 31 December 2020.

Selling and distribution expenses

Our selling and distribution expenses increased from approximately RMB14.9 million for the year ended 31 December 2019 to approximately RMB17.8 million for the year ended 31 December 2020, representing an increase of approximately RMB2.9 million or 19.5%. The increase was mainly due to the increase in agency service fees by approximately RMB2.3 million as a result of our devotion of resources to promote our brands and seek cooperation opportunities with the high quality or large-scale potential customers.

Administrative and other operating expenses

Our administrative and other operating expenses increased from approximately RMB31.1 million for the year ended 31 December 2019 to approximately RMB32.1 million for the year ended 31 December 2020, representing an increase of approximately RMB1.0 million or 3.2%.

Such increase was mainly due to the provision of legal claims of approximately RMB1.3 million in the consolidated statements of profit or loss for the year ended 31 December 2020 made for a claim in relation to the construction of factory building two. For more information of the claim, please refer to the paragraph headed "Business — Legal proceedings and compliance" in this prospectus.

Finance costs

Our finance cost increased by approximately RMB0.5 million or 7.5% from approximately RMB6.7 million for the year ended 31 December 2019 to approximately RMB7.2 million for the year ended 31 December 2020. This was due to the net effect of the following: (i) the increase of interest expenses on bank borrowings by approximately RMB0.8 million; and (ii) decrease in interest expenses on discounted bills financing by approximately RMB0.2 million mainly due to decrease in the amounts of bills discounted to banks prior to maturity for the year ended 31 December 2020.

Income tax expense

Our income tax expense increased by approximately RMB1.1 million or 17.2% from approximately RMB6.4 million for the year ended 31 December 2019 to approximately RMB7.5 million for the year ended 31 December 2020, which was mainly due to the increase in our profit before income tax from approximately RMB41.5 million for the year ended 31 December 2019 to approximately RMB48.5 million for the year ended 31 December 2020.

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

As a result of the foregoing, the 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.

Year ended 31 December 2019 compared with year ended 31 December 2018

Revenue

Our revenue increased by approximately RMB7.9 million or 5.0% 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.

Cost of sales

Although our revenue increased by approximately RMB7.9 million or 5.0% for the year ended 31 December 2019, our overall cost of sales decreased by approximately RMB3.5 million or 4.3% from approximately RMB81.5 million for the year ended 31 December 2018 to approximately RMB78.0 million for the year ended 31 December 2019. In which our raw materials costs decreased by approximately RMB3.5 million due to the net effect of (i) the decrease in cost of monofilaments by approximately RMB2.9 million or 14.4% for the year ended 31 December 2019, which corresponded to the decrease in overall sales volume of our papermaking felts from approximately 1,142 tonnes for the year ended 31 December 2018 to approximately 1,118 tonnes for the year ended 31 December 2019; and (ii) the increase in depreciation of approximately RMB0.7 million or 17.9% for the year ended 31 December 2019 mainly because of the full year effect of depreciation expenses arising from the additions of plant and machinery during the year ended 31 December 2018.

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, representing an increase of approximately RMB11.4 million or 14.6%. The increase was mainly due to the combined effect of the increase in our revenue and the decrease in our cost of sales during the same period as a result of the reasons as discussed above. 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 (i) the decrease in our cost of sales as a result of the reasons aforesaid; and (ii) the increase in the production and sales volume of the medium-speed and high-speed papermaking felts with higher gross profit margin by approximately RMB11.1 million or 17.5% from approximately RMB63.6 million for the year ended 31 December 2018 to approximately RMB74.7 million for the year ended 31 December 2019.

Other income

Our other income decreased by approximately RMB3.3 million or 40.7% from approximately RMB8.1 million for the year ended 31 December 2018 to approximately RMB4.8 million for the year ended 31 December 2019. Such decrease was mainly due to the decrease in government subsidies received from various local governmental authorities where according to our Directors, those government subsidies are subject to changes in policies in terms of the types of research projects which can be subject to these subsidies. During the year ended 31 December 2019, certain research projects conducted on the development of various papermaking felts including specialty papermaking felts and high-speed papermaking felts did not qualify for the government subsidies from local governmental authorities.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB2.3 million or 18.3% from approximately RMB12.6 million for the year ended 31 December 2018 to approximately RMB14.9 million for the year ended 31 December 2019 which was mainly due to the combined effect of (i) the increase in our agency service fees by approximately RMB1.6 million as a result of our devotion of resources to maintain our sales channels and promote our brands; and (ii) the increase of travel and entertainment expenses by approximately RMB0.6 million for the year ended 31 December 2019.

Administrative and other operating expenses

Our administrative and other operating expenses increased by approximately RMB8.7 million or 38.8% from approximately RMB22.4 million for the year ended 31 December 2018 to approximately RMB31.1 million for year ended 31 December 2019. Such increase was mainly due to the net effect of the following: (i) the increase in research and development costs by approximately RMB1.9 million or 35.2% because of our progress in research and development of papermaking felts and the related technological production process for the year ended 31 December 2019; (ii) the increase of listing expenses in connection with the Listing by approximately RMB5.0 million or 131.6% for the year ended 31 December 2019; and (iii) the decrease in provision of allowance on receivables and inventories by approximately RMB1.0 million for the year ended 31 December 2019 where according to our Directors, the fluctuations were mainly affected by the changes in the ageing analysis of our trade receivables.

Finance costs

Our finance costs decreased by approximately RMB0.8 million or 10.7% from approximately RMB7.5 million for the year ended 31 December 2018 to approximately RMB6.7 million for the year ended 31 December 2019. This decrease was mainly due to the decrease of interest expenses on bank borrowings by approximately RMB0.7 million for the year ended 31 December 2019, as a result of the decrease of our bank borrowings from RMB122.5 million for the year ended 31 December 2018 to RMB117.0 million for the year ended 31 December 2019.

Income tax expense

Our income tax expense remained relatively stable at approximately RMB6.3 million for the year ended 31 December 2018 to approximately RMB6.4 million for the year ended 31 December 2019, which the slight increase was mainly due to the net effect of (i) the increase of approximately RMB2.3 million in the tax effects of non-deductible expenses in the year ended 31 December 2019 which mainly resulted from non-deductible listing expenses in connection with the Listing; and (ii) the decrease of approximately RMB1.0 million in the tax effect of temporary differences previously not recognised. Please refer to note 2.21 of the Accountants' Report set out in Appendix I to this prospectus for more information.

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

The profit and total comprehensive income for the year decreased by RMB2.1 million or 5.7% 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.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATION

Six months ended 30 June 2021 compared with six months ended 30 June 2020

Revenue

Our revenue increased by approximately RMB10.3 million or 15.6% 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.

Cost of sales

Our overall cost of sales increased by approximately RMB6.0 million or 19.1% from approximately RMB31.4 million for the six months ended 30 June 2020 to approximately RMB37.4 million for the six months ended 30 June 2021. Such increase in overall cost of sales mainly due to (i) increase in raw material and direct labour cost attributable to the business growth; and (ii) the increase in overall sales volume of our papermaking felts.

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 RMB34.9 million for the six months ended 30 June 2020 to approximately RMB39.1 million for the six months ended 30 June 2021. The increase was mainly due to the increase 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, which was 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.

Other income

Our other income decreased by approximately RMB0.2 million or 13.3% from approximately RMB1.5 million for the six months ended 30 June 2020 to approximately RMB1.3 million for the six months ended 30 June 2021. Such decrease was mainly due to the decrease in government subsidies and the decrease in rent concession received being recognised of approximately RMB231,000 for the six months ended 30 June 2020.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB0.8 million or 12.7% from approximately RMB6.3 million for the six months ended 30 June 2020 to approximately RMB7.1 million for the six months ended 30 June 2021 which was mainly due to the combined effect of (i) the increase in our salaries and benefits by approximately RMB0.7 million; and (ii) the increase of travel and entertainment expenses by approximately RMB0.9 million during the period since more business travels for the six months ended 30 June 2021 than the same period in 2020 due to the impact of the outbreak of COVID-19 and our increasing effort on sourcing new customers.

Administrative and other operating expenses

Our administrative and other operating expenses increased by approximately RMB0.9 million or 7.4% from approximately RMB12.1 million for the six months ended 30 June 2020 to approximately RMB13.0 million for six months ended 30 June 2021. Such increase was mainly due to the net effect of the following: (i) the increase in research and development costs by approximately RMB1.2 million because of our progress in research and development of papermaking felts and the related technological production process during the same period; and (ii) the increase in our salaries and benefits offset by the decrease in listing expenses.

Finance costs

Our finance costs increased slightly by approximately RMB0.2 million or 5.6% from approximately RMB3.6 million for the six months ended 30 June 2020 to approximately RMB3.8 million for the six months ended 30 June 2021, which was relatively stable.

Income tax expense

Our income tax expense decreased by approximately RMB0.5 million or 18.5% from approximately RMB2.7 million for the six months ended 30 June 2020 to approximately RMB2.2 million for the six months ended 30 June 2021, which was mainly due to the high amount of non-deductible expenses for the six months ended 30 June 2020.

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

As a result of the foregoing, the profit and total comprehensive income for the period increased by RMB2.8 million or 24.3% 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. Our net profit margin increased from approximately 17.4% for the six months ended 30 June 2020 to 18.7% for the six months ended 30 June 2021.

NET CURRENT ASSETS

The following table sets forth the breakdown of our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2018	2019	2020	2021	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current assets					
Inventories	12,311	11,263	10,034	11,529	17,945
Trade and other receivables	107,511	128,885	141,111	123,767	123,979
Amounts due from related parties	3,220	3,389	205	99	61
Restricted bank deposit	1,800	1,000	1,000	1,002	1,002
Cash and cash equivalent	14,851	28,439	29,775	37,702	19,365
	139,693	172,976	182,125	174,099	162,352
Current liabilities					
Contract liabilities	737	711	739	1,034	1,067
Trade and other payables	41,850	43,899	47,221	46,484	39,359
Lease liabilities	1,453	1,397	1,545	1,574	1,599
Amounts due to a related party	27	30	27	5	14
Discounted bills financing	500	450	—	—	3,967
Bank borrowings	122,500	117,000	115,000	115,000	115,000
Other borrowing	—	—	—	7,942	8,927
Income tax payable	3,765	4,642	6,586	4,344	4,838
	170,832	168,129	171,118	176,383	174,771
Net current (liabilities)/assets	(31,139)[(Note 1)]	4,847	11,007	(2,284)[(Note 2)]	(12,419)

Notes:

1. We recorded net current liabilities as at 31 December 2018, which was mainly due to a decrease in current assets attributable to (i) a dividend of RMB20.0 million distributed for the year ended 31 December 2018; (ii) the acquisition of intangible assets of RMB32.5 million; and (iii) the acquisition of land use right of RMB6.7 million.

2. We recorded net current liabilities as at 30 June 2021, which 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 leaseback 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.

DISCUSSION OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

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; (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 days.

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 leaseback 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.

We recorded net current liabilities of approximately RMB12.4 million as at 31 October 2021 as compared to the net current liabilities of approximately RMB2.3 million as at 30 June 2021. Such change was mainly due to (i) the decrease in cash and cash equivalent of approximately RMB18.3 million; and (ii) the increase in other borrowing of approximately RMB1.0 million.

Our Directors believe that we have sufficient working capital to meet our present and future cash requirements for at least the next 12 months from the date of publication of this prospectus, taking into account cash flow generated from our business, bank loans and facilities and net proceeds from the Global Offering. The details of these factors are as follows:

i. Cash flow generated from our business. 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;

ii. Bank loans and facilities. Historically, we have been able to refinance our short-term bank borrowings at maturity if needed, and we do not foresee any impediment in continuing to do so in the future. We will continue to maintain relationship with our principal banks so as to timely obtain or renew bank borrowings if so required and on acceptable terms to our Group; and

iii. Net proceeds from the Global Offering. 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.

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. As at 31 October 2021, being the latest practicable date for the liquidity disclosures, we had RMB115.0 million available bank facilities, which was fully utilised. Other than the bank borrowings that we may obtain, we do not have any plans for material external debt financing. As such, our Directors believe that the net current liabilities as at 31 December 2018 and 30 June 2021 will not have any adverse effect on the going concern of our Group.

Our Directors confirm that we had no default or delay in payment of our bank borrowings and lease liabilities during the Track Record Period that would have material impact on our business, financial conditions or results of operations. We will keep on monitoring our liquidity position to ensure sufficient working capital is maintained.

Property, plant and equipment

Property, plant and equipment mainly comprise of buildings, leasehold improvements, plant and machinery, furniture and fixtures, motor vehicles, and construction in progress. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the carrying amount of property, plant and equipment amounted to approximately RMB65.7 million, RMB61.6 million, RMB72.7 million and RMB131.2 million, respectively.

The carrying amount of property, plant and equipment decreased by RMB4.1 million from RMB65.7 million as at 31 December 2018 to RMB61.6 million as at 31 December 2019, mainly due to the depreciation.

The carrying amount of property, plant and equipment increased by RMB11.1 million from RMB61.6 million as at 31 December 2019 to RMB72.7 million as at 31 December 2020, mainly due to the increase of construction in progress of RMB15.3 million primarily from the increase in construction cost of factory building two.

The carrying amount of property, plant and equipment increased by RMB58.5 million from RMB72.7 million as at 31 December 2020 to RMB131.2 million as at 30 June 2021, mainly due to the increase of construction in progress of RMB60.8 million primarily from the acquisition of production machinery and the increase in construction cost of factory building two.

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 as at 31 December 2018, RMB44.2 million as at 31 December 2019, RMB51.1 million as at 31 December 2020 and RMB55.7 million as at 30 June 2021.

Our intangible assets increase from RMB39.9 million as at 31 December 2018 to RMB44.2 million as at 31 December 2019, mainly due to the increase in (i) the purchase of computer software of RMB0.6 million, (ii) the addition of capitalised development costs, and (iii) the addition of construction in progress. Our intangible assets further increased to RMB51.1 million as at 31 December 2020 and RMB55.7 million as at 30 June 2021, mainly due to the increase in (i) the addition of capitalised development costs, and (ii) the addition of construction in progress.

The trademarks with indefinite useful lives and the intangible assets under construction in progress which are not yet available for use have been allocated to the relevant cash-generating units (the "**CGU**") which is the same for impairment testing. The recoverable amount of the CGU has been determined based on value in use calculations, covering a detailed four-year budget plan, followed by an extrapolation of expected cash flows at the average growth rates of 4%. The discount rates applied to the cash flow projections were 13.6%, 12.4%, 13.0% and 12.8% as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. The key assumptions for our Group have been determined by our Group's management based on past performance and its expectations for the industry development. The discount rates used are pre-tax and reflects specific risks relating to the segment. Based on the above key assumptions, the recoverable amount would exceed the carrying amounts of the CGU by not less than approximately RMB32.0 million, RMB46.0 million, RMB57.0 million and RMB57.1 million as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. If the growth rate decreased by 1% or the discount rate (pre-tax) increased by 1%, the recoverable amount of the relevant CGU would be dropped by approximately RMB5.0 million and RMB6.5 million as at 31 December 2018, RMB7.3 million and RMB9.2 million as at 31 December 2019, RMB7.8 million and RMB9.8 million as at 31 December 2020 and RMB8.5 million and RMB12.2 million as at 30 June 2021, respectively.

In the opinion of the directors of the Company, a reasonably possible change in key parameters would not cause the carrying amount of the relevant cash-generating unit to exceed the recoverable amount. If the growth rate decreased by 15% or discount rate increased by 8% as at 31 December 2018 or the growth rate decreased by 18% or discount rate increased by 10% as at 31 December 2019 or the growth rate decreased by 25% or discount rate increased by 13% as at 31 December 2020 or the growth rate decreased by 26% or discount rate increased by 13% as at 30 June 2021, the recoverable amount of the relevant CGU would be approximated to its carrying amount.

In the opinion of the directors, there is no reasonably possible change in the key assumptions on which the recoverable amount of the trademarks is based that would cause the carrying amounts to exceed the recoverable amount.

In addition, we acquired ten trademarks since the trademarks are important to our papermaking felts business operated by our operating subsidiary, namely Sichuan Huanlong, under Chengdu Huanlong in 2018 prior to the Reorganisation. We acquired these trademarks from Chengdu Huanlong, which ceased to be the controlling shareholder of our subsidiary after the Reorganisation, due to the importance of the trademarks for our papermaking felts business and the fact that Chengdu Huanlong ceased to be the controlling shareholder of our subsidiary after the Reorganisation. The contract sum of the acquisition of these ten trademarks, being approximately RMB32.5 million (net of VAT), was determined after arm's length negotiation between the parties and based on normal commercial terms, with reference to a valuation report.

Inventories

The following table sets forth the breakdown of our inventories as at 31 December 2018, 2019 and 2020 and 30 June 2021:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	7,870	7,574	5,448	5,582
Work-in-progress	2,658	2,162	2,922	3,296
Finished goods	3,658	3,444	2,831	4,061
	14,186	13,180	11,201	12,939
Less: provision for inventories *(Note)*	(1,875)	(1,917)	(1,167)	(1,410)
Total	12,311	11,263	10,034	11,529

Note: Provision for inventories is mainly made on finished goods aged over one year, which is made over 70% of the cost amount.

Our inventory mainly includes raw materials, work-in-progress and finished goods. Our raw material inventories mainly include commonly used raw materials as well as supplemental raw materials such as packaging materials.

As at 31 December 2018, 2019 and 2020 and 30 June 2021, our Group's inventories of RMB3.9 million, RMB3.1 million, RMB2.4 million and RMB2.8 million are pledged to a bank to secure bank borrowing granted to the Group.

Our inventories decreased by approximately RMB1.0 million or 8.1% to approximately RMB11.3 million as at 31 December 2019 further decreased by approximately RMB1.3 million or 11.5% to approximately RMB10.0 million as at 31 December 2020. Our inventories increased by approximately RMB1.5 million or 15.0% to approximately RMB11.5 million as at 30 June 2021.

The fluctuation of our inventories balances as at the end of each reporting period was because we maintain our inventory level based on the amount of purchase orders received and our projection of the demand from our customers which is made with reference to historical order amounts.

We regularly review our inventory levels for slow moving inventory, obsolescence or declines in market value. Allowance is made when the net realisable value, which is based primarily on the latest market price estimated by management, of inventories falls below the cost of any of the inventories is identified as obsolete. Provision or (reversal) for inventories of approximately RMB0.1 million, RMB42,000, RMB(0.8) million and RMB0.2 million were recognised for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. Our Directors consider the provision for inventories as at 30 June 2021 is adequate for the reasons that: (i) majority of the inventories of finished goods were aged less than one year and our inventory turnover days during the Track Record Period is only around two months; (ii) for the finished goods aged more than one year, we have made provision of 70% of the cost amount, based on our past experience and taking into account the income from selling them as scraps; and (iii) the finished goods aged over one year are not perishable or fragile products and can maintain saleable value.

The following is an ageing analysis of our Group's inventories as at the end of each of the year/period comprising the Track Record Period:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	8,754	8,040	6,872	8,386
91 days to 180 days	547	850	641	421
181 days to 365 days	1,891	1,214	608	1,422
Over 365 days	2,994	3,076	3,080	2,710
	14,186	13,180	11,201	12,939

The following table sets forth the turnover days of our inventories for the years/period indicated:

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	(day)	*(day)*	*(day)*	*(day)*	*(day)*
Inventory turnover days*(Note)*	65.9	55.2	46.9	72.8	52.1

Note: Average inventory turnover days is calculated as the average of the beginning and ending inventory balances for the year/period, divided by the cost of sales of the relevant year/period, multiplied by the number of days in the relevant year/period.

Our inventory turnover days deceased from approximately 65.9 days for the year ended 31 December 2018 to approximately 55.2 days for the year ended 31 December 2019 and further decreased to approximately 46.9 days for the year ended 31 December 2020, which, according to our Directors, was primarily attributable to improvement in managing our inventory level. Our inventory turnover days decreased from approximately 72.8 days for the six months ended 30 June 2020 to approximately 52.1 days for the six months ended 30 June 2021. Such decrease in inventory turnover days was mainly due to the improvement of our inventory control measures.

As at the Latest Practicable Date, approximately RMB11.5 million or 89.2% of our inventories as at 30 June 2021 had been used or sold.

Trade and other receivables

As at 31 December 2018, 2019 and 2020 and 30 June 2021, our trade and other receivables amounted to approximately RMB107.5 million, RMB128.9 million, RMB141.1 million and RMB123.8 million, respectively. The following table sets out a breakdown of our trade and other receivables as at the indicated dates:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
— Third parties	82,069	97,568	110,475	106,417
— Related parties	1,140	847	577	470
Bills receivables	23,719	22,684	27,408	15,786
Less: Loss allowance provision	(8,053)	(4,268)	(5,724)	(5,950)
	98,875	116,831	132,736	116,723
Prepayments	585	2,657	3,004	2,049
Prepaid listing expenses	1,260	2,705	3,141	3,245
Other receivables	6,791	6,692	2,230	1,750
	8,636	12,054	8,375	7,044
	107,511	128,885	141,111	123,767

Our trade receivables and bills receivables are derived from sales of our products. Depending on business negotiations, some of our customers pay deposits for their sales order and settle the remaining balance after the delivery of products while some of our customers settle the full transaction amounts in advance. Our customers generally settle the trade receivables by bank acceptance bills or bank remittance. While some of our customers are required to settle payment before delivery of our products, we generally granted a credit period of 30 to 180 days to our customers during the Track Record Period.

Trade receivables

The following is an ageing analysis of trade receivables presented based on the delivery date as at the respective dates indicated:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	51,827	66,545	73,589	53,344
91 days to 180 days	15,855	14,890	20,472	12,206
181 days to 365 days	6,647	12,072	11,314	35,593
Over 365 days	8,880	4,908	5,677	5,744
	83,209	98,415	111,052	106,887

As at the Latest Practicable Date, approximately RMB81.4 million or 97.8%, RMB96.7 million or 98.3%, RMB99.0 million or 89.1%, and RMB74.3 million or 69.5% of our trade receivables as at 31 December 2018, 2019 and 2020 and 30 June 2021 have been settled, respectively.

Due to the fragmented nature of our Group's customers base, our Group's trade receivables during the Track Record Period were attributed by over 300 customers, which did not indicate any material concentration issues. The trade receivables attributed by our five largest debtors was approximately 16.2%, 17.0%, 13.9% and 12.0%, respectively, of our trade receivables as at the year/period ended date of the Track Record Period.

The trade receivables aged over 180 days as at 30 June 2021, which remained outstanding as at the Latest Practicable Date, amounted to approximately RMB12.1 million. The table below sets out the details of subsequent settlement of our long outstanding trade receivable balances as at 30 June 2021 (namely those aged over 180 days and remained unsettled as at the Latest Practicable Date) by category of customers:

	Trade receivables aged over 180 days as at 30 June 2021	**Subsequent settlement up to the Latest Practicable Date**	**Unsettled balance of trade receivables up to the Latest Practicable Date**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*
The five largest debtors	7,131	5,670	1,461
The five largest customers during the Track Record Period			
Customer Group A	817	817	—
Customer Group B	2	2	—
Customer Group F	464	464	—
Customer Group G	205	202	3
Customer H	552	552	—
Subtotal	2,040	2,037	3
Other customers [(note)]	32,166	21,564	10,602
Total	41,337	29,271	12,066

Note: There were over 200 customers included in this category and the amount of trade receivables attributed ranged from approximately RMB10,000 to RMB0.9 million with an average of approximately RMB139,000.

As at the Latest Practicable Date, the subsequent settlements of our Group's trade receivables by age group as at the end of each of the years/period comprising the Track Record Period are as below:

	Trade receivable as at 31 December 2018	Subsequent settlement up to the Latest Practicable Date	
	RMB'000	*RMB'000*	%
Within 90 days	51,827	51,046	98.5
91 days to 180 days	15,855	15,561	98.1
181 days to 365 days	6,647	6,343	95.4
Over 365 days	8,880	8,464	95.3
	83,209	81,414	97.8

	Trade receivable as at 31 December 2019	Subsequent settlement up to the Latest Practicable Date	
	RMB'000	*RMB'000*	%
Within 90 days	66,545	66,116	99.4
91 days to 180 days	14,890	14,703	98.7
181 days to 365 days	12,072	11,634	96.4
Over 365 days	4,908	4,246	86.5
	98,415	96,699	98.3

	Trade receivable as at 31 December 2020	Subsequent settlement up to the Latest Practicable Date	
	RMB'000	*RMB'000*	%
Within 90 days	73,589	65,525	89.0
91 days to 180 days	20,472	18,940	92.5
181 days to 365 days	11,314	10,448	92.3
Over 365 days	5,677	4,072	71.7
	111,052	98,985	89.1

	Trade receivable as at 30 June 2021	Subsequent settlement up to the Latest Practicable Date	
	RMB'000	*RMB'000*	*%*
Within 90 days	53,344	35,925	67.3
91 days to 180 days	12,206	9,130	74.8
181 days to 365 days	35,593	25,998	73.0
Over 365 days *(Note)*	5,744	3,273	57.0
	106,887	74,326	69.5

Up to the Latest Practicable Date, the unsettled balances of the trade receivables as at 31 December 2018 and 2019 were approximately RMB1.8 million and RMB1.7 million, respectively. As at 31 December 2018 and 2019, approximately RMB8.1 million and RMB4.3 million of loss allowance provision had been made, respectively, all of which are higher than the latest unsettled balances of the trade receivables in the respective year. As at the Latest Practicable Date, approximately RMB2.3 million trade receivables as at 30 June 2021 were subject to legal proceedings initiated by us against our customers for chasing the trade receivables, of which we have made the provisions of approximately RMB2.2 million.

Up to the Latest Practicable Date, there were approximately RMB32.6 million of trade receivables as at 30 June 2021 remained unsettled. The outstanding amounts as at the Latest Practicable Date are considered recoverable for the reasons that: (i) in respect of the trade receivables aged 180 days or below, the trade receivables under this category are within the general credit period of around 30 to 180 days granted to our customers; (ii) in respect of the trade receivables aged 180 days or above, there were approximately RMB12.1 million unsettled balance. Out of such RMB12.1 million unsettled balance, approximately RMB11.0 million were related to customers who either had made repayment or had or expected to have sales transactions with our Group in 2021; while for the remaining approximately RMB1.1 million, we had made the impairment provision of approximately RMB2.6 million as at 30 June 2021; (iii) we had good and long term business relationships with the relevant customers involved the trade receivables mentioned above and, to the best knowledge of our Directors, we are not aware that such customers had any financial difficulties in repaying the relevant trade receivables as these customers are either listed companies or top players in the papermaking industries or customers which have/will have ongoing and/or potential future business relationship with us; and (iv) based on the historical experience, over 90% of the trade receivables as at 31 December 2018 and 2019 has been eventually settled.

Our trade receivables increased from approximately RMB83.2 million as at 31 December 2018 to approximately RMB98.4 million as at 31 December 2019 and further increased to approximately RMB111.1 million as at 31 December 2020. The increase in trade receivables was mainly due to our business growth during the Track Record Period which 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 and further increased to approximately RMB182.8 million for the year ended 31 December 2020. In particular, the increase of trade receivables as at 31 December 2019 as compared to 31 December 2018 was mainly because of (i) the increase in revenue; and (ii) 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. The increase of trade receivables as at 31 December 2019 as compared to 31 December 2020 was mainly due the increase in revenue as mentioned above. Our trade receivables decreased slightly from approximately RMB111.1 million as at 31 December 2020 to approximately RMB106.9 million as at 30 June 2021.

The trade receivables aged 181 days to 365 days amounted to approximately RMB35.6 million as at 30 June 2021. Such higher outstanding amount of trade receivables was mainly due to the following reasons: (i) 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, resulting in the increase in outstanding amount of trade receivables as at the end of the relevant year; and (ii) during the Track Record Period, the amount of trade receivables aged 181 days to 365 days was generally high during the first half of the calendar year and was generally settled during the second half of the calendar year, and based on the understanding of the Directors, such amount of trade receivables aged 181 days to 365 days as at 30 June 2021 will be settled during the second half of the year. The trade receivables aged over 365 days amounted to approximately RMB8.9 million, RMB4.9 million, RMB5.7 million and RMB5.7 million as at 31 December 2018, 2019 and 2020 and 30 June 2021. The reasons for, and the circumstances leading to, the prolonged settlement by our customers in practice are that: (i) since most of our major customers are sizeable companies with good reputation and due to the long-term and good relationship between our Group and its customers, we allow our customers to pay in a longer period in practice despite the credit period as agreed; (ii) taking into account our past experience of transactions with our major customers, our major customers will subsequently settle the outstanding amounts although the settlements are prolonged; (iii) we have continuing business relationship with our major customers and we are able to negotiate with them about the settlement even if the settlement is prolonged after the credit period as agreed; and (iv) the prolonged period of settlements by our customers are in line with the industry norm as it is a common situation in the market for the downstream players with strong bargaining power such as large scale papermaking companies to have prolonged settlement to suppliers of papermaking felts in practice.

The movement in the loss allowance provision of trade receivables is as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year	6,656	8,053	4,268	5,724
Amounts written off	—	(4,587)	—	(93)
Provision of allowance	1,397	802	1,456	319
At the end of the year	8,053	4,268	5,724	5,950

No full provision has been made for trade receivables that are more than 365 days past due as our Group determines the provision for impairment over our trade receivables based on expected credit losses, calculated by using the simplified approach as prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To the best knowledge of our Directors, certain of our customers required a longer credit term for settling, and in the opinion of our Directors, there was no imminent collectability or recoverability issues with such outstanding trade receivables which are expected to be fully recoverable, although the trade receivables aged 181 days to 365 days amounted to approximately RMB35.6 million as at 30 June 2021, having considered the following factors: (i) the overall expected growth in the papermaking felts industry in the PRC as stated in the Frost & Sullivan Report; (ii) the background of our customers and noted that the trade receivables balances were due from customers which are either listed companies or top players in the papermaking industries or customers which have/will have ongoing and/or potential future business relationship with us; (iii) historical transaction and repayment pattern of our customers and noted that the trade receivables balances were due from our customers who had sales transactions or made repayment to our Group during the past year and that our trade receivables were generally settled during the second half of the calendar year; (iv) as at the Latest Practicable Date, approximately RMB2.3 million trade receivables as at 30 June 2021 were subject to legal proceedings initiated by us against our customers for chasing the trade receivables, of which we have made the provisions of approximately RMB2.2 million, and no material bad debts record during the Track Record Period; and (v) our Group has implemented various measures to follow up on the trade receivables balances, including introducing incentive measures for sales personnel to increase their effort and motivation in collecting trade receivables. As confirmed by our Directors, we have continuously monitored the payments from those customers and contacted them to follow up on the status of their payments.

While some of our customers are required to settle payment before delivery of our products, we generally grant to our customers a credit period of around 30 to 180 days based on various factors including their years of business relationship with us, their historical payment records and the life span of products they purchase from us. If a customer fails to pay us punctually, we may reassess their creditability and adjust credit limits accordingly. We have implemented a system to manage our customers' credit rating, credit limit and credit term. Our sales and marketing department conducts regular visits to our customers to stay updated about their operation conditions and assess their repayment ability. An assessment is made subsequently by our management team and finance and accounting department as to whether or not a provision for trade receivable should be made. For certain customers, we may request for payment of a deposit and settlement of the remaining balance on a cash-on-delivery basis.

Our Directors are of the view that any late payments from individual customers would not adversely affect our financial performance as our Directors believe that any concentration risk among our five largest customers was not significant given their respective contributions to our total revenue.

We determine the provision for impairment over our trade receivables based on expected credit losses (the "**ECL**"), calculated by using the simplified approach as prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. Our Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the trade receivables, in accordance to HKFRS 9 Financial Instruments. Throughout the Track Record Period, the historical credit loss experience of the customers of our Group, the forward-looking factors specific to the debtors and the economic environment remains no significant changes. As such, expected credit loss rate throughout the Track Record Period remains the same. For further details, please refer to notes 2.9 and 33.4 of the Accountants' Report set out in Appendix I to this prospectus.

As at 31 December 2018, 2019 and 2020 and 30 June 2021, we had loss allowance provision of approximately RMB8.1 million, RMB4.3 million, RMB5.7 million and RMB6.0 million, respectively. Included in the balance of loss allowance provision are individually impaired trade receivables with an aggregate balance of approximately RMB3.4 million, RMB1.9 million, RMB1.7 million and RMB2.2 million as at 31 December 2018, 2019 and 2020 and 30 June 2021, respectively, with reference to the historical experience of these receivables, the collection of these receivables may not be recoverable. We do not hold any collateral over these balances.

Bills receivables

We allow certain customers to settle their purchases by way of bills issued by banks. Such bills are endorsable, unsecured and non-interest bearing. According to the Frost & Sullivan Report, settlement of payment through bills is common in manufacturing industry in the PRC. In particular, such settlement method is commonly adopted by market participants in papermaking industry, including papermaking enterprises and their suppliers such as papermaking felts manufacturer with high volume of cash flow involved amongst large number of suppliers. Accordingly, both customers and suppliers of papermaking felts manufacturers generally accept settlement of payment through bills. The number of customers who settled their purchases by way of bills were 229, 209, 197 and 170 during the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively, where each of their respective revenue contributions were approximately RMB115.6 million, RMB109.6 million, RMB128.3 million and RMB43.7 million, and the amount of payments settled by bills were RMB110.4 million, RMB105.5 million, RMB116.6 million and RMB54.6 million, respectively. As at 31 December 2018, 2019 and 2020 and 30 June 2021, our bills receivables amounted to approximately RMB23.7 million, RMB22.7 million, RMB27.4 million and RMB15.8 million, respectively. Among them, bills receivables of approximately RMB0.5 million, RMB0.5 million, nil and nil were discounted to banks with recourse as at 31 December 2018, 2019 and 2020 and 30 June 2021, respectively. Such bills receivables are generally settled by the relevant banks within six to 12 months.

The bills represent promissory notes issued by banks received by our Group from customers who discharge their liabilities to pay our Group for the goods or services invoiced. These bills are endorsable, unsecured, non-interest bearing and generally matured within 1 year.

Included in the balances, bills receivables of RMB0.5 million, RMB0.5 million, nil and nil were discounted with recourse as at 31 December 2018, 2019 and 2020 and 30 June 2021, respectively. These bills receivables were not derecognised as the title of these bills receivables were not transferred to the counterparties. On the other hand, discounted bills financing of RMB0.5 million, RMB0.5 million, nil and nil were recognised for the cash received as at 31 December 2018, 2019 and 2020 and 30 June 2021, respectively. For further details, please refer to note 21 of the Accountants' Report set out in Appendix I to this prospectus.

The following is an ageing analysis of bills receivables presented based on issue date at the end of the respective dates indicated:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 90 days	16,453	14,608	12,894	8,959
91 days to 180 days	6,565	7,066	12,395	6,197
181 days to 365 days	701	1,010	2,119	630
	23,719	22,684	27,408	15,786

Our bills receivables remained relatively stable at approximately RM23.7 million as at 31 December 2018, approximately RMB22.7 million as at 31 December 2019 and increased to approximately RMB27.4 million as at 31 December 2020. The fluctuations in our bills receivables were mainly due to (i) the increase in revenue by approximately RMB15.5 million or 9.3% from approximately RMB167.3 million for the year ended 31 December 2019 to approximately

RMB182.8 million for the year ended 31 December 2020; and (ii) fluctuations in the amounts settled by different customers as at the respective reporting dates due to the different statement practices of different customers. Our bills receivables decreased from approximately RMB27.4 million as at 31 December 2020 to approximately RMB15.8 million as at 30 June 2021 mainly due to the reason that we used the bills to settle the payment of part of the production machinery under our production capacity expansion plan and the construction costs of factory building two.

As at the Latest Practicable Date, all of our bills receivables as at 31 December 2018, 2019 and 2020 had been fully settled and approximately RMB15.6 million or 98.8% of our bills receivable as at 30 June 2021 had been settled. For bills receivable to be considered settled, such bills were either endorsed to other suppliers or vendors, discounted to financial institutions, or received cash upon maturity of the bills. During the Track Record Period and up to the Latest Practicable Date, there was no default arising from bills receivables.

Not included in the years/period end balances, during the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021, our Group has transferred bills receivables amounted to RMB64.2 million, RMB67.8 million, RMB80.2 million and RMB44.5 million to settle our payables through endorsing the bills to the suppliers of raw materials and other vendors of plant and machinery and construction of buildings. Under the bills arrangements which the details are set out under the paragraph headed "Business — Legal proceedings and compliance — Bill arrangements", our Group has also transferred bills receivables amounted to RMB30.2 million, RMB20.4 million, RMB0.3 million and nil to related parties/Independent Third Party under Bills-To-Cash/Bills Arrangement and to customers under Bills Change Arrangement during the Track Record Period. Our Group has derecognised these bills receivables and trade and other payables in their entirety (for endorsing the bills to the suppliers) and derecognised these bills receivables in their entirety and recognised the corresponding amount of cash and/or endorsed bank acceptance bills of total equal value (for endorsing bills under Bills-To-Cash/Bills Arrangement or Bills Change Arrangement). In the opinion of our Directors, our Group has transferred substantially all the risks and rewards of ownership of these bills to the endorsee. In accordance with the Law of Negotiable Instruments in the PRC, the endorsee of the bills have a right of recourse against the endorser if the issuing banks default. Our Directors are of the view that, although our suppliers that our Group had endorsed bills to, have the right of recourse on our Group, we have the same right towards our customers that had endorsed bills to our Group, in the case of issuing banks default. Also, our Group has limited exposure in respect of the settlement obligation of these bills receivables under relevant PRC rules and regulations should the issuing banks failed to settle the bills on maturity date as our Directors considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant. Our Directors confirmed that during the Track Record Period, the issuing banks settled the bills on maturity.

The maximum exposure to loss, which is same as the amount payable by our Group to the endorsee in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date amounted to RMB94.4 million, RMB88.2 million, RMB80.5 million and RMB44.5 million as at 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021, respectively. All the bills receivables endorsed have a maturity date of less than one year from the end of the reporting period.

Our Directors confirm that, save for the ordinary course of business as disclosed in this prospectus, each of the customers whom settled their purchases by bills or each of the suppliers that our Group settled our payables through endorsing the bills did not have any other fund flows and financing relationships with our Group, our Controlling Shareholders, our Directors, our senior management, or any of their respective associates.

The following table sets forth the turnover days of our trade receivables for the years indicated:

	Year ended 31 December			Six months ended 30 June	
	2018	**2019**	**2020**	**2020**	**2021**
	(day)	*(day)*	*(day)*	*(day)*	*(day)*
Trade receivables turnover days*(Note)*	174.9	198.1	209.7	264.8	257.8

Note: Trade receivables turnover days is calculated as the average of aggregate balance of the trade receivables for the year/period, divided by revenue for the relevant year/period, multiplied by the number of days in the relevant year/period.

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 and increased 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, resulting in the increase of outstanding amount of trade receivables as at the end of the relevant year, and thus, contributing to the generally high trade receivables turnover days. Our trade receivables turnover days for the year ended 31 December 2018 were approximate to the range of credit period we granted to our customers, while our trade receivables turnover days for the year ended 31 December 2019 increased to approximately 198.1 days and further increased to approximately 209.7 days for the year ended 31 December 2020 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 2019 and 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. As confirmed by our Directors, our customers' payment pattern remained stable and no material delay was revealed during the Track Record Period.

To improve the situation of generally high trade receivables turnover days, our Group has implemented the following measures: (i) established a standard range of credit period to be granted to customers; (ii) strengthened regular supervision of trade receivables by maintaining good communication with our customers through various methods such as telephone, WeChat and door-to-door collection and conduct analysis of trade receivables at the beginning of each month to prevent the occurrence of overdue trade receivables. Our finance department will also monitor and report the progress of trade receivables collection weekly; (iii) adopted different collection plan and methods for different situations in collecting trade receivables and strictly comply with our internal policy in respect of collection procedures, including but not limited to issuing demand letter or proceeding with litigation when necessary; and (iv) introduced incentive measures for sales personnel to increase their effort and motivation in collecting trade receivables.

While some of our customers are required to settle payment before delivery of our products, we generally grant to our customers a credit period of around 30 to 180 days. The determination of the credit term to be granted to our customers and circumstances under which a longer credit term may be granted depend on various factors including their years of business relationship with us, their historical payment records and the life span of products they purchase from us. According to the Frost & Sullivan Report, the credit period granted to customers is based on the commercial decisions of papermaking felts enterprises and is subject to various factors such as track record, purchasing amount, lifecycle of papermaking felts and business relationship with key customers. The trade receivables turnover days of the PRC papermaking felts manufacturers generally range from 33 days to 240 days. As such, although our trade receivables turnover days for the first half of the calendar year was generally higher, our trade receivables turnover days during the three years ended 31 December 2020 were in line with general market practice.

Prepayments and other receivables

Our prepayments are mainly prepayments made to raw material suppliers for the purchase of raw materials and agency service fees and amounted to approximately RMB0.6 million as at 31 December 2018, RMB2.7 million as at 31 December 2019, RMB3.0 million as at 31 December 2020 and RMB2.0 million as at 30 June 2021.

Our other receivables mainly consist of advances to our employees which were approximately RMB6.8 million as at 31 December 2018, RMB6.7 million as at 31 December 2019, RMB2.2 million as at 31 December 2020 and RMB1.8 million as at 30 June 2021. As at 31 December 2018, 2019 and 2020 and 30 June 2021, our advances to our employees were approximately RMB2.4 million, RMB4.2 million, RMB21,000 and RMB0.2 million, respectively. According to our internal control policy, such advances to employees cover expenses for business trips, disbursement expenses, special circumstances such as work injuries and other reasons that comply with our internal rules and regulations. Please refer to the paragraph headed "Business — Internal control" in this prospectus for more information.

Included in the non-current assets, our Group also had the prepayment of acquisition for property, plant and equipment and intangible assets and amounted to approximately RMB3.5 million as at 31 December 2018, RMB3.6 million as at 31 December 2019, RMB22.6 million as at 31 December 2020 and RMB5.0 million as at 30 June 2021. Such amounts remained stable in 2018 and 2019. The increase from 2019 to 2020 was mainly due to our prepayment for plant and machinery in relation to the phase one of our production capacity expansion plan which commenced in fourth quarter of 2020. The decrease from approximately RMB22.6 million as at 31 December 2020 to approximately RMB5.0 million as at 30 June 2021 was mainly due to certain prepayment for the acquisition of production machinery and construction of factory building two which was recorded as property, plant and equipment for the six months ended 30 June 2021.

Amounts due from/(to) related parties

The following table sets forth a summary of the amounts due from/to related parties which are non-trade in nature as at the dates indicated:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amounts due from/(to):				
Sichuan Huanlong New Material Ltd.* (四川環龍新材料有限公司) ("**Huanlong New Material**")*(Note 1)*	—	155	155	—
Sichuan Xilong Biomass Materials Technology Ltd.* (四川省西龍生物質材料科技有限公司) (formerly known as Sichuan Xilong Paper Ltd.* (四川省西龍紙業有限公司)) ("**Sichuan Xilong**")*(Note 2)*	3,204	3,204	—	—
Mr. Zhou*(Note 3)*	8	15	25	30
Ms. Shen*(Note 4)*	8	15	25	30
Mr. Xie*(Note 5)*	(27)	(30)	(27)	(5)
Ms. Yuan*(Note 6)*	—	—	—	39

Notes:

1. As at 31 December 2018, 2019 and 2020, the amounts due from Huanlong New Material were approximately nil, RMB0.2 million and RMB0.2 million, respectively, where such amount due as at 31 December 2019 and 31 December 2020 were rental payments to us in relation to the rental of a part of the production facility at our Chengdu Production Site for a rental period from 1 June 2019 to 31 October 2019.

2. As at 31 December 2018 and 2019, the amounts due from Sichuan Xilong were advances to them for working capital.

3. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the amounts due from Mr. Zhou were RMB8,000, RMB15,000, RMB25,000 and RMB30,000, respectively. According to our Directors, the amounts due as at 31 December 2018, 2019 and 2020 and 30 June 2021 were advances in relation to the company secretarial fees in respect of a BVI company held by Mr. Zhou and Ms. Shen.

4. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the amounts due from Ms. Shen were RMB8,000, RMB15,000, RMB25,000 and RMB30,000, respectively. According to our Directors, the amounts due as at 31 December 2018, 2019 and 2020 and 30 June 2021 were advances in relation to the company secretarial fees in respect of a BVI company held by Mr. Zhou and Ms. Shen.

5. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the amounts due to Mr. Xie were approximately RMB27,000, RMB30,000, RMB27,000 and RMB5,000, respectively. According to our Directors, the amounts due as at 31 December 2018, 2019 and 2020 and 30 June 2021 were mainly reimbursement to Mr. Xie for expenses for business trips and disbursement.

6. As at 31 December 2018, 2019 and 2020 and 30 June 2021, the amounts due from Ms. Yuan were approximately nil, nil, nil, and RMB39,000, respectively, which was advances to Ms. Yuan for expenses for business trips and disbursement.

The above amounts due from/to related parties were non-trade in nature, unsecured, interest-free and repayable on demand. The carrying amounts approximates their fair value and are denominated in RMB.

The amounts due from/to Huanlong New Material, Mr. Zhou, Ms. Shen, Mr. Xie and Ms. Yuan as at 30 June 2021 will be settled by cash prior to the Listing.

Please refer to note 30 of the Accountants' report set out in Appendix I to this prospectus for more information in relation to our related party transactions and the paragraph headed "Connected Transactions — Non-exempt continuing connected transactions" in relation to our transactions with Sichuan Huanlong New Material Ltd. and Sichuan Huanlong Daily Products Ltd..

Contract liabilities

Our contract liabilities mainly represent amounts received from some of our customers as deposits or advance payments for purchase of our products which will be recognised as revenue upon the delivery of our products. The deposit is recognised as contract liability until the product has been delivered to the customer. Our contract liabilities remained stable at approximately RMB0.7 million, RMB0.7 million, RMB0.7 million and RMB1.0 million as at 31 December 2018, 2019 and 2020 and 30 June 2021, respectively.

Trade and other payables

The following table sets out the breakdown of trade and other payables as at the dates indicated:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
Trade payables				
— Third parties	20,027	20,131	19,054	16,718
Other payables				
Other payables	3,870	5,015	3,237	14,410
Accruals	3,527	3,985	4,514	2,963
Accrued listing expenses	4,855	5,682	8,425	5,361
Warranty provision	3,279	3,422	3,932	4,161
Provision for legal claims[(note 1)]	—	—	1,903	2,200
Other tax payables	6,292	5,664	6,156	671
	21,823	23,768	28,167	29,766
	41,850	43,899	47,221	46,484

Note:

1. Sichuan Huanlong was involved in a claim during the Track Record Period in relation to the construction of factory building two as set out in the paragraph headed "Business — Legal proceedings and compliance — Legal proceedings" in this prospectus.

Trade payables

Trade payables mainly consist of amounts due to our suppliers for the purchase of raw materials. While some of our suppliers require us to settle payment before delivery, other suppliers generally provide us with a credit period of 30 to 90 days. All of the trade payables are expected to be settled within one year or repayable on demand.

The following table sets forth the ageing analysis of the trade payables of our Group as at the dates indicated, based on invoice dates:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	3,555	10,063	7,961	6,501
31 to 60 days	9,148	2,989	4,646	3,270
61 to 90 days	3,028	1,736	1,920	1,476
91 to 180 days	1,423	2,242	2,087	2,692
181 days to 365 days	1,894	1,580	1,568	1,632
Over 365 days	979	1,521	872	1,147
	20,027	20,131	19,054	16,718

Our trade payables remained relatively stable at approximately RMB20.0 million as at 31 December 2018 and approximately RMB20.1 million as at 31 December 2019, and decreased slightly to approximately RMB19.1 million as at 31 December 2020. Our trade payables further decreased to approximately RMB16.7 million as at 30 June 2021.

Our trade payables aged over 90 days amounted to approximately RMB4.3 million, RMB5.3 million, RMB4.5 million and RMB5.5 million as at 31 December 2018, 2019 and 2020 and 30 June 2021, respectively, representing 21.5%, 26.5%, 23.8% and 32.7% of our Group's total trade payables outstanding at the end of the respective years/period comprising the Track Record Period. This was primarily due to (i) notwithstanding the credit period as stated in the contracts and/or purchase orders, our suppliers allowed us to pay in a longer period in practice, as a result of the long-term and good relationship between us and our supplier and our good credit history; and (ii) we are one of the leading players in the market with long standing history, strong brand and good reputation. Further, according to Frost & Sullivan, it is a common situation in the market for the downstream players with strong bargaining power such as large scale papermaking companies, to have prolonged settlement to suppliers of papermaking felts in practice. As such, it is also common situation for papermaking felts manufacturers to settle their payments to suppliers in a longer period in practice, as long as the papermaking felts suppliers are creditworthy without history of default. During the course of cooperation between us and our suppliers, there has not been any dispute due to settlement of trade payables. Our Directors also confirmed that there were no other side agreements, arrangements, understanding or fund flows between us and our suppliers during the Track Record Period and up to the Latest Practicable Date.

The following table sets forth the turnover days of our trade payables for the years/period indicated:

	Year ended 31 December			Six months ended 30 June	
	2018	2019	2020	2020	2021
	(day)	*(day)*	*(day)*	*(day)*	*(day)*
Trade payables turnover days*(Note)* . . .	81.7	94.0	86.3	107.6	86.5

Note: Trade payables turnover days is calculated as the average of aggregate balance of the trade payables for the year/period, divided by the cost of sales for the relevant year/period, multiplied by the number of days in the relevant year/period.

Our trade payables turnover days increased from 81.7 days for the year ended 31 December 2018 to 94.0 days for the year ended 31 December 2019 and decreased to 86.3 days for the year ended 31 December 2020, which was primarily affected by different amounts of raw materials ordered near the end of each financial year. Our trade payables turnover days decreased to approximately 86.5 days for the six months ended 30 June 2021 from approximately 107.6 days for the six months ended 30 June 2020, which was mainly due to the increase in our payment to our suppliers during the six months ended 30 June 2021.

As at the Latest Practicable Date, approximately RMB13.8 million or 82.5% of our trade payables as at 30 June 2021 had been subsequently settled.

Other payables

Other payables mainly include payables for the purchase of machinery, fees for the installation of new machinery, salaries and other accrual expenses which amounted to approximately RMB3.9 million, RMB5.0 million, RMB3.2 million and RMB14.4 million as at 31 December 2018, 2019 and 2020 and 30 June 2021. Such significant increase in other payables by approximately RMB11.2 million from approximately RMB3.2 million as at 31 December 2020 to approximately RMB14.4 million as at 30 June 2021 was mainly due to other payables for the construction costs of factory building two of approximately RMB10.5 million.

Accruals

Accruals mainly included salaries payable to employees, which amounted to approximately RMB3.5 million as at 31 December 2018, RMB4.0 million as at 31 December 2019, RMB4.5 million as at 31 December 2020 and RMB3.0 million as at 30 June 2021.

Accrued listing expenses

Accrued listing expenses were expenses in relation to the Listing, which were approximately RMB4.9 million as at 31 December 2018, RMB5.7 million as at 31 December 2019, RMB8.4 million as at 31 December 2020 and RMB5.4 million as at 30 June 2021.

Warranty provision

Warranty provision are provision for warranties that we provide to customers on our products. Our warranty provision remained relatively stable at approximately RMB3.3 million as at 31 December 2018, approximately RMB3.4 million as at 31 December 2019, approximately RMB3.9 million as at 31 December 2020 and RMB4.2 million as at 30 June 2021, which is consistent with the overall increase in our revenue during the same periods.

Provision for legal claim

Provision for legal claim refers to the provision made for a claim. Sichuan Huanlong was involved in a claim during the Track Record Period in relation to the construction of factory building two as set out in the paragraph headed "Business — Legal proceedings and compliance — Legal proceedings" in this prospectus.

Other tax payables

Other tax payables mainly include payables of value-added tax in the PRC and was approximately RMB6.3 million as at 31 December 2018, RMB5.7 million as at 31 December 2019, RMB6.2 million as at 31 December 2020 and RMB0.7 million as at 30 June 2021. The decrease from approximately RMB6.3 million as at 31 December 2018 to approximately RMB5.7 million as at 31 December 2019 was consistent with the decrease in the value-added tax rate in the PRC. The increase in other tax payables from approximately RMB5.7 million as at 31 December 2019 to approximately RMB6.2 million as at 31 December 2020 was mainly due to the increase in our revenue. Our other tax payables further decreased to approximately RMB0.7 million as at 30 June 2021 due to the decrease in our VAT payable.

Lease liabilities

Our current lease liabilities are approximately RMB1.5 million as at 31 December 2018, RMB1.4 million as at 31 December 2019, RMB1.6 million as at 31 December 2020 and RMB1.6 million as at 30 June 2021, which were in relation to the leases of two production plants that were part of our Shanghai Production Site during the Track Record Period. Please refer to the paragraph headed "Business — Properties — Leased properties" in this prospectus for more information.

Amounts due to related parties

Please refer to the paragraph headed "Net current assets — Discussion of selected statement of financial position items — Amounts due from/to related parties" in this section for more information.

Discounted bills financing

Our discounted bills financing amounted to approximately RMB0.5 million as at 31 December 2018, RMB0.5 million as at 31 December 2019, nil as at 31 December 2020 and nil as at 30 June 2021. Please refer to the paragraph headed "Indebtedness — Discounted bills financing" in this section for more information.

Bank borrowings

Our bank borrowings amounted to approximately RMB122.5 million as at 31 December 2018, RMB117.0 million as at 31 December 2019, RMB115.0 million as at 31 December 2020 and RMB115.0 million as at 30 June 2021. Please refer to the paragraph headed "Indebtedness — Bank borrowings" in this section for more information.

Other borrowing

Our other borrowing (current portion) amounted to nil as at 31 December 2018, nil as at 31 December 2019, nil as at 31 December 2020 and approximately RMB7.9 million as at 30 June 2021, which was the sale and leaseback obligation in relation to the acquisition of a set of production machinery under phase one of our production capacity expansion plan. 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. In respect of this sale and leaseback agreement, the leasing company is a national financial leasing institution approved by the China Banking Regulatory Commission, the supplier of the relevant machinery and equipment is a limited liability company which was incorporated in the PRC in 2014 with a registered capital of RMB30.0 million, and the machinery and equipment involved include pre-needling machine, setting machine and other supplemental equipment. The salient terms of the sale and leaseback agreement are summarised below:

Lease term	The lease term is for 36 months, counting from the date when the lessor paid the equipment supplier the purchase price of the machinery and equipment under the purchase agreement

Purchase price of the leased machinery and equipment	RMB30.0 million (including VAT)
Lease interest rate	Tax-included floating interest rate. The standard lease interest rate is determined by the market quoted interest rate for loans with a maturity of more than five years announced by the People's Bank of China plus 255 basis points (of which, 1 basis point = 0.01%)
Lease payment, management fee and payment schedule	We shall pay our lease payments of approximately RMB2.8 million every 3 months for a period of 36 months. Management fee of RMB240,000 shall be paid in full within 3 business days upon signing the sale and leaseback agreement
Termination payment	Purchase price of the leased machinery and equipment times 3%
Consideration for buyback	RMB10,000
Insurance	The leased machinery and equipment shall be fully covered by insurance policies, under which the lessor shall be the first beneficiary
Guarantee	Shen Genlian (沈根蓮) and Zhou Jun (周駿), our executive Directors and Controlling Shareholders, shall be the guarantors of the lessee's obligations, under which the guarantors shall bear joint and several guarantee responsibilities for the lessee's obligations. Such guarantee will be released upon the Listing

Income tax payable

Our income tax payable amounted to approximately RMB3.8 million as at 31 December 2018, RMB4.6 million as at 31 December 2019, RMB6.6 million as at 31 December 2020 and RMB4.3 million as at 30 June 2021.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL RESOURCES

Overview

Our primary use of cash is to fund our working capital requirements, property, plant and equipment and to repay loans and related interest expenses. During the Track Record Period, there had been no material changes in our underlying drivers of the sources and uses of cash.

We have funded our business primarily using proceeds from cash generated from our operating activities and bank borrowings. Our sources of liquidity will be satisfied using a combination of cash generated from operating activities, bank loans and the net proceeds from the Global Offering and other funds raised from the capital markets from time to time upon Listing. We will closely monitor the level of our working capital, particularly for our future plans which may utilise significant amount of working capital.

Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed "Future Plans and Use of Proceeds" in this prospectus.

Capital expenditure

During the Track Record Period, we incurred capital expenditures of approximately RMB16.1 million, RMB4.1 million, RMB20.3 million and RMB63.5 million, respectively.

	Year ended 31 December			Six months ended 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment				
Buildings	56	1,871	3,686	—
Leasehold improvements	434	156	—	—
Plant and machinery	9,683	5,734	1,203	2,559
Furniture and fixtures	89	57	148	97
Motor vehicles	28	—	—	—
Subtotal	10,290	7,818	5,037	2,656
Construction in progress:				
Additions	14,439	2,017	15,869	63,312
Less: Transfer to other categories of property, plant and equipment	(8,605)	(5,725)	(605)	(2,504)
Subtotal	5,834	(3,708)	15,264	60,808
Total	16,124	4,110	20,301	63,464

Our capital expenditures for the year ending 31 December 2021 are expected to be approximately RMB72.5 million. Our capital expenditures primarily consisted of purchase of production machinery. Our Directors consider that continued investments in machinery is necessary in order to cope with our business development and increase our overall capacity in manufacturing our products to our customers. As such, we plan to acquire additional machinery in the future, further information of which is disclosed in the paragraph headed "Business — Business strategies" and the section headed "Future Plans and Use of Proceeds" in this prospectus. We plan to finance future capital expenditures primarily through the net proceeds of the Listing as well as from cash flows generated from operations.

Cash flow

The following table sets forth a summary of our consolidated cash flows for the years indicated:

	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

Operating activities

We derived our cash flow from operating activities primarily through the receipt of payments from sales of papermaking felts. Our cash outflow for operating activities was primarily attributable to payment for purchase of raw materials and other expenses for our operating activities. A statement of cash flow in relation to our operating activities is set out below.

	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*
Operating activities					
Profit before income tax	43,460	41,478	48,494	14,259	16,457
Adjustments for:					
Amortisation of intangible assets	280	803	1,261	556	719
Depreciation of property, plant and equipment	7,455	8,242	9,141	4,595	4,649
Amortisation of land lease prepayment	225	338	338	169	169
Loss on disposal of property, plant and equipment	27	37	9	2	86
Provision/(Reversal) of provision for inventories	123	42	(750)	464	243
Provision for legal claims*(note 1)*	—	—	1,303	400	297
Provision of allowance on receivables, net	1,397	802	1,456	1,568	319
Provision of warranty	3,116	2,363	3,928	816	2,013
Interest income	(75)	(105)	(191)	(63)	(89)
Rent concessions	—	—	(387)	(231)	—
Finance costs	7,483	6,669	7,241	3,640	3,803
Operating cash flows before working capital changes	63,491	60,669	71,843	26,175	28,666
Decrease/(Increased) in inventories	4,681	1,006	1,979	(3,017)	(1,738)
(Increase)/Decrease in trade and other receivables	(19,570)	(22,176)	(13,682)	13,011	17,025
Decrease/(Increase) in amounts due from related parties	776	(168)	3,184	—	106
Increase/(Decrease) in trade and other payables	3,047	8,882	(3,734)	(9,084)	(4,207)
(Decrease)/Increase in contract liabilities	(1,177)	(26)	28	54	295
(Decrease)/Increase in amount due to a related party	(55)	3	(3)	(25)	(22)
Cash generated from operations	51,193	48,190	59,615	27,114	40,125
Income 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

Note:

1. Sichuan Huanlong, being the defendant, was involved in a claim during the Track Record Period in relation to the dispute on the construction of factory building two as set out in the paragraph headed "Business — Legal proceedings and compliance — Legal proceedings" in this prospectus. Based on the advice of our PRC Legal Advisers, our Directors estimated that the total potential claims payable to the claimant, being the previous constructor, is approximately RMB1.9 million, which included certain site preparation and construction works of approximately RMB0.6 million performed by the claimant (in which the amount have been recognised as part of the additions to the property, plant and equipment for the year ended 31 December 2020) and provision of legal claims of approximately RMB1.3 million recognised in profit or loss for the year ended 31 December 2020. The court made the first-instance judgment on 16 July 2021, according to which Sichuan Huanlong was liable to pay the claimant (i) construction fees in sum of approximately RMB0.7 million together with interest; and (ii) damages in sum of approximately RMB1.3 million. As such, a further provision of legal claims of approximately RMB0.3 million recognised in profit or loss for the six months ended 30 June 2021 and approximately RMB2.2 million in aggregate was recorded as provision for legal claim in the statement of financial position of the Group as at 30 June 2021. No party had lodged an appeal to the court and Sichuan Huanlong settled the amount of approximately RMB2.1 million to the claimant according to the aforesaid judgement on 27 August 2021.

Year ended 31 December 2018

For the year ended 31 December 2018, our net cash generated from operating activities was approximately RMB45.5 million, which was primarily attributable to the profit before income tax of approximately RMB43.5 million, adjusted positively for depreciation of property, plant and equipment of approximately RMB7.5 million and finance costs of approximately RMB7.5 million, and the net effect of the following: (i) increase in trade and other receivables of approximately RMB19.6 million which is consistent with the increase in our revenue during the same period; (ii) increase in trade and other payables of approximately RMB3.0 million mainly due to the accrued listing expenses in relation to the Listing; and (iii) income tax paid of approximately RMB5.7 million.

Year ended 31 December 2019

For the year ended 31 December 2019, our net cash generated from operating activities was approximately RMB42.9 million, which was mainly due to the net effect of (i) the profit before income tax of approximately RMB41.5 million, adjusted positively mainly for the depreciation of property, plant and equipment of approximately RMB8.2 million and finance costs of approximately RMB6.7 million; (ii) the increase in trade and other receivables of approximately RMB22.2 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;

(iii) the increase in trade and other payable of approximately RMB8.9 million mainly due to the increase in other payables and accrued listing expenses in relation to the Listing; (iv) income tax paid of approximately RMB5.3 million; and (v) decrease in inventories of approximately RMB1.0 million.

Year ended 31 December 2020

For the year ended 31 December 2020, our net cash generated from operating activities was approximately RMB54.6 million, which was primarily attributable to the profit before income tax of approximately RMB48.5 million, adjusted positively mainly for the depreciation of property, plant and equipment of approximately RMB9.1 million and finance costs of approximately RMB7.2 million and the net effect of the following: (i) the increase trade and other receivables of approximately RMB13.7 million which is consistent with the increase in revenue during the same period; (ii) the decrease in trade and other payables of approximately RMB3.7 million mainly due to the trade payables, accrued listing expenses in relation to the Listing and other tax payables; and (iii) income tax paid of approximately RMB5.0 million.

Six months ended 30 June 2021

For the six months ended 30 June 2021, our net cash generated from operating activities was approximately RMB35.7 million, which was primarily attributable to the profit before income tax of approximately RMB16.5 million, adjusted positively mainly for the depreciation of property, plant and equipment of approximately RMB4.6 million and finance costs of approximately RMB3.8 million and the net effect of the following: (i) the decrease in trade and other receivables of approximately RMB17.0 million; (ii) the decrease in trade and other payables of approximately RMB4.2 million mainly due to the trade payables, accrued listing expenses in relation to the Listing and other tax payables; and (iii) income tax paid of approximately RMB4.4 million.

Investing activities

Our investing activities primarily consisted of acquisition of and deposits paid for acquisition of property, plant and equipment, proceeds from disposal of property, plant and equipment, acquisition of intangible assets, acquisition of land lease prepayment, and restricted bank deposit. A statement of cash flow in relation to our investing activities is set out below.

	Notes	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*
Investing activities						
Acquisition of property, plant and equipment		(15,579)	(4,034)	(30,247)	(4,780)	(14,881)
Acquisition of intangible assets		(4,243)	(5,062)	(8,214)	(3,862)	(5,347)
Land lease prepayment		(6,757)	—	—	—	—
Interest received		75	105	191	63	89
Proceeds from disposal of property, plant and equipment		46	—	23	—	177
(Increase)/Decrease in restricted bank deposit		(1,800)	800	(—)	(2)	(2)
Net cash used in investing activities		(28,258)	(8,191)	(38,247)	(8,581)	(19,964)

Year ended 31 December 2018

For the year ended 31 December 2018, our net cash used in investing activities was approximately RMB28.3 million, which was primarily attributable to the following: (i) the acquisition of property, plant and equipment of approximately RMB15.6 million; (ii) the acquisition of intangible assets of approximately RMB4.2 million; (iii) the acquisition of land lease prepayment of approximately RMB6.8 million; and (iv) the increase in restricted bank deposit of approximately RMB1.8 million.

Year ended 31 December 2019

For the year ended 31 December 2019, our net cash used in investing activities was approximately RMB8.2 million, which was primarily attributable to the following: (i) the acquisition of property, plant and equipment of approximately RMB4.0 million; (ii) the acquisition of intangible assets of approximately RMB5.1 million; and (iii) partly offset by the decrease in restricted bank deposit of approximately RMB0.8 million.

Year ended 31 December 2020

For the year ended 31 December 2020, our net cash used in investing activities was approximately RMB38.2 million, which was primarily attributable to the following: (i) the acquisition of property, plant and equipment of approximately RMB30.2 million; and (ii) the acquisition of intangible assets of approximately RMB8.2 million.

Six months ended 30 June 2021

For the six months ended 30 June 2021, our net cash used in investing activities was approximately RMB20.0 million, which was primarily attributable to the following: (i) the acquisition of property, plant and equipment of approximately RMB14.9 million; and (ii) the acquisition of intangible assets of approximately RMB5.3 million.

Financing activities

Our financing activities consisted of proceeds and prepayment of bank borrowings, interest paid, discounted bills financing and dividends paid. A statement of cash flow in relation to our financing activities is set out below.

		Year ended 31 December			**Six months ended 30 June**	
	Notes	**2018**	**2019**	**2020**	**2020**	**2021**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Financing activities						
Proceeds of bank borrowings.		123,000	117,000	115,000	92,000	85,000
Repayment of bank borrowings.		(105,500)	(122,500)	(117,000)	(94,000)	(85,000)
Repayment of lease liabilities		(1,388)	(1,453)	(1,282)	(532)	(768)
Interest paid		(7,570)	(6,669)	(7,230)	(3,630)	(3,405)
Listing expenses paid		(188)	(9,369)	(4,086)	(5,285)	(3,638)
Increase in discounted bills financing		(4,154)	(50)	(450)	(450)	—
Dividends paid		(20,000)	—	—	—	—
Proceeds of capital contributions		—	1,940	—	—	—
Net cash used in from financing activities		(15,800)	(21,101)	(15,048)	(11,897)	(7,811)

Year ended 31 December 2018

For the year ended 31 December 2018, our net cash used in financing activities was approximately RMB15.8 million, which was the net effect of the following: (i) proceeds of bank borrowings of approximately RMB123.0 million; (ii) repayment of bank borrowings of approximately RMB105.5 million; (iii) interest paid of approximately RMB7.6 million; (iv) decrease in discounted bills financing of approximately RMB4.2 million; and (v) dividends paid of approximately RMB20.0 million.

Year ended 31 December 2019

For the year ended 31 December 2019, our net cash used in financing activities was approximately RMB21.1 million, which was the net effect of the following: (i) proceeds of bank borrowings of approximately RMB117.0 million; (ii) repayment of bank borrowings of approximately RMB122.5 million; (iii) listing expenses paid of approximately RMB9.4 million; (iv) interest paid of approximately RMB6.7 million; and (v) proceeds of capital contributions of approximately RMB1.9 million.

Year ended 31 December 2020

For the year ended 31 December 2020, our net cash used in financing activities was approximately RMB15.0 million, which was the net effect of the following: (i) proceeds of bank borrowings of approximately RMB115.0 million; (ii) repayment of bank borrowings of approximately RMB117.0 million; (iii) interest paid of approximately RMB7.2 million; and (iv) listing expenses paid of approximately RMB4.1 million.

Six months ended 30 June 2021

For the six months ended 30 June 2021, our net cash used in financing activities was approximately RMB7.8 million, which was the net effect of the following: (i) proceeds of bank borrowings of approximately RMB85.0 million; (ii) repayment of bank borrowings of approximately RMB85.0 million; (iii) interest paid of approximately RMB3.4 million; and (iv) listing expenses paid of approximately RMB3.6 million.

SUFFICIENCY OF WORKING CAPITAL

Our Directors are of the opinion that, taking into consideration our internal resources, cash generated from our operations, banking facilities presently available to our Group, our existing cash and cash equivalents, and the net proceeds to be received by us from the Listing (after a possible Downward Offer Price Adjustment setting the final Offer Price up to 10% below the bottom end of the indicative Offer Price range), our Group has sufficient working capital for our present requirements for at least 12 months from the date of this prospectus.

INDEBTEDNESS

As at 31 October 2021, being the date for this indebtedness statement, save as disclosed in this section below, we did not have any debt securities, term loans, other borrowing or indebtedness in the nature of borrowing, hire purchase commitments, mortgages, charges, contingent liabilities or guarantees. Our Directors confirm that we had neither experienced any difficulties in obtaining or repaying, nor breached any major covenant or restriction of our bank loans or other bank facilities during the Track Record Period. As at the Latest Practicable Date, there are no material covenants related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing. Our Directors confirm that there has not been any material change in our indebtedness or contingent liabilities since 31 October 2021 and up to the date of this prospectus. Our Directors confirm that as at the Latest Practicable Date, save as disclosed in the paragraph headed "Financial Information — Recent development and no material adverse change — Progress of our production capacity expansion plan" in this prospectus, we did not have any immediate plan for additional material external debt financing.

Bank borrowings

The following table sets forth our bank borrowings as at the respective dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2018	**2019**	**2020**	**2021**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Bank loans, secured					
— repayable within one year	122,500	117,000	115,000	115,000	115,000

The above bank borrowings were guaranteed by Ms. Shen, Mr. Zhou and one of our related parties, Chengdu Huanlong. Our Directors confirm that such guarantees will be released on or around Listing.

Our bank borrowings during the Track Record Period were carried at amortised cost, secured and repayable within one year and were denominated in RMB. During the Track Record Period, our bank borrowings were generally secured by our property, plant and equipment, intangible assets, inventories, trade receivables, land lease prepayment and restricted bank deposit.

The effective interest rates of the bank borrowings per annum was 5.75%, 6.26%, 6.05% and 6.02% as at 31 December 2018, 2019 and 2020 and 30 June 2021, respectively.

As at 31 October 2021, being the latest practicable date for the liquidity disclosures in this prospectus, we had banking facilities of RMB115.0 million, which was fully utilised.

During the Track Record Period, the bank borrowing agreements were entered into with the lenders under normal standard terms and conditions and do not contain any special restrictive covenants. During the Track Record Period and as of the Latest Practicable Date, none of our lenders have claimed default against us under any of the terms in the bank borrowing agreements. Our Directors confirm that our Group has not experienced any difficulty in obtaining bank borrowings, default in payment on bank borrowings or breach of finance covenants during the Track Record Period and up to the Latest Practicable Date and that they do not foresee any difficulties in obtaining bank borrowing after the Latest Practicable Date.

Discounted bills financing

The balance represents borrowings from banks by discounting, with recourse, bills receivables to the Group. The borrowings arose from discounting, with recourse, of bills receivables from third parties. Our discounted bills financing amounted to approximately RMB0.5 million as at 31 December 2018, RMB0.5 million as at 31 December 2019, nil as at 31 December 2020, nil as at 30 June 2021 and 4.0 million as at 31 October 2021. Please refer to note 21 of the Accountants' Report set out in Appendix I to this prospectus for more information.

Other borrowing

Our other borrowing totalling nil as at 31 December 2018, nil as at 31 December 2019, nil as at 31 December 2020, approximately RMB26.5 million as at 30 June 2021 and approximately RMB22.9 million as at 31 October 2021, including current portion amounted to nil as at 31 December 2018, nil as at 31 December 2019, nil as at 31 December 2020, approximately RMB7.9 million as at 30 June 2021 and approximately RMB8.9 million as at 31 October 2021, which were the sale and leaseback obligation in relation to the acquisition of a set of production machinery under phase one of our production capacity expansion plan and acquisition of motor vehicle. Such other borrowing were secured by the pledged assets and the personal guarantee provided by the Controlling Shareholders. Our Directors confirm that such personal guarantee will be released on or around Listing.

Lease commitments

As at 31 December 2018, 2019 and 2020, 30 June 2021 and 31 October 2021, our leased properties are under leases that run for an initial period of one to five years, with an option to renew the lease and renegotiate the terms at the expiry date as mutually agreed between us and our respective landlords. The table below sets forth the lease commitments for short-term leases.

	As at 31 December			As at 30 June	As at 31 October
	2018	2019	2020	2021	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Within one year	21	25	59	29	10

Capital commitments

As at 31 December 2018, 2019 and 2020, 30 June 2021 and 31 October 2021, we had the following capital commitments:

	As at 31 December			As at 30 June	As at 31 October
	2018	2019	2020	2021	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Contracted but not provided for — Property, plant and equipment	2,829	—	44,746	21,170	22,504

Our capital commitments as at 31 December 2018 which were contracted but not provided mainly represented the expected capital expenditure in respect of acquisition of property, plant and equipment, while our capital commitments as at 31 December 2020, 30 June 2021 and 31 October 2021 which were contracted but not provided mainly represented the expected capital expenditure in respect of construction of factory building two and the acquisition of machinery and equipment under our production capacity expansion plan.

Contingent liabilities

Sichuan Huanlong, being the defendant, was involved in a claim in relation to the dispute on the construction of factory building two. Based on the advice of our PRC Legal Advisers, our Directors estimated that the total potential claims payable to the claimant, being the previous constructor, is approximately RMB1.9 million. In this regard, our Group has made adequate provision for the aforesaid claim in the financial statements for the year ended 31 December 2020. The court made the first-instance judgment on 16 July 2021, according to which Sichuan Huanlong was liable to pay the claimant (i) construction fees in sum of approximately RMB0.7 million together with interest; and (ii) damages in sum of approximately RMB1.3 million. As such, a further provision of legal claims of approximately RMB0.3 million recognised in profit or loss for the six months ended 30 June 2021 and approximately RMB2.2 million in aggregate was recorded as provision for legal claim in the statement of financial position of the Group as at 30 June 2021. No party had lodged an appeal to the court and Sichuan Huanlong settled the amount of approximately RMB2.1 million to the claimant according to the aforesaid judgement on 27 August 2021. Please refer to the paragraph headed "Business — Legal proceedings and compliance" in this prospectus for more information.

Save as the aforesaid claim, as at the Latest Practicable Date, no member of our Group was engaged in any claim, litigation or arbitration of material importance and no claim, litigation or arbitration of material importance is known to our Directors to be pending or threatened against any member of our Group.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we did not have any material off-balance sheet arrangements except as otherwise disclosed.

KEY FINANCIAL RATIOS

The following table sets out the key financial ratios of our Group during the Track Record Period:

	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.

Revenue growth

Revenue growth is calculated as the difference between the revenue of the respective years and the revenue of the previous corresponding years/periods divided by the revenue of previous corresponding years/periods.

Please refer to the paragraphs headed "Year to year comparison of results of operations" and "Period to period comparison of results of operations" in this section for the reasons of the fluctuations in our revenue.

Net profit growth

Net profit growth is calculated as the difference between the profit and total comprehensive income of respective years/periods and profit and total comprehensive income of the previous corresponding years/periods divided by the profit and total comprehensive income of previous corresponding years/periods.

Please refer to the paragraphs headed "Year to year comparison of results of operations" and "Period to period comparison of results of operations" in this section for the reasons of the fluctuations in our profit and total comprehensive income.

Gross profit margin

Gross profit margin is calculated as gross profit divided by revenue.

Please refer to the paragraphs headed "Year to year comparison of results of operations" and "Period to period comparison of results of operations" in this section for the reasons of the fluctuations in our gross profit and gross profit margin.

Net profit margin

Net profit margin is calculated as profit and total comprehensive income divided by revenue.

Please refer to the paragraphs headed "Year to year comparison of results of operations" and "Period to period comparison of results of operations" in this section for the reasons of the fluctuations in our net profit margin.

Return on equity

Return on equity is calculated as profit and total comprehensive income for the year/period attributable to owners of our Company divided by the ending equity attributable to owners of our Company as at the respective reporting dates.

Our return on equity decreased from approximately 43.7% for the year ended 31 December 2018 to approximately 28.4% for the year ended 31 December 2019 because of the increase in ending equity attributable to owners of our Company from approximately RMB78.6 million as at 31 December 2018 to approximately RMB121.9 million as at 31 December 2019 as a result of retained profits attributable to owners of the Company of approximately RMB34.6 million generated by the profit and total comprehensive income for the year while the Group did not declare any dividend for the year ended 31 December 2019 as compared to the dividends of approximately RMB20.0 million for the year ended 31 December 2018.

Our return on equity decreased from approximately 28.4% for the year ended 31 December 2019 to approximately 24.9% for the year ended 31 December 2020 because of an increase in ending equity attributable to equity holders of our Company from approximately RMB121.9 million as at 31 December 2019 to approximately RMB162.4 million as at 31 December 2020 as a result of profit and total comprehensive income during the same period.

Return on total assets

Return on total assets is calculated as profit and total comprehensive income for the year/period divided by the ending total assets as at the respective reporting dates.

Our return on total assets decreased from approximately 14.4% for the year ended 31 December 2018 and approximately 12.0% for the year ended 31 December 2019 mainly due to the increase in total assets mainly because of the increase of trade receivables and cash and cash equivalents.

Our return on total assets remained relatively stable at approximately 12.0% for the year ended 31 December 2019 and approximately 12.1% for the year ended 31 December 2020.

Current ratio

Current ratio is calculated as current assets divided by current liabilities as at the respective reporting dates.

Our current ratio was approximately 0.8 times as at 31 December 2018, approximately 1.0 times as at 31 December 2019, approximately 1.1 times as at 31 December 2020 and approximately 1.0 times as at 30 June 2021, which was generally stable.

Quick ratio

Quick ratio is calculated as current assets minus inventories, then divided by current liabilities as at the respective reporting dates.

Our quick ratio was approximately 0.7 times as at 31 December 2018, approximately 1.0 times as at 31 December 2019, approximately 1.0 times as at 31 December 2020 and approximately 0.9 times as at 30 June 2021, which was generally stable.

Inventory turnover days

Inventory turnover days is calculated as the average of the beginning and ending inventory balances for the year/period, divided by the cost of sales of the relevant year, multiplied by the number of days in the relevant year/period.

Please refer to the paragraph headed "Analysis of various items of combined statements of financial position — Inventories" in this section for the reasons of the fluctuations in our inventory turnover days.

Trade receivables turnover days

Trade receivables turnover days is calculated based on the average of the beginning and ending balance of trade receivables divided by revenue for the year/period, then multiplied by the number of days of the year/period.

Please refer to the paragraph headed "Analysis of various items of combined statements of financial position — Trade and other receivables" for the reasons of the fluctuations in our trade receivables turnover days.

Trade payables turnover days

Trade payables turnover days is calculated based on the average of the beginning and ending balance of trade payables divided by cost of sales for the year/period, then multiplied by the number of days of the year/period.

Please refer to the paragraph headed "Analysis of various items of combined statements of financial position — Trade and other payables" for the reasons of the fluctuations in our trade payables turnover days.

Gearing ratio

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

Our gearing ratio decreased from approximately 145.9% as at 31 December 2018 to approximately 96.4% as at 31 December 2019 due to the increase in total equity as a result of retained profits generated from the profit and total comprehensive income for the year of approximately RMB34.6 million while the Group did not declared any dividend for the year ended 31 December 2019 as compared to the dividends of approximately RMB20.0 million for the year ended 31 December 2018. Our gearing ratio further decreased to approximately 71.8% as at 31 December 2020 due to the combined effect of (i) the increase in total equity as a result of profit and total comprehensive income during the same period; (ii) the decrease of bank borrowings; and (iii) the decrease of lease liabilities. Our gearing ratio increased to approximately 80.4% as at 30 June 2021 due to the combined effect of (i) the increase in total equity as a result of profit and total comprehensive income during the same period; and (ii) the increase in other borrowing.

Net debt to equity ratio

Net debt to equity ratio is calculated as net debts (i.e. total borrowings, net of cash and cash equivalents) divided by total equity as at the respective reporting dates.

Our net debt to equity ratio decreased from approximately 128.7% as at 31 December 2018 to approximately 73.3% as at 31 December 2019, subsequently decreased to approximately 53.6% as at 31 December 2020, and further increased to approximately 59.3% as at 30 June 2021. The changes were mainly due to the changes in total equity as mentioned above.

Interest coverage ratio

Interest coverage ratio is calculated as profit before finance costs and income tax expense divided by finance costs of the respective reporting years/period.

Our interest coverage ratio increased from approximately 6.8 times as at 31 December 2018 to approximately 7.2 times as at 31 December 2019 mainly because of the decrease in finance costs during the same period. Our interest coverage ratio further increased from approximately 7.2 times as at 31 December 2019 to approximately 7.7 times as at 31 December 2020 mainly due to the increase in profit before income tax from approximately RMB41.5 million for the year ended 31 December 2019 to approximately RMB48.5 million for the year ended 31 December 2020. Our interest coverage ratio decreased to approximately 5.3 times as at 30 June 2021 mainly due to the generally lower profit before income tax during the first half of the year as compared with that of the whole year due to seasonality and the increase in finance costs incurred from other borrowing.

PROPERTY INTERESTS AND VALUATION

The table below sets forth the reconciliation between the net book value of our owned properties in Sichuan Province as at 30 June 2021 as extracted from the Accountants' Report as set out in the Appendix I to this prospectus and the fair value as at 31 October 2021 as stated in the property valuation report in Appendix III to this prospectus:

	RMB'000
Valuation of our owned properties as at 31 October 2021 as set out in the property valuation report in Appendix III to this prospectus	70,550
Net book value of our owned properties as at 30 June 2021	65,026
Addition of our own properties	1,091
Written off of our owned properties	(497)
Depreciation and amortisation	(865)
Net book value as of 31 October 2021	64,755
Net valuation surplus	5,795

FINANCIAL RISK AND CAPITAL MANAGEMENT

Financial risk management

We are exposed to a variety of financial risks including market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk in our ordinary course of operations and in our investment activities. Our overall financial risk management policies focuses on the unpredictability and volatility at financial markets and seeks to minimise potential adverse effects on the financial position, financial performance and cash flows of our Group. For details of our financial risk management and fair value measurements, please refer to note 33 of the Accountants' Report set out in Appendix I to this prospectus.

Capital management

Our capital structure consists of cash and cash equivalents, borrowings and equity, comprising fully paid capital and reserves. We actively and regularly reviews our capital structure and makes adjustments in light of changes in economic conditions. We monitor our capital structure on the basis of the net debt to equity ratio, of which net debt is defined as borrowings less cash and cash equivalents. In order to maintain or adjust the ratio, we may adjust the amount of dividends paid to the equity holders, issue new shares and raise new debt financing. Please also refer to note 34 of the Accountants' Report set out in Appendix I to this prospectus for details of our capital management measures to ensure that we will be able to continue as a going concern.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For our unaudited pro forma adjusted net tangible assets, please refer to the section headed "Unaudited pro forma financial information" in Appendix II to this prospectus.

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.

DIVIDEND

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.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 5 November 2018 and is an investment holding company. As at 31 December 2018, 2019 and 2020 and 30 June 2021, our Company had no reserves available for distribution to our Shareholders.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, they were not aware of any circumstances which, had we been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

RELATED PARTY TRANSACTIONS

Our related party transactions during the Track Record Period, which were based on normal commercial terms are summarised in note 30 of the Accountants' Report set out in Appendix I to this prospectus.

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 mainly affected by the non-recurring listing expenses described above. 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. For further details on the impact of outbreak of COVID-19 on our business, please refer to the paragraph "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.

BUSINESS STRATEGIES AND FUTURE PLANS

Please refer to the paragraph headed "Business — Our business strategies" in this prospectus for our business strategies and future plans.

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 our Chengdu Production Site under phase two of our production capacity expansion plan. The intended allocation of this portion of the net proceeds is primarily as follows:

Intended applications	**Approximate percentage of proceeds**
(a) acquiring a set of production machinery as additional production line in Shanghai Production Site;	30.4% or HK$31.1 million (equivalent to RMB26.1 million)
(b) acquiring supplemental equipment and upgrading certain production lines of our Chengdu Production Site; and	6.6% or HK$6.8 million (equivalent to RMB5.7 million)
(c) performing technical transformation on our machinery and production lines of both of our Chengdu Production Site and our Shanghai Production Site.	3.0% or HK$3.1 million (equivalent to RMB2.6 million)

Reasons for acquisition of new machinery

(a) Increasing sales volume and sales value in the papermaking felts manufacturing industry

According to the Frost & Sullivan Report, from 2016 to 2020, the sales volume of papermaking felts in the PRC grew from approximately 12,820.1 tonnes to approximately 17,487.9 tonnes, representing a CAGR of approximately 8.1%. Driven by the expected growth of domestic paper production and strong demand for papermaking felts in Southeast Asia, the sales volume of papermaking felts has seen a rapid growth from 2016 onwards and the growth is set to maintain at a CAGR of approximately 6.3% during 2021 to 2025. Similarly, the sales value of papermaking felts in the PRC has achieved an overall growth from approximately RMB2,189.9 million in 2016 to approximately RMB3,166.1 million in 2020, representing a CAGR of approximately 9.7%, and the sales value of papermaking felts is expected to increase at a CAGR of approximately 7.6% during 2021 to 2025.

In light of the increasing sales volume and sales value in the papermaking felts manufacturing industry, as well as the expected increase in average selling price of papermaking felts in the PRC at a CAGR of approximately 1.2% from 2021 to 2025 estimated by Frost & Sullivan, our Directors believe that there is room for raising the average selling price of our papermaking felts.

With reference to (i) the estimated sales value of papermaking felts in the PRC in 2025 (i.e. RMB4,638.7 million); (ii) the existing market share of our Group (i.e. 5.8%) as provided in the Frost & Sullivan Report; and (iii) our Group's revenue growth rate of approximately 5.0%, 9.2% and 15.6% during the year ended 31 December 2019, 2020 and the six months ended 30 June 2021, our Directors believe that our Group can maintain its existing market share in the PRC papermaking felts industry and revenue growth rate.

(b) Ample opportunities for market expansion

Our Directors note from the Frost & Sullivan Report that we were ranked amongst the top five papermaking felts manufacturers in the PRC market in 2020 and its approximate market share by revenue is 5.8% of the market size and the top five players within the market accounted for approximately 48.6% of the whole papermaking felts manufacturing industry in 2020. Further, amongst the top ten paper and paper products manufacturers in the PRC by production volume in 2020 as provided in the Frost & Sullivan Report, nine were our Group's customers while two of them were our Group's top five customers during the Track Record Period and up to the Latest Practicable Date. These nine paper and paper products manufacturers accounted for 48.6% of the market share in terms of production volume in the PRC in 2020. Leveraging our established business relationship with customers which included key market players in the papermaking industry, our Directors believe that our Group has ample opportunities to gain a greater market share and strengthen the market position of our business in the papermaking felts manufacturing industry.

(c) Expected increasing demand in our high-speed papermaking felts

According to Frost & Sullivan, the development of the papermaking felts manufacturing industry in the PRC in respect of technological advancement and strengthened research and development capabilities of leading market participants may pose the barrier for new entrants and threats to existing local enterprises without development capability. In addition, due to the more stringent environmental policies imposed on paper and paper products manufacturers by the government in the PRC, small-sized paper and paper products manufacturers will gradually be eliminated in the papermaking manufacturing industry. These small-sized paper and paper products manufacturers incline to use low-speed papermaking machines and papermaking machines that generally produce shorter and narrower width of paper and paper products as a result. According to the Frost & Sullivan Report, the PRC paper and paper products manufacturers have also shown a strong preference on sourcing papermaking felts from manufacturers with distinctive product development capability and technology in design and production of high-speed papermaking felts. Moreover, as there is a growing demand for high-speed papermaking felts among local manufacturers and a sustained demand from overseas markets, the sales value of papermaking felts is expected to increase at a CAGR of approximately 7.6% during 2021 to 2025, among which the high-speed papermaking felts are estimated to be accounted for approximately 50% of the total sales volume of papermaking felts in the PRC based on the figures recorded in 2020. In particular, the sales value of high-speed papermaking felts in the PRC is expected to grow at a CAGR of 9.1% from 2021 to 2025, which is expected to be higher than the CAGR of sales value of overall papermaking felts in the PRC of approximately 7.6% from 2021 to 2025. According to Frost & Sullivan, the advancement of paper machine with higher operational efficiency, larger width and higher speed contributed to the higher requirements on consumables including papermaking felt. Specifically, the market of high-speed papermaking felt is expected to expand more rapidly as compared to other types of papermaking felts, which is mainly supported by the growing capability and investment of domestic enterprises on development and manufacturing of high-speed papermaking felt with improving product quality and at a competitive price over the foreign enterprises. In view of the above trend, our Group is in a competitive position to capture the business opportunities from growing market demand for high-speed papermaking felts on the following basis: (i) our Group is one of the top five/leading papermaking felt manufacturers in the PRC in terms of revenue, (ii) our Group has established relationship with major papermaking enterprises in the PRC, including nine out of the top ten papermaking companies in the PRC in 2020, (iii) high-end brand reputation and proven research and development capability over the other domestic industry peers, and (iv) our Group has a proven track record with revenue growth rate of approximately 5.0%, 9.2% and 15.6% during the Track Record Period, respectively.

Given this circumstance, our Group has since allocated more resources to change our focus on enhancing research and development and production capacity to produce high-speed papermaking felts. Our Directors believe that our Group's advanced technology and research and development capacity have given them competitive advantages and consider themselves more competitive over majority of local papermaking felts manufacturers in the PRC. As supported by Frost & Sullivan, only a few local manufacturers, including our Group, have demonstrated capability of producing high quality papermaking felts for high-speed papermaking machines, whilst most of the other local manufacturers generally compete on supplying papermaking felts for medium-speed and low-speed papermaking machines.

According to the Frost & Sullivan Report, with the positive outlook of the paper and paper products manufacturing industry in the PRC and the growing demand for high-speed and high-performance papermaking felts, the average selling price of papermaking felts in the PRC is expected to maintain a steady growth at a CAGR of approximately 1.2% from 2021 to 2025, among which the high-speed papermaking felts are estimated to be accounted for approximately 50% of the total sales volume of papermaking felts in the PRC based on the figures recorded in 2020. Furthermore, there has been a growth in terms of sales volume and sales value in the papermaking felts manufacturing industry as mentioned above, our Directors believe that there will be sufficient demand for the Group's high-speed papermaking felts and there is room to further increase the selling prices of our products. Therefore, with our business strategy in investing our resources on manufacturing high-speed papermaking felts, our revenue and gross profit had been increasing throughout the Track Record Period due to an overall growth of average selling price of our papermaking felts with a view to obtaining a higher profit margin.

(d) Strategically enhance our focus on high-speed papermaking felts with higher profitability

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 based on the operating speed of the applicable papermaking machine. 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 papermaking felts and low-speed papermaking felts.

According to the Frost & Sullivan Report, the papermaking industry is shifting towards the use of high-speed papermaking machine and demand for high production speed and quality of paper. Driven by the trend of eliminating outdated production capacity of papermaking enterprises which are mainly equipped with low-speed papermaking machines, and increasing application of high-speed papermaking machines in recent years, the sales value of high-speed papermaking felts in the PRC is expected to grow at a CAGR of 9.1% from 2021 to 2025, which is expected to be higher than the CAGR of sales value of overall papermaking felts in the PRC of approximately 7.6% from 2020 to 2024. Taking into consideration the increase in market demand for high-speed papermaking felts, our Group has gradually enhanced our focus on high-speed papermaking felts. During the Track Record Period and up to the Latest Practicable Date, we generally sourced our customers through various marketing activities, including (i) participating in local and international product exhibitions to showcase our latest product design and research development; (ii) organising thematic seminars to share and exchange latest development within the industry with our customers; (iii) conducting visits to potential customers to promote our Group, strengthen our understanding of their needs and discuss, among other things, business and operational requirements of our customers and market trends. Leveraging on (i) our continuous efforts on our research and development; (ii) our business relationship with our major customers who are top industry players in the papermaking industry in the PRC; and (iii) the fact that we ranked fourth in the papermaking felts industry in the PRC market and were the only papermaking felts manufacturer headquartered in the PRC among the top five players, we believe our product quality, brand reputation and research and development capability have been recognised by our customers, and we can maintain our relationship with our existing customers and are able to source new customers in the future. In particular, the proportion of our sales of high-speed papermaking felts increased by approximately 20.0%, 23.4%, 30.1% and 31.0% as to the total revenue during the Track Record Period, respectively. Our source of customers for high-speed papermaking felts was mainly (i) well-established papermaking companies, which are mainly top ten players in the papermaking industry in the PRC or listed companies, with advanced high-speed papermaking machines; and (ii) other existing customers for low-speed papermaking felts and medium-speed papermaking felts who have upgraded or will upgrade from medium-speed and/or low-speed papermaking machines according to the industry trend. Our Group recorded a steady growth in revenue and sales volume from the sale of high-speed papermaking felts during the Track Record Period. For the three years ended 31 December 2020 and the six months ended 30 June 2021, our Group recorded sales of 160.8 tonnes, 177.9 tonnes, 256.5

tonnes and 113.9 tonnes of high-speed papermaking felts, which generated revenue of approximately RMB31.8 million, RMB39.1 million, RMB55.0 million and RMB23.7 million, respectively. From 1 July 2021 up to the Latest Practicable Date, we have received confirmed orders of 217.7 tonnes of high-speed papermaking felts, with revenue of approximately RMB45.4 million. Our Directors believe that our emphasis on high-speed papermaking felts has and will place us in better position in the papermaking felts manufacturing industry as the use of high-speed papermaking machine continues to grow.

The production of high-speed papermaking felts generally involves more complex techniques and longer processing time. Therefore, we charged a higher selling price and factored in a higher profit margin when determining the pricing of high-speed papermaking felts, as compared to medium-speed and low-speed papermaking felts. The average selling price of our high-speed papermaking felts ranged from approximately RMB198,000 to RMB220,000 per tonne during the Track Record Period, which was higher than that of our medium-speed and low-speed papermaking felts, ranging from RMB104,000 to RMB155,000 per tonne for the same period. Further, the gross profit margin of our high-speed papermaking felts was 62.0%, 65.9%, 65.9% and 64.0% for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively, which was higher than the gross profit margins of our medium-speed papermaking felts (i.e. 48.5%, 52.7%, 51.0% and 48.3% for the corresponding periods) and low-speed papermaking felts (i.e. 38.4%, 41.4%, 46.1% and 38.1% for the corresponding periods). In light of the higher average selling price and gross profit margin of our high-speed papermaking felts as compared to our medium-speed and low-speed papermaking felts, our Directors consider that we will be able to achieve a higher profitability by enhancing our focus on high-speed papermaking felts.

According to the Frost & Sullivan Report, foreign invested papermaking felts manufacturers are highly competitive in the high-speed and high-performance segment of papermaking felts, and four out of the top five papermaking felts manufacturers in the PRC market are foreign invested companies. Leveraging our competitive strengths as (i) the only papermaking felts manufacturer headquartered in the PRC among the top five papermaking felts manufacturers in the PRC market, and (ii) one of the few local papermaking felts manufacturers which demonstrate capability of producing high quality papermaking felts for high-speed papermaking machines, our Directors consider that we will be able to increase our competitiveness relative to the foreign invested papermaking felts manufacturers and further increase our market share by expanding our production capacity for high-speed papermaking felts. In 2020, approximately 42.7% of the market share by revenue of the papermaking felts manufacturing industry in the PRC was dominated by the top four foreign invested manufacturers. As the only top five market player headquartered in the PRC with deep and comprehensive understanding of the papermaking industry in the PRC, and coupled with our Huanlong Paper Machine

Efficiency Operation System which could enable us to help improve the efficiency of customers' papermaking machines, we target to seize the market share of these foreign invested manufacturers. In particular, our Directors consider that the acquisition of a new set of production machinery will strengthen our efforts to produce papermaking felts with premium product quality, which is one of the competitive features of the foreign invested market participants.

(e) Limited production capacity

Our Directors consider that our production facilities were highly utilised during the Track Record Period. The overall effective utilisation rates of our production facilities were approximately 95.9%, 95.3%, 94.6% and 83.6% for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. Our total actual production volume was approximately 1,045 tonnes, 1,124 tonnes, 1,211 tonnes and 535 tonnes for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively.

Our total actual production volume of papermaking felts increased from 1,045 tonnes for the year ended 31 December 2018 to 1,124 tonnes for the year ended 31 December 2019 which was mainly attributable to (i) the completion of replacement, adjustment and testing of the malfunctioning needling machine during the year ended 31 December 2019 as explained above, resulting in the increase in actual production volume of our Chengdu Production Site from 547 tonnes for the year ended 31 December 2018 to 587 tonnes for the year ended 31 December 2019; and (ii) the increase in number of days that our Shanghai Production Site had operated during the year ended 31 December 2019. Meanwhile, the increase in our Group's total actual production volume for the year ended 31 December 2019 was limited by our business strategy in allocating more resources on the production of high-speed papermaking felts which involved a longer production time as explained above. The actual production volume of our high-speed papermaking felts increased from 136 tonnes for the year ended 31 December 2018 to 184 tonnes for the year ended 31 December 2019, accounting for 13.1% and 16.4% of our total actual production volume, respectively.

Our total actual production volume increased from 1,124 tonnes for the year ended 31 December 2019 to 1,211 tonnes for the year ended 31 December 2020, which corresponded to (i) the increase in our 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; and partially offset by (ii) the extension of our Chinese New Year holidays during early 2020 from 23 January 2020 to 13 February 2020 due to the outbreak of COVID-19 in the PRC; and (iii) our business strategy in allocating more resources on the production of high-speed papermaking felts which involved a longer production time as explained above. The actual production volume of our high-speed papermaking felts increased from 184 tonnes for the year ended 31 December 2019 to 260 tonnes for the year ended 31 December 2020, accounting for 16.4% and 21.5% of our total actual production volume, respectively.

Our total actual production volume increased from 459 tonnes for the six months ended 30 June 2020 to 535 tonnes for the six months ended 30 June 2021, which corresponded to the increase in our revenue 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. The actual production volume of our high-speed papermaking felts increased from 88 tonnes for the six months ended 30 June 2020 to 122 tonnes for the six months ended 30 June 2021, accounting for 19.2% and 22.8% of our total actual production volume, respectively.

As at 30 June 2021, we manufactured our products in our production facilities in Chengdu and Shanghai, the PRC, which possessed a total of eight production lines. Depending on our production schedule and customers' orders from time to time, we may allocate our production lines to produce either high-speed, medium-speed or low-speed papermaking felts. During the Track Record Period, our Group has allocated more of our production capacity for high-speed papermaking felts as we intend to enhance our focus on high-speed papermaking felts amid the increase in market demand for high production speed and quality of paper according to the Frost & Sullivan Report. For the three years ended 31 December 2020 and the six months ended 30 June 2021, the actual production volume of our high-speed papermaking felts was 136 tonnes, 184 tonnes, 260 tonnes and 122 tonnes, representing 13.1%, 16.4%, 21.5% and 22.8% of our total actual production volume, respectively. Given (i) the production of high-speed papermaking felts generally involves more complex techniques and longer processing time; and (ii) the number of our production lines had remained the same during the Track Record Period, our plan to enhance the focus on high-speed papermaking felts has inevitably posed a constraint on our production capacity for medium-speed and low-speed papermaking felts as well as our overall production capacity.

Due to our limited production capacity, our Directors estimate that we have lost business opportunities and/or customer orders from our then existing customers for purchasing papermaking felts in an aggregate contract value of approximately RMB6.1 million for the year ended 31 December 2018. In making such estimation, our Directors had not taken into consideration (i) the lost business opportunities and/or customer orders from our then existing customers for papermaking felts based on our production priorities given to papermaking felts of different speeds; and (ii) business opportunities and/or customer orders from other new potential customers in that year. Therefore, our Directors believe that the additional production machinery should be acquired to increase its production capacity with a view to capturing the business opportunities offered within the market.

(f) Insufficient liquidity for acquiring additional major production machinery

During the Track Record Period, we had incurred capital expenditures (including additions and transfers from construction in progress) for plant and machinery, including major production machinery for replacement and other supplemental equipment of approximately RMB9.7 million, RMB5.7 million, RMB1.2 million and RMB2.6 million for the three years ended 31 December 2020 and the six months ended 30 June 2021, respectively. As at 30 June 2021, our Group had prepayment of acquisition of plant and machinery of approximately RMB5.0 million. As confirmed by our Directors, acquisition of a full set of additional major production machinery for manufacturing papermaking felts requires substantial capital. Since we did not have sufficient liquidity for acquiring a full set of additional major production machinery during the Track Record Period, there was no net increase in the number of major production machinery during the same period. For details of our major production machinery, please refer to the paragraph headed "Business — Production — Our production machinery" in this prospectus.

In order to cater for our business growth, as part of phase two of our production capacity expansion plan, we intend to increase our production by acquiring a set of production machinery as additional production line in Shanghai Production site, acquiring supplemental equipment and upgrading certain production lines of our Chengdu Production Site and performing technical transformation on our machinery and production lines of both of our Chengdu Production Site and our Shanghai Production Site, 36.4% of which will be financed by the net proceeds of the Global Offering, with the remaining to be financed by internal resources. The set of production machinery to be acquired includes three weaving machines, one carding machine, one needling machine, one setting machine and one winding machine. For details of our production processes, please refer to the paragraph headed "Business — Production — Our production process" in this prospectus. Given that our Shanghai Production Site has enough floor space to accommodate both our new and existing machineries, we do not need to renovate our production facility to accommodate these new machinery.

The following table sets forth the particulars of each machine that we intend to purchase:

Type of machinery	Principal use
Weaving machine	Knitting warp beams and weft threads into fabric pieces
Carding machine	Brushing and pulling fibre into parallel form
Needling machine	Punching and entangling different layers of fabrics into a single layer of felt
Setting machine	Eliminating any tension variations in the fabrics and stabilising the shape and structure of the felt
Winding machine	Weaving single yarns into warp beams and weft threads

As confirmed by our Directors, the expected useful life of the newly acquired, upgraded and transformed of machineries under phase two of our production capacity expansion plan is 12 years (which is consistent with the existing accounting policy) and its depreciation rate is approximately 8.3%. If the machines are purchased at the cost as budgeted above, the estimated additional annual depreciation expenses will be approximately RMB7.9 million.

For the details of the expected change of our annual production capacity, please refer to paragraph headed "Business — Our business strategies — Expanding our production capacity" in this prospectus.

The way of settlement of the acquisition cost of the new machineries

Our Directors consider that it is in the interest of our Group to purchase the new machineries that we intended to acquire partly with the net proceeds from the Global Offering rather than obtaining full loan financing.

Based on our preliminary discussion with a financial institution in the PRC regarding a loan facility or a financial leasing in the amount of approximately RMB94.6 million to finance the capital expenditure to be incurred under phase two of our production capacity expansion plan, we were offered that such arrangement will be subject to a repayment period of approximately 36 to 50 months with an interest rate of approximately 8% to 10% per year and that the securities and/or guarantees will be required.

In light of the high finance cost arising from the loan facility offered by the financial institution, as well as the security required to be pledged, our Directors are of the view that it is more beneficial for our Group to purchase the new machineries partly with net proceeds from the Global Offering rather than by way of obtaining full loan financing.

Breakeven and investment payback periods

Breakeven period refers to the number of months needed for the revenue generated by acquiring the new machineries, upgrading and performing technical transformation on our machinery and production lines under phase two of our production capacity expansion plan to cover the relevant operating costs and expenses on accounting basis, taking into account the non-cash items such as depreciation and amortisation expenses. For illustrative purpose only, based on the assumptions, including but not limited to, (i) our business plans and strategies to focus on expanding our production capacity to produce high-speed papermaking felts; (ii) our competitive advantages and sales and marketing strategies to expand our market exposure and enlarge our market share; (iii) the estimated maximum capacity of the new machineries of 400 tonnes per year in Shanghai Production Site, of which we assume lower production capacity in the early stage after installation of the new machineries to ensure smooth and stable production arrangement by carrying out initial adjustment and testing; and (iv) the operating costs and expenses of machineries mainly include maintenance costs, utilities and depreciation and there will be no material change in the market, fiscal and economic conditions, our Directors expect that breakeven period will be approximately five months after the newly acquired machineries are in operation.

Investment payback period refers to the number of years needed for the accumulated cash inflows from operating the new, upgraded and transformed machineries to equate the total costs paid for acquiring the new machineries under phase two of our production capacity expansion plan. For illustrative purpose only, based on the assumptions, including but not limited to, (i) our business plans and strategies to focus on expanding our production capacity to produce high-speed papermaking felts; (ii) our competitive advantages and sales and marketing strategies to expand our market exposure and enlarge our market share; (iii) the estimated maximum capacity of the new machineries of 400 tonnes per year in Shanghai Production Site, of which we assume lower production capacity in the early stage after installation of the new machineries to ensure smooth and stable production arrangement by carrying out initial adjustment and testing; and (iv) the operating costs and expenses of machinery mainly include maintenance costs, utilities and depreciation and there will be no material change in the market, fiscal and economic conditions, our Directors expect that the investment payback period will be approximately five years after the acquisition of the machineries.

A number of our production machineries set out in the paragraph headed "Business — Production — Our production machinery" were transferred to our Group when we acquired Shanghai Jinxiong in 2010. Taking into consideration (i) the net book value of these machineries at the time when we acquired Shanghai Jinxiong; (ii) their operating costs and expenses mainly including maintenance costs, insurance costs, utilities and depreciation; and (iii) the additional income generated therefrom, the investment payback period of these machineries was approximately four years. As Shanghai Jinxiong had been operating profitably at the time it was acquired by us, the breakeven period analysis was not applicable to those machineries transferred to us from Shanghai Jinxiong.

Our Directors consider that those machineries transferred from Shanghai Jinxiong to our Group are expected to have a shorter investment payback period than the new set of machinery to be acquired by us mainly because: (i) such machineries were fully operational at the time when we acquired Shanghai Jinxiong in 2010 as they had already been put into use for a certain period of time before that, and hence it saved us the time required for installing, adjusting and testing the machineries, ranging from approximately several months to a year; and (ii) such machineries had been subject to depreciations in the financial periods before we acquired Shanghai Jinxiong, thus the net book value of these machineries at the time of our acquisition did not fully reflect the investment cost incurred by Shanghai Jinxiong.

Apart from the aforesaid, a substantial portion of our existing machineries were acquired by our Group over a decade ago, hence the computation of their breakeven period and investment payback period may not be relevant or representative, taking into account the differences in costs of production machinery and operating environments of the PRC papermaking felts industry back then and nowadays.

Please refer to the paragraph headed "Business — Our business strategies" in this prospectus for more information regarding our business objectives;

(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.

The intended allocation of this portion of the net proceeds is primarily as follows:

Intended applications	**Approximate percentage of proceeds**
(a) upgrading our Huanlong Paper Machine Efficiency Operation System, including; • approximately 5.7% or HK$5.8 million (equivalent to RMB4.9 million) for developing and upgrading the software platform; • approximately 3.5% or HK$3.5 million (equivalent to RMB3.1 million) for investing in the hardwares; • approximately 1.1% or HK$1.2 million (equivalent to RMB0.9 million) for hiring professional staff; and • approximately 1.1% or HK$1.2 million (equivalent to RMB0.9 million) for strengthening our information technology facilities; and	11.4% or HK$11.7 million (equivalent to RMB9.8 million)
(b) upgrading our technology centre	8.6% or HK$8.8 million (equivalent to RMB7.4 million)

(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. For details of our plan of pursuing strategic acquisitions, please refer to the paragraph headed "Business — Our business strategies — Pursuing strategic acquisitions" in this prospectus;

(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 by repaying certain outstanding bank borrowings. As at 31 October 2021, being the date of our indebtedness statement, our total bank borrowings amounted to approximately RMB115.0 million. We intend to use part of the net proceeds from the Global Offering to partially repay the following bank borrowings:

(i) five bank loans amounting to, in aggregate, RMB85.0 million with a bank, all bearing fixed interest rate of 6.05% in which three are to be due in March 2022 and two are to be due in May 2021; and

(ii) a bank loan amounting to RMB10.0 million with another bank, bearing fixed interest rate of 6.53% and to be due in December 2022.

Please refer to the paragraph headed "Financial Information — Indebtedness — Bank borrowings" in this prospectus for further information on our bank borrowings.

Following the aforesaid reduction of indebtedness with our net proceeds, our net current liabilities will change from approximately RMB12.4 million as at 31 October 2021 to the position of net current assets of approximately RMB4.8 million and our net debt to equity ratio and working capital will also be improved as a result. Our Directors believe that this will enhance our flexibility in carrying out further expansion when the opportunities arise, and strengthen our position in obtaining additional funds through equity and/or debt financing, when necessary, given that the indebtedness level of a company is generally one of the key criteria for investors and/or financial institutions in assessing its creditworthiness and repayment ability; and

(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.

If the final Offer Price is set at the highest point of the indicative Offer Price range, the net proceeds from the issue of new Shares under the Global Offering to be received by us is estimated to increase to approximately HK$114.2 million. We intend to apply such additional net proceeds to the above purposes in the same proportions as disclosed above. If the Offer Price is determined at the lowest point of the indicative Offer Price range, the net proceeds from the issue of new Shares under the Global Offering to be received by us is estimated to decrease to approximately HK$90.6 million. In such case, we intend to reduce the allocation of such net proceeds for the above purposes in the same proportions as disclosed above. If the Over-allotment Option is exercised in full or in part, we intend to apply the additional net proceeds from the exercise of the Over-allotment Option to the above purposes in the same proportions as disclosed above.

The table below sets out the estimated net proceeds of the Global Offering which we will receive after deduction of the underwriting fees and commissions and other estimated expenses borne by our Company in connection with the Global Offering:

	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
If the Offer Price is fixed at **HK$1.44** per Share (being the **high end** of the Offer Price range stated in this prospectus)	Approximately HK$114.2 million	Approximately HK$138.8 million
If the Offer Price is fixed at **HK$1.33** per Share (being the **mid-point** of the Offer Price range stated in this prospectus)	Approximately HK$102.4 million	Approximately HK$125.2 million
If the Offer Price is fixed at **HK$1.22** per Share (being the **low end** of the Offer Price range stated in this prospectus)	Approximately HK$90.6 million	Approximately HK$111.5 million
If the Offer Price is fixed at **HK$1.10** per Share (being the final Offer Price subjected to **a Downward Offer Price Adjustment**) *(Note)*	Approximately HK$77.8 million	Approximately HK$96.6 million

Note: To the extent our net proceeds are either more or less than expected or further reduced, we will adjust the allocation of the proceeds for the above purposes on a pro rata basis, and we will consider internal resources or external financing for the relevant purposes in the case of decrease of net proceeds.

The use of our proceeds outlined above may change in light of our evolving business needs, conditions and management requirements as well as prevailing market circumstances. In the event of any material modification to the use of proceeds as described above, we will issue an announcement and make disclosure in our annual report for the relevant year as required under the Listing Rules.

To the extent that the net proceeds from the issue of new Shares under the Global Offering are not immediately required for or applied to the above purposes, it is the present intention of our Directors that such proceeds will be placed in short-term interest bearing deposits held with authorised financial institutions and/or licensed banks in Hong Kong and/or the PRC.

REASONS FOR THE LISTING AND THE GLOBAL OFFERING

Our Directors believe that the Listing on the Stock Exchange will benefit our Group because of the following: (i) the Stock Exchange is a more suitable place to pursue the Listing than in the PRC; (ii) ease of raising funds in the capital market for future business development; (iii) long-term growth of our Group could be sustained and competitiveness strengthened; (iv) enhancement of our corporate profile, brand awareness and competitiveness among business stakeholders; and (v) enhancement of work morale to nurture an integrated workforce.

Listing in Hong Kong as opposed to the PRC

Our Directors consider that the Stock Exchange is a more suitable place to pursue the Listing than in the PRC due to the following reasons:

(i) the level of trading activities on a stock exchange is one of the main indicators for the ease of conducting secondary fund raising exercises after Listing. Given the high liquidity of the Hong Kong stock market, our Directors are of the view that it would be easier to conduct secondary fund raising in the Hong Kong stock market, if necessary, for our further expansion in the future; and

(ii) the Hong Kong stock market has a high level of internationalisation, maturity in the global financial market, with sufficient institutional capital and funds following the companies listed in Hong Kong.

Ease of raising funds in the capital market for future business development

Despite the fact that our Group was able to sustain our business using internally generated funds and bank borrowings during the Track Record Period, we plan to seek equity financing as it would ease our cash flow as compared to debt financing from bank or financial institutions because heavy reliance on debt financing would subject our Group to the inherent risks of higher interest rate and finance costs. Our Group's financial performance and liquidity may be negatively affected due to principal and interest payments if we proceed with debt financing to fund our business expansion.

The Listing will allow us to gain access to the capital market for fund raising, will assist our future business development and enhance our competitiveness. We will be able to use secondary fund raising after the Listing for our future expansion plans and when necessary, through the issuance of equity and/or debt securities. While we will continue to obtain certain amount of banking facilities after the Listing alongside with equity financing, our Directors believe that we would be in a better position to negotiate with banks and financial institutions if we are a listed company with enlarged capital structure. By strengthening our financial position through fund-raising, we will also have more bargaining power when negotiating terms with our suppliers and subcontractors. Our Directors therefore believe that the use of equity financing would avoid the risk of high interest rate generally associated with debt financing which exposes us to increasing financial costs in the future.

Sustaining the long-term growth of our Group and strengthen our competitiveness

Taking advantage of the forecasted growth in sales volume, sales value, export volume and export value of papermaking felts in the PRC, our Directors believe that the Listing is strategically critical to the long-term growth of our Group as it will strengthen our competitiveness, capture more business opportunities, provide us with additional avenues to raise capital in the long run and ultimately lay a solid foundation for our business.

Enhance our corporate profile, brand awareness and competitiveness among business stakeholders

Our Directors believe that the Listing will enhance our corporate profile and brand awareness among business stakeholders such as customers and suppliers. We believe that the Listing will strengthen our internal control and corporate governance practices, which in turn would bolster our customers' and suppliers' confidence in us and attract potential new customers, as well as quality suppliers.

Enhance work morale to nurture an integrated workforce

To effectively implement our business strategies, our Directors believe that a listing status allows us to retain our existing staff more effectively, at both operational and administrative levels. We believe that our staff will feel more stable and secure about their employment with us as compared to a non-listing group, hence strengthening their morale at work. In turn, an integrated workforce will improve the quality of our services and optimise our day-to-day operations to the benefit of our long-term development.

We will issue an announcement in the event that there is any material change in the use of proceeds of the Global Offering as described above.

BASES AND KEY ASSUMPTIONS

The implementation plans for our business strategies are set out by our Directors based on the following principal bases and assumptions:

(i) there will be no material changes in the existing political, legal, fiscal or economic conditions in the PRC, and any other places where any members of our Group carry on business and provide or will provide services;

(ii) there will be no material changes in the bases or rates of taxation and duties in the PRC or in any other places where any member of our Group operates or will operate or is incorporated;

(iii) our Group will have sufficient financial resources to meet the planned capital and business development requirements during the period to which the business objective relates;

(iv) the Global Offering will be completed in accordance with and as described in the section headed "Structure and Conditions of the Global Offering" in this prospectus;

(v) our Directors' and key senior management will continue their involvement in the development of our existing and future development and we will be able to retain our key management personnel;

(vi) we will be able to recruit new staff when required;

(vii) there will be no change in the funding requirement for carrying out each of the implementation plans described in this prospectus from the amount as estimated by our Directors;

(viii) we will be able to continue our operations in substantially the same manner as we had been operating during the Track Record Period and we will also be able to carry out our implementation plans without disruption; and

(ix) we will not be materially and adversely affected by the risk factors as set out in the section headed "Risk Factors" in this prospectus. The successful implementation of our business plans may be affected by a number of factors including the availability of sufficient funds, the economic condition, our ability to maintain our existing competitive advantages, relationship with our customers and the threat of substitutes and new market entrants.

These bases and assumptions are inherently subject to many uncertainties, variables and unpredictable factors, in particular the risk factors set forth in the section headed "Risk Factors" in this prospectus. There can be no assurance that our plans will materialise in accordance with the expected time frame or that the business objective of our Group will be accomplished at all.

HONG KONG UNDERWRITERS

CMBC Securities Company Limited
ABCI Securities Company Limited
CCB International Capital Limited
Essence International Securities (Hong Kong) Limited
CEB International Capital Corporation Limited
Guosen Securities (HK) Capital Company Limited
China Everbright Securities (HK) Limited
China Industrial Securities International Capital Limited
Livermore Holdings Limited
Huafu International Securities Limited
SBI China Capital Financial Services Limited
China Tonghai Securities Limited
Zhongtai International Securities Limited
Forwin Securities Group Limited
I Win Securities Limited
China Sky Securities Limited
Eddid Securities and Futures Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is initially offering for subscription by public in Hong Kong of 11,420,000 Hong Kong Public Offer Shares at the Offer Price under the Hong Kong Public Offering, on and subject to the terms and conditions set forth in this prospectus and the Hong Kong Underwriting Agreement. The Hong Kong Underwriters have agreed, on and subject to the terms and conditions set forth in this prospectus and the Hong Kong Underwriting Agreement, to procure applications to subscribe for, or failing which themselves as principals shall subscribe for, our Hong Kong Public Offer Shares.

The Hong Kong Underwriting Agreement is subject to various conditions, which include, but without limitation:

(a) the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus; and

(b) the International Placing Agreement having been executed, becoming unconditional and not having been terminated.

Grounds for termination

The respective obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers for, our Hong Kong Public Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) will, subject to the consent of the Sole Sponsor, be entitled to terminate the Hong Kong Underwriting Agreement with immediate effect by notice (orally or in writing) to our Company prior to 8 a.m. on the Listing Date:

(i) there shall develop, occur, exist or come into effect:

(a) any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government or orders of any courts, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, nuclear leakage, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the BVI, the Cayman Islands or any other jurisdiction relevant to any member of our Group (together, the "**Specific Jurisdictions**"); or

(b) any change or any development involving a prospective change, or any event or series of events likely to result in any change or development or a prospective change, in any local, regional, national, or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in any stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting the Specific Jurisdictions; or

(c) any new law or any change or any development involving a prospective change or any event or circumstance likely to result in a change in existing laws or development involving a prospective change in (or in the interpretation or application by any court or other competent authority in or affecting) the existing laws of the Specific Jurisdictions; or

(d) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the Beijing Stock

Exchange, or National Equities Exchange and Quotations; or the imposition of any general moratorium on commercial banking activities in the Specific Jurisdictions declared by the relevant authorities or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services or procedures in any of the Specific Jurisdictions; or

(e) the imposition of economic sanctions, in whatever form, directly or indirectly, by or on any of the Specific Jurisdictions; or

(f) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment laws (including, without limitation, a material devaluation of the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Specific Jurisdictions; or

(g) any litigation or claim of any third party being threatened or instigated against any member of our Group; or

(h) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(i) our chairman or chief executive officer or financial controller vacating his office; or

(j) the commencement by any governmental, regulatory or political body or organisation in any relevant jurisdiction commencing any investigation or taking other action, against any Director; or

(k) a contravention by any member of our Group of the Listing Rules or applicable laws; or

(l) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Laws; or

(m) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus, the **GREEN** Application Form or any other documents used in connection with the contemplated offer of the Shares pursuant to the Companies (Winding up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

(n) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Placing Agreement (other than upon any of the Sole Sponsor or the Underwriters); or

(o) any event, act or omission which gives rise to any liability of any of our Company, our executive Directors or our Controlling Shareholders under the Hong Kong Underwriting Agreement pursuant to the indemnities contained therein; or

(p) any adverse change, or any development involving a prospective adverse change or development in conditions, in the assets, liabilities, business affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of any member of our Group; or

(q) any breach of any warranties under the Hong Kong Underwriting Agreement or any event or circumstances rendering such warranties be or would be when repeated untrue, incorrect or misleading in any material respect; or

(r) a petition or an order for the winding-up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

(1) has or will have or may have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Company or any of its subsidiaries taken as a whole; or

(2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or

(3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed; or

(4) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(ii) there has come to the notice of the Sole Global Coordinator:

(a) that any statement contained in this prospectus, the **GREEN** Application Form, the formal notice issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (the "**HKPO Documents**") and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue or incorrect in any material respect or misleading, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the HKPO Documents is not fair and honest and based on reasonable assumptions, when taken as a whole; or

(b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of the HKPO Documents and/or in any notices, announcements, advertisements, communications or other documents including any supplement or amendment thereto; or

(c) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares (including Shares to be allotted and issued under the Over-allotment Option) pursuant to the terms of the Global Offering; or

(d) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or

(e) that any person (other than the Sole Global Coordinator, the Joint Bookrunners, the Sole Sponsor or any of the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of this prospectus and the **GREEN** Application Form and any other document issued, given or used by or on behalf of our Company in connection with the contemplated offering of the Offer Shares or otherwise in connection with the Global Offering, including, without limitation, any roadshow materials relating to the Offer Shares and, in each case, all amendments or supplements thereto (the "**Offering Documents**") or to the issue of any of the Offering Documents; or

(f) approval by the Listing Committee of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(g) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

Upon the occurrence of any event provided above, the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) will, subject to the consent of the Sole Sponsor, be entitled to, upon giving notice orally or in writing to our Company, terminate the Hong Kong Underwriting Agreement with immediate effect, if prior to 8:00 a.m. on the Listing Date.

Undertakings to the Hong Kong Underwriters

Undertakings by our Company

Our Company has undertaken to each of the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor, and each of our Controlling Shareholders and our executive Directors has undertaken to each of the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor that he/she/it will procure our Company that, except for the Capitalisation Issue, the offer of the Offer Shares pursuant to the Global Offering (including the grant of, and the allotment and issue of the Shares pursuant to the exercise of, the Over-allotment Option) and the grant of, and the allotment and issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the

Listing Date ("**First Six-Month Period**"), not to, and to procure each other member of our Group not to, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) offer, accept subscription for, pledge, lend, assign, mortgage, charge, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or buyback, any of the share capital of our Company or other securities of any subsidiary of our Company or any securities convertible into or exercisable or exchangeable for or that represent the right to receive, or interests in, such share capital or any derivatives with the Shares or the shares of any subsidiary of our Company as underlying securities; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein; or

(c) enter into any transaction with the same economic effect as any transaction described in paragraphs (a) or (b) above;

whether any of the foregoing transactions described above is to be settled by delivery of share capital or such other securities, in cash or otherwise or publicly disclose that our Group will or may enter into any transaction described above. We have further agreed that, during the period of six months immediately following the expiry of the First Six-Month Period ("**Second Six-Month Period**"), in the event that our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, we shall take all reasonable steps to ensure that it will not create a disorderly or false market for any of our Shares or other securities of our Company.

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has jointly and severally undertaken to each of our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor that, except pursuant to the Stock Borrowing Agreement:

(a) during the First Six-Month Period, he/she/it shall not, and shall procure that the relevant registered holder(s) and his/her/its associates and companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/it shall not, without the prior written consent of the Sole Global Coordinator and our Company and unless in compliance with the requirements of the Listing Rules, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares in respect of which he/she/it is the beneficial owner (directly or indirectly) as at the Listing Date or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive any such Shares or such securities (together, the "**Relevant Securities**"); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities, whether any of the foregoing transactions is to be settled by delivery of the Shares or such other securities, in cash or otherwise; or (iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (i) or (ii) above; or (iv) announce any intention to enter into or effect any of the transactions referred to in paragraphs (i), (ii) or (iii) above;

(b) during the Second Six-Month Period, he/she/it shall not, and shall procure that the relevant registered holder(s) and their respective associates or companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/it shall not, without the prior written consent of the Sole Global Coordinator and our Company and unless in compliance with the Listing Rules, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Relevant Securities held by him/her/it or any of his/her/its associates or companies controlled by him/her/it or any nominee or trustee holding in trust for him/her/it if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/she/it would cease to be a controlling shareholder (as defined in the Listing Rules) or would together with other Controlling Shareholders cease to be a group of controlling shareholders (as defined in the Listing Rules);

(c) in the event of a disposal of any Relevant Securities or our Company's securities or any interest therein within the Second Six-Month Period, he/she/it shall take all reasonable steps to ensure that such a disposal shall not create a disorderly or false market for any Shares or other securities of our Company; and

(d) he/she/it shall, and shall procure that his/her/its associates and companies controlled by and nominees or trustees holding in trust for him/her/it shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by him/her/it or by the registered holder controlled by him/her/it of any Shares.

Each of our Controlling Shareholders has further undertaken to each of our Company, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor that, from the date of the Hong Kong Underwriting Agreement up to the expiry of the first 12 months from the Listing Date, he/she/it will:

(a) when he/she/it pledges or charges any securities or interests in the Relevant Securities, immediately inform us, the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and

(b) when he/she/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in our securities will be sold, transferred or disposed of, immediately inform us, the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Sole Sponsor in writing of such indications.

Our Company shall notify the Stock Exchange as soon as our Company has been informed of such event and shall make a public disclosure by way of announcement in accordance with the Listing Rules.

Restrictions and undertakings to the Stock Exchange pursuant to the Listing Rules

Restrictions on our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders shall not, and shall procure that the relevant registered holder(s) shall not, at any time during the period commencing on the date by reference to which disclosure of his/her/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date ("**First Lock-up Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan) in respect of, any of the Relevant Securities.

Furthermore, each of our Controlling Shareholders shall not, and shall procure that the relevant registered holder(s) shall not, in the period of the six months commencing on the date on which the First Lock-up Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances (save pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan), he/she/it would cease to be a controlling shareholder or a group of controlling shareholders (as defined in the Listing Rules).

Undertakings by our Controlling Shareholders

In accordance with Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders, jointly as a group and severally, has irrevocably and unconditionally undertaken to us and the Stock Exchange that he/she/it will, within a period of commencing on the date by reference to which disclosure of his/her/its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us of:

(a) any pledges or charges of any Shares or other securities of our Company beneficially owned by him/her/it, whether directly or indirectly, in favour of an authorised institution for a bona fide commercial loan pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, and the number of such Shares or other securities of our Company so pledged or charged; and

(b) when he/she/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares or other securities of our Company will be disposed of.

Restrictions on our Company

Pursuant to Rule 10.08 of the Listing Rules, no Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except pursuant to the Global Offering (including the exercise of the Over-allotment Option) and the Capitalisation Issue or in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

International Placing

International Placing Agreement

In connection with the International Placing, it is expected that our Company, our Controlling Shareholders and executive Directors will enter into the International Placing Agreement with, among other parties, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the International Underwriters on terms and conditions that are substantially similar to the Hong Kong Underwriting Agreement as described above and on the additional terms described below.

Under the International Placing Agreement, subject to the conditions set forth therein, the International Underwriters are expected to procure subscribers to subscribe for, or failing which they shall subscribe for, the 102,780,000 International Placing Shares initially being offered pursuant to the International Placing. It is expected that the International Placing Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Prospective investors shall be reminded that in the event that the International Placing Agreement is not entered into, the Global Offering will not proceed. The International Placing Agreement is conditional on and subject to, among other things, the Hong Kong Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the International Placing Agreement, our Company and Controlling Shareholders will make similar undertakings as those given pursuant to the Hong Kong Underwriting Agreement as described in the paragraph headed "Undertakings to the Hong Kong Underwriters" in this section.

Our Company is expected to grant to the International Underwriters the Over-allotment Option exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters), at its sole and absolute discretion, at any time from the Listing Date until the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering and from time to time, to require our Company to allot and issue up to an aggregate of 17,130,000 additional Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price per Offer Share under the International Placing, to cover over-allocations, if any, in the International Placing and/or to satisfy the obligations of the Stabilising Manager to return the borrowed securities, if any, under the Stock Borrowing Agreement. For more information, please refer to the paragraph headed "Structure and Conditions of the Global Offering — Over-allotment Option" in this prospectus.

Commission and expenses

The Underwriters are expected to receive underwriting commissions of 4.0% of the aggregate Offer Price payable for all the Offer Shares (including both the Hong Kong Public Offer Shares and the International Placing Shares, taking into account the maximum number of Shares that can be issued under the Over-allotment Option, regardless of whether such option is exercised or not). In addition, our Company has agreed to, at its sole discretion, pay the Sole Global Coordinator (for itself and on behalf of the Underwriters) an incentive fee of up to 1.5% of the aggregate Offer Price payable for all the Offer Shares (including both the Hong Kong Public Offer Shares and the International Placing Shares, taking into account the maximum number of Shares that can be issued under the Over-allotment Option, regardless of whether such option is exercised or not).

Based on the Offer Price of HK$1.33 per Offer Share (being the mid-point of the indicative range of the Offer Price), the aggregate commission and fees payable to the Underwriters, together with Stock Exchange listing fees, SFC transaction levy, FRC transaction levy, Stock Exchange trading fees, legal and other professional fees and printing and other expenses relating to the

Global Offering are estimated to amount to approximately RMB41.5 million (equivalent to approximately HK$49.5 million) in total (assuming the Over-allotment Option is not exercised), and are payable by our Company. We will also pay for all expenses in connection with any exercise of the Over-allotment Option.

SOLE SPONSOR'S AND UNDERWRITERS' INTEREST IN OUR COMPANY

The Sole Sponsor will receive a sponsorship fee to the Global Offering. The Sole Global Coordinator and the Underwriters will receive an underwriting commission. Particulars of these underwriting commission and expenses are set forth under the paragraph headed "Commission and expenses" in this section.

We have appointed CMBC International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

As at the Latest Practicable Date and save as disclosed in this section above, none of the Sole Sponsor and the Underwriters is interested legally or beneficially in any shares or other securities of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase any shares or other securities in any members of our Group or has any interest in the Global Offering.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and/or the International Placing Agreement.

The Sole Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

Our Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

THE GLOBAL OFFERING

The Global Offering comprises the International Placing and the Hong Kong Public Offering. A total of 114,200,000 Offer Shares will initially be made available under the Global Offering, of which:

(i) 102,780,000 Shares, representing 90% of the total number of Offer Shares initially being offered under the Global Offering, will initially be conditionally placed with professional, institutional and other investors under the International Placing; and

(ii) 11,420,000 Shares, representing 10% of the total number of Offer Shares initially being offered under the Global Offering, will initially be offered to members of the public in Hong Kong under the Hong Kong Public Offering.

The number of Shares offered for subscription under the International Placing and the Hong Kong Public Offering will be subject to reallocation on the basis described below and the number of Shares offered for subscription under the International Placing will also be subject to the exercise of the Over-allotment Option below. No pre-emption right or right to subscribe for the Offer Shares has been granted.

Investors may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Placing, but may not do both.

The International Placing

Our Company is expected to offer initially 102,780,000 International Placing Shares (subject to reallocation and before any exercise of the Over-allotment Option) at the Offer Price under the International Placing. The number of International Placing Shares expected to be initially available for application under the International Placing represents 90% of the total number of Offer Shares being initially offered under the Global Offering. The International Placing is expected to be fully underwritten by the International Underwriters subject to the Offer Price being agreed on or before the Price Determination Date.

It is expected that the International Underwriters or selling agents nominated by them, on behalf of our Company, will conditionally place the International Placing Shares at the Offer Price with professional, institutional and other investors. Professional and institutional investors generally include brokers, dealers, companies and fund managers, whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of the International Placing Shares will be based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and the Shareholders as a whole. Investors to whom International Placing Shares are offered will be required to undertake not to apply for Shares under the Hong Kong Public Offering.

The International Placing is expected to be subject to the conditions as stated in the paragraph headed "Conditions of the Global Offering" in this section.

The Hong Kong Public Offering

Our Company is initially offering 11,420,000 Hong Kong Public Offer Shares for subscription (subject to reallocation) by members of the public in Hong Kong under the Hong Kong Public Offering, representing 10% of the total number of Offer Shares offered under the Global Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the terms and conditions of the Hong Kong Underwriting Agreement. Applicants for the Hong Kong Public Offer Shares are required on application to pay the maximum Offer Price of HK$1.44 per Share plus 1% brokerage fee, 0.005% Stock Exchange trading fee, 0.00015% FRC transaction levy and 0.0027% SFC transaction levy.

An applicant for Shares under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it has not applied for nor taken up any Shares under the International Placing nor otherwise participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant's application under the Hong Kong Public Offering is liable to be rejected.

The total number of the Offer Shares available under the Hong Kong Public Offering is to be divided into two pools of 5,710,000 Hong Kong Public Offer Shares for each of pool A and pool B, respectively, for allocation purposes:

- Pool A: the Hong Kong Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate subscription price of HK$5 million (excluding the brokerage fee, the Stock Exchange trading fee, the FRC transaction levy and the SFC transaction levy payable thereon) or less; and

- Pool B: the Hong Kong Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares with an aggregate subscription price of more than HK$5 million (excluding the brokerage fee, the Stock Exchange trading fee, the FRC transaction levy and the SFC transaction levy payable thereon) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Hong Kong Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly.

Applicants can only receive an allocation of the Hong Kong Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Multiple applications or suspected multiple applications within either pool or between pools and any application made for more than 50% of the 11,420,000 Shares initially comprised in the Hong Kong Public Offering (i.e. 5,710,000 Hong Kong Public Offer Shares) will be rejected.

Allocation of the Hong Kong Public Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. When there is over-subscription under the Hong Kong Public Offering, allocation of the Hong Kong Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Public Offer Shares than others who have applied for the same number of the Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

BASIS OF ALLOCATION OF THE OFFER SHARES

The allocation of Offer Shares between the Hong Kong Public Offering and the International Placing is subject to reallocation. According to the Guidance Letter HKEX-GL91-18 issued by the Stock Exchange and paragraph 4.2 of Practice Note 18 of the Listing Rules, a clawback mechanism shall be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if the International Placing is fully or oversubscribed and certain prescribed total demand levels are reached as further described below:

(a) where the International Placing is fully subscribed or over-subscribed:

   (i) if the Hong Kong Public Offer Shares are under-subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares from the Hong Kong Public Offering to the International Placing, in such proportions as the Sole Global Coordinator deems appropriate;

(ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 11,420,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased up to 22,840,000 Offer Shares, representing up to 20% of the total number of the Offer Shares initially available under the Global Offering, provided that such reallocation shall comply with the Guidance Letter HKEX-GL91-18 issued by the Stock Exchange;

(iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then an additional 22,840,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 34,260,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);

(iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then an additional 34,260,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 45,680,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option); and

(v) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then an additional 45,680,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of Offer Shares available under the Hong Kong Public Offering will be 57,100,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);

(b) where the International Placing is undersubscribed:

(i) if the Hong Kong Public Offer Shares are also undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe for or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions in this prospectus, the **GREEN Application Form** and the Underwriting Agreements; and

(ii) if the Hong Kong Public Offer Shares are fully subscribed or oversubscribed (irrespective of the extent of oversubscription), then up to 11,420,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased up to 22,840,000 Offer Shares, representing up to 20% of the total number of the Offer Shares initially available under the Global Offering, provided that such reallocation shall comply with the Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

In the event of reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing is in the circumstances where the International Placing Shares are fully subscribed or oversubscribed and the Hong Kong Public Offer Shares are oversubscribed by less than 15 times under paragraph (a)(ii) above or the International Placing Shares are undersubscribed and the Hong Kong Public Offer Shares are oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at the low-end of any indicative Offer Price range (i.e. HK$1.22 per Offer Share) stated in this prospectus (subject to a Downward Offer Price Adjustment).

In addition, the Sole Global Coordinator may in its sole and absolute discretion reallocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with Guidance Letter HKEX-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be allocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 22,840,000 Offer Shares).

In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between Pool A and Pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator may in its sole discretion reallocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Placing in such proportions as the Sole Global Coordinator deems appropriate.

OVER-ALLOTMENT OPTION

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the Listing Date until the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering and from time to time, to require our Company to allot and issue up to an aggregate of 17,130,000 additional Shares, representing 15% of the initial Offer Shares, at the same price per Offer Share at which Offer Shares were initially offered under the International Placing, to cover over-allocations in the International Placing, if any, on the same terms and conditions as the Offer Shares that are subject to the Global Offering.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the Offer Price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it, to conduct any such stabilising action. Such stabilising action, if taken: (i) will be conducted at the absolute discretion of the Stabilising Manager reasonably regards as the best interest of our Company; (ii) may be discontinued at any time; and (iii) is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

Stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares; (iii) purchasing, or agreeing to purchase, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases; and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it may, in connection with the stabilising action, maintain a long position in the Shares;

- there is no certainty as to the extent to which and the time or period for which the Stabilising Manager, its affiliates or any person acting for it will maintain such a long position;

- liquidation of any such long position by the Stabilising Manager, its affiliates or any person acting for it and selling in the open market, may have an adverse impact on the market price of the Shares;

- no stabilising action can be taken to support the price of the Shares for longer than the stabilisation period, which will begin on the Listing Date, and is expected to expire on Wednesday, 2 February 2022, being the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;

- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and

- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for, or investors in, the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

The Sole Global Coordinator may, at its option, also cover such over-allocations by purchasing the Offer Shares in the secondary market or through stock borrowing arrangements from holders of Shares or exercise of Over-allotment Option, or by a combination of these means or otherwise as may be permitted under applicable laws, rules and regulations. If the Sole Global Coordinator exercises the Over-allotment Option in full, the additional Offer Shares will represent approximately 15% of our Company's enlarged issued share capital immediately following completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made.

STOCK BORROWING AGREEMENT

In order to facilitate settlement of over-allocations in connection with the International Placing, the Stabilising Manager may enter into the Stock Borrowing Agreement with Perfect Angle. If the Stock Borrowing Agreement is entered into and if requested by the Stabilising Manager, Perfect Angle will, subject to the terms of the Stock Borrowing Agreement, make available to the Stabilising Manager up to 17,130,000 Shares held by it, by way of stock lending, in order to cover over-allocations in connection with the International Placing, if any.

If such stock borrowing arrangement with Perfect Angle is entered into, it will only be effected by the Stabilising Manager, its affiliates or any person acting for it for the settlement of over-allocations in the International Placing and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with.

The same number of Shares so borrowed must be returned to Perfect Angle or its nominees, as the case may be, on or before the third business day following the earlier of: (i) the last day on which the Over-allotment Option may be exercised and (ii) the day on which the Over-allotment Option is exercised in full.

The Stock Borrowing Arrangement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Perfect Angle by the Stabilising Manager, its affiliates or any person acting for it in relation to such stock borrowing arrangement.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on or around Monday, 3 January 2022.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but not expected to be, lowered than the indicative Offer Price range as stated in this prospectus (subject to a Downward Offer Price Adjustment). The Offer Price will not be more than HK$1.44 per Offer Share and is expected to be not less than HK$1.22 per Offer Share. If the Offer Price is set at 10% below the bottom end of the indicative Offer Price range after making a Downward Offer Price Adjustment, the Offer Price will be HK$1.10 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

The Sole Global Coordinator (for itself and on behalf of the Underwriters), with the consent of our Company, may extend or reduce the indicative Offer Price range stated in this prospectus and/or the number of the Offer Shares being offered at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such extension or reduction, and in any event not later than the morning of the last day lodging applications under the Hong Kong Public Offering, cause there to be posted on the Stock Exchange's website at ***www.hkexnews.hk*** and our Company's website at ***www.vanov.cn*** notices of the extension or reduction of the indicative Offer Price range and/or the number of the Offer Shares. Upon issue of such a notice, the revised number of the Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range and/or the number of the Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in the section headed "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any notice being published on the Stock Exchange's website at ***www.hkexnews.hk*** and our Company's website at ***www.vanov.cn*** of an extension or reduction in the indicative Offer Price range and/or the number of the Offer Shares as stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

Announcement of Offer Price Reduction

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective investors during the book-building process, and with the consent of the Company, determine the final Offer Price to be no more than 10% below the bottom end of the indicative Offer Price range, at any time on or prior to the Price Determination Date.

In such situation, the Company will, as soon as practicable following the decision set the final Offer Price below the bottom end of the indicative Offer Price range, publish on the website of the Stock Exchange (***www.hkexnews.hk***) and the Company's website (***www.vanov.cn***) an announcement of the final Offer Price after making a Downward Offer Price Adjustment. Such announcement will be issued before and separate from the announcement of the results of allocations expected to be announced on Monday, 3 January 2022. The Offer Price announced following making of a Downward Offer Price Adjustment shall be the final Offer Price and shall not be subsequently changed.

In the absence of an announcement that a Downward Offer Price Adjustment has been made, the final Offer Price will not be outside the indicative Offer Price range as disclosed in this prospectus unless the Withdrawal Mechanism is utilised.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Tuesday, 4 January 2022, the Global Offering will not proceed and will lapse.

Irrespective of whether a Downward Offer Price Adjustment is made, the announcement of the final Offer Price, together with the level of indication of interests in the International Placing and the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares is expected to be published on Monday, 10 January 2022.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$1.44 per Offer Share and is expected to be not less than HK$1.22 per Offer Share. If the Offer Price is set at 10% below the bottom end of the indicative Offer Price range after making a Downward Offer Price Adjustment, the Offer Price will be HK$1.10 per Offer Share. Applicants under the Hong Kong Public Offering should pay, on application, the maximum Offer Price of HK$1.44 per Offer Share plus 1% brokerage fee, 0.005% Stock Exchange trading fee, 0.00015% FRC transaction levy and 0.0027% SFC transaction levy, amounting to a total of HK$2,909.02 per board lot of 2,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK$1.44 per Offer Share, appropriate refund payments (including the related brokerage fee, the Stock Exchange trading fee, the FRC transaction levy and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest.

Further details are set out in the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares is conditional upon, among others, the satisfaction of all of the following conditions:

1. Listing

The Listing Committee granting the approval of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as described in this prospectus (including the Shares to be issued under the Capitalisation Issue, any Shares which may be issued pursuant upon the exercise of the Over-allotment Option and any Shares which may be issued upon exercise of options which may be granted under the Share Option Scheme), and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange.

2. Underwriting Agreements

The obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of a waiver of any condition(s) by the Sole Sponsor and/or the Sole Global Coordinator (for itself and on behalf of the Underwriters)) and such obligations not being terminated in accordance with the terms of these agreements or otherwise.

3. Price determination

The Offer Price having been duly determined and the execution of the Price Determination Agreement on or before the Price Determination Date.

In each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) or if not as stipulated by 8:00 a.m. on the Listing Date or such other dates as the Sole Sponsor and/or the Sole Global Coordinator (for itself and on behalf of the Underwriters) may agree but in any event not later than the 30th day after the date of this prospectus.

If any of the conditions is not fulfilled or waived by the Sole Sponsor and/or the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the times specified above, the Global Offering will lapse and the application money will be returned to the applicants, without interest. The terms on which the application money will be returned to the applicants are set out in the paragraph headed "How to Apply for Hong Kong Public Offer Shares — 14. Despatch/collection of share certificates and refund monies" in this prospectus.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, 11 January 2022, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, 11 January 2022.

The Shares will be traded in board lots of 2,000 Shares each. Our Company will not issue any temporary document of title. The stock code of the Shares will be 2260.

IMPORTANT NOTICE TO INVESTORS:
FULLY ELECTRONIC APPLICATION PROCESS

We have adopted a fully electronic application process for the Hong Kong Public Offering. We will not provide printed copies of this prospectus or printed copies of any application forms to the public in relation to the Hong Kong Public Offering.

This prospectus is available at the website of the Stock Exchange at ***www.hkexnews.hk*** under the "*HKEXnews > New Listings > New Listing Information*" section, and our website at ***www.vanov.cn***. If you require a printed copy of this prospectus, you may download and print from the website addresses above.

The contents of the electronic version of the prospectus are identical to the printed prospectus as registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Set out below are procedures through which you can apply for the Hong Kong Public Offer Shares electronically. We will not provide any physical channels to accept any application for the Hong Kong Offer Shares by the public.

If you are an intermediary, broker or agent, please remind your customers, clients or principals, as applicable, that this prospectus is available online at the website addresses above.

If you have any question about the application for the Hong Kong Public Offer Shares, you may call the enquiry hotline of our Hong Kong Branch Share Registrar and **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited, at +852 2862 8600 on the following dates:

Wednesday, 29 December 2021	**—**	**9:00 a.m. to 9:00 p.m.**
Thursday, 30 December 2021	**—**	**9:00 a.m. to 9:00 p.m.**
Friday, 31 December 2021	**—**	**9:00 a.m. to 9:00 p.m.**
Saturday, 1 January 2022	**—**	**9:00 a.m. to 6:00 p.m.**
Sunday, 2 January 2022	**—**	**9:00 a.m. to 6:00 p.m.**
Monday, 3 January 2022	**—**	**9:00 a.m. to 12:00 noon**

1. HOW TO APPLY

We will not provide any printed application forms for use by the public.

To apply for Hong Kong Public Offer Shares, you may:

(1) apply online via the **White Form eIPO** service at ***www.eipo.com.hk***; or

(2) apply through **CCASS EIPO** service to electronically cause HKSCC Nominees to apply on your behalf, including by:

   (i) instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf; or

   (ii) (if you are an existing **CCASS Investor Participant**) giving **electronic application instructions** through the CCASS Internet System (***https://ip.ccass.com***) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you apply through channel (1) above, the Hong Kong Public Offer Shares successfully applied for will be issued in your own name.

If you apply through channels (2)(i) or (2)(ii) above, the Hong Kong Public Offer Shares successfully applied for will be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Sponsor, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

Eligibility for the application

You can apply for Hong Kong Public Offer Shares if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Company, the Sole Sponsor, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents may accept or reject your application at their discretion, and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Public Offer Shares.

Unless permitted by the Listing Rules or any relevant waivers that have been granted by the Stock Exchange, you cannot apply for any Hong Kong Public Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- are a Director or chief executive officer of our Company and/or any of its subsidiaries;
- are a close associate (as defined in the Listing Rules) of any of the above;
- are a core connected person (as defined in the Listing Rules) of our Company or will become a core connected person of our Company immediately upon completion of the Global Offering; or

- have been allocated or have applied for any International Placing Shares or otherwise participated in the International Placing.

Items required for the application

If you apply for the Hong Kong Public Offer Shares online through the **White Form eIPO** service, you must:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are applying for the Hong Kong Public Offer Shares online by instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals, please contact them for the items required for the application.

3. TERMS AND CONDITIONS OF AN APPLICATION

By applying through the application channels specified in this prospectus, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise our Company, the Sole Sponsor and/or the Sole Global Coordinator (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Act, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, and the **White Form eIPO** Service Provider is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Placing Shares under the International Placing nor participated in the International Placing;

(viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first named applicant for joint applications by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in "14. Despatch/collection of share certificates and refund monies — Personal collection" in this section to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company, the Sole Sponsor, the Sole Global Coordinator and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit by giving **electronic application instructions** to HKSCC directly or indirectly or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to give **electronic application instructions** on behalf of that other person as their agent.

Section 40 of the Hong Kong Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant and CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

4. MINIMUM APPLICATION AMOUNT AND PERMITTED NUMBERS

Your application through the **White Form eIPO** service or the **CCASS EIPO** service must be for a minimum of 2,000 Hong Kong Public Offer Shares and in one of the numbers set out in the table. You are required to pay the amount next to the number you select.

No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application	No. of Hong Kong Offer Shares applied for	Amount payable on application
	HK$		*HK$*		*HK$*		*HK$*
2,000	2,909.02	40,000	58,180.53	350,000	509,079.57	2,500,000	3,636,282.60
4,000	5,818.06	50,000	72,725.65	400,000	581,805.21	3,000,000	4,363,539.12
6,000	8,727.07	60,000	87,270.78	450,000	654,530.87	3,500,000	5,090,795.64
8,000	11,636.11	70,000	101,815.91	500,000	727,256.52	4,000,000	5,818,052.16
10,000	14,545.13	80,000	116,361.04	600,000	872,707.83	4,500,000	6,545,308.68
12,000	17,454.16	90,000	130,906.17	700,000	1,018,159.13	5,000,000	7,272,565.20
14,000	20,363.18	100,000	145,451.31	800,000	1,163,610.43	5,710,000(1)	8,305,269.45
16,000	23,272.20	150,000	218,176.95	900,000	1,309,061.73		
18,000	26,181.24	200,000	290,902.61	1,000,000	1,454,513.04		
20,000	29,090.26	250,000	363,628.26	1,500,000	2,181,769.56		
30,000	43,635.39	300,000	436,353.91	2,000,000	2,909,026.08		

Note:

(1) Maximum number of Hong Kong Offer Shares you may apply for.

No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria set out in the paragraph headed "2. Who can apply" in this section, may apply through the **White Form eIPO** service for the Hong Kong Public Offer Shares to be allotted and registered in their own names through the designated website at ***www.eipo.com.hk***.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

If you have any questions on how to apply through the **White Form eIPO** service for the Hong Kong Public Offer Shares, please contact the telephone enquiry line of the **White Form eIPO** Service Provider at +852 2862 8600 which is available on the following dates:

Wednesday, 29 December 2021	**—**	**9:00 a.m. to 9:00 p.m.**
Thursday, 30 December 2021	**—**	**9:00 a.m. to 9:00 p.m.**
Friday, 31 December 2021	**—**	**9:00 a.m. to 9:00 p.m.**
Saturday, 1 January 2022	**—**	**9:00 a.m. to 6:00 p.m.**
Sunday, 2 January 2022	**—**	**9:00 a.m. to 6:00 p.m.**
Monday, 3 January 2022	**—**	**9:00 a.m. to 12:00 noon**

Time for Submitting Applications under the White Form eIPO Service

You may submit your application to the **White Form eIPO** Service Provider at ***www.eipo.com.hk*** (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, 29 December 2021 until 11:30 a.m. on Monday, 3 January 2022 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 3 January 2022 or such later time specified under the paragraph headed "10. Effect of bad weather on the opening of the applications lists" in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Commitment to sustainability

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2 for each "VANOV HOLDINGS COMPANY LIMITED" **White Form eIPO** application submitted via ***www.eipo.com.hk*** to support sustainability.

6. APPLYING THROUGH CCASS EIPO SERVICE

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Internet System (***https://ip.ccass.com***) or through the CCASS Phone System by calling +852 2979 7888 (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC can also input **electronic application instructions** for CCASS Investor Participants through HKSCC's Customer Service Center at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong by completing an input request.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS clearing Participant or CCASS Custodian Participant to give **electronic application instruction** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Sole Global Coordinator and our Hong Kong Branch Share Registrar.

Applying through CCASS EIPO service

Where you have applied through **CCASS EIPO** service (either directly or indirectly through a **broker** or **custodian**) and an application is made by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions in this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering will rely on your declarations and representations in deciding whether or not to allot any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to despatch share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and read this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made and will not rely on any other information or representations, save as set out in any supplement to this prospectus;

- agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section on or before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong) which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the results of the Hong Kong Public Offering;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for the Hong Kong Public Offer Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Act, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association of our Company; and

- agree that your application, any acceptance of it and the resulting contract will be governed by, and construed in accordance with the laws of Hong Kong.

Effect of applying through CCASS EIPO service

By applying through **CCASS EIPO** service, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage fee, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage fee, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in this prospectus.

Time for Inputting Electronic Application Instructions (1)

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Wednesday, 29 December 2021	**—**	**9:00 a.m. to 8:30 p.m.**
Thursday, 30 December 2021	**—**	**8:00 a.m. to 8:30 p.m.**
Friday, 31 December 2021	**—**	**8:00 a.m. to 8:30 p.m.**
Monday, 3 January 2022	**—**	**8:00 a.m.**(1) **to 12:00 noon**

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 29 December 2021 until 12:00 noon on Monday, 3 January 2022 (24 hours daily, except on Monday, 3 January 2022, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, 3 January 2022, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather on the opening of the application lists" in this section.

If you are instructing your **broker** or **custodian** who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf, you are advised to contact your **broker** or **custodian** for the latest time for giving such instructions which may be different from the latest time as stated above.

Note:

(1) These times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Personal Data

The following Personal Information Collection Statement applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving banker, the Sole Sponsor, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees. By applying through **CCASS EIPO** service, you agree to all of the terms of the Personal Information Collection Statement below.

Personal Information Collection Statement

This Personal Information Collection Statement informs applicant for, and holder of, the Hong Kong Public Offer Shares, of the policies and practices of our Company and its Hong Kong Branch Share Registrar in relation to personal data and the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong).

Reasons for the collection of your personal data

It is necessary for applicants and registered holders of the Hong Kong Public Offer Shares to supply correct personal data to our Company or our agents and the Hong Kong Branch Share Registrar when applying for the Hong Kong Public Offer Shares or transferring the Hong Kong Public Offer Shares into or out of their names or in procuring the services of the Hong Kong Branch Share Registrar.

Failure to supply the requested data may result in your application for the Hong Kong Public Offer Shares being rejected, or in delay or the inability of our Company or the Hong Kong Branch Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfers of the Hong Kong Public Offer Shares which you have successfully applied for and/or the despatch of share certificate(s) to which you are entitled.

It is important that the holders of the Hong Kong Public Offer Shares inform our Company and the Hong Kong Branch Share Registrar immediately of any inaccuracies in the personal data supplied.

Purposes

Your personal data may be used, held, processed, and/or stored (by whatever means) for the following purposes:

- processing your application and e-Refund payment instructions/refund cheque, where applicable, verification of compliance with the terms and application procedures set out in this prospectus and announcing the results of allocation of the Hong Kong Public Offer Shares;
- compliance with applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of the holders of our Shares including, where applicable, HKSCC Nominees;
- maintaining or updating our Company's register of members;
- verifying identities of the holders of our Shares;
- establishing benefit entitlements of the holders of our Shares, such as dividends, rights issues, bonus issues, etc.;
- distributing communications from our Company and our subsidiaries;
- compiling statistical information and profiles of the holders of our Shares;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable our Company and the Hong Kong Branch Share Registrar to discharge our or their obligations to the holders or our Shares and/or regulators and/or any other purposes to which the securities' holders may from time to time agree.

Transfer of personal data

Personal data held by our Company and the Hong Kong Branch Share Registrar relating to the holders of the Hong Kong Public Offer Shares will be kept confidential but our Company and the Hong Kong Branch Share Registrar may, to the extent necessary for achieving any of the above purposes, disclose, obtain or transfer (whether within or outside Hong Kong) the personal data to, from or with any of the following:

- our Company's appointed agents such as financial advisers, receiving bankers and overseas principal share registrar;
- where applicants for the Hong Kong Public Offer Shares request a deposit into CCASS, HKSCC or HKSCC Nominees, who will use the personal data for the purposes of operating CCASS;
- any agents, contractors or third-party service providers who offer administrative, telecommunications, computer, payment or other services to our Company or the Hong Kong Branch Share Registrar in connection with their respective business operation;
- the Stock Exchange, the SFC and any other statutory regulatory or governmental bodies or otherwise as required by laws, rules or regulations; and
- any persons or institutions with which the holders of the Hong Kong Public Offer Shares have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers etc.

Retention of personal data

Our Company and our Hong Kong Branch Share Registrar will keep the personal data of the applicants and holders of the Hong Kong Public Offer Shares for as long as necessary to fulfil the purposes for which the personal data were collected. Personal data which is no longer required will be destroyed or dealt with in accordance with the Personal Data (Privacy) Ordinance.

Access to and correction of personal data

Holders of the Hong Kong Public Offer Shares have the right to ascertain whether our Company or our Hong Kong Branch Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. Our Company and our Hong Kong Branch Share Registrar have the right to charge a reasonable fee for the processing of such requests. All requests for access to data or correction of data should be addressed to our Company, at our

Company's registered address disclosed in the section headed "Corporate Information" in this prospectus or as notified from time to time, for the attention of the company secretary of the Company, or addressed to our Hong Kong Branch Share Registrar for the attention of the privacy compliance officer.

7. WARNING FOR ELECTRONIC APPLICATIONS

The application for the Hong Kong Public Offer Shares by **CCASS EIPO** service (directly or indirectly through your **broker** or **custodian**) is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and the **White Form eIPO** Service Provider take no responsibility for such applications and provide no assurance that any CCASS Participant applying through **CCASS EIPO** service or person applying through the **White Form eIPO** service will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 3 January 2022, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather on the opening of the application lists" in this section.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees.

All of your applications will be rejected if more than one application through the **CCASS EIPO** service (directly or indirectly through your **broker** or **custodian**) or through the **White Form eIPO** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**), and the number of Hong Kong Public Offer Shares applied by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your behalf.

For the avoidance of doubt, giving an **electronic application instruction** under the **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application. However, any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"**Unlisted company**" means a company with no equity securities listed on the Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

You must pay the maximum Offer Price, brokerage fee, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee in full upon application for Shares.

You may submit an application through the **White Form eIPO** service or the **CCASS EIPO** service in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the paragraph headed "4. Minimum application amount and permitted numbers" in this section, or as otherwise specified on the designated website at ***www.eipo.com.hk***.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy, the FRC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC and the FRC transaction levy will be paid to the FRC).

For further details on the Offer Price, please see the paragraph headed "Structure and Conditions of the Global Offering — Determining the Offer Price" in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above;
- a "black" rainstorm warning; or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 3 January 2022. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, 3 January 2022 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable" in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Monday, 10 January 2022, on our Company's website at ***www.vanov.cn*** and the website of the Stock Exchange at ***www.hkexnews.hk***.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at ***www.vanov.cn*** and the Stock Exchange's website at ***www.hkexnews.hk*** by no later than 9:00 a.m. on Monday, 10 January 2022;

- from the designated results of allocations website at ***www.iporesults.com.hk*** (alternatively: English ***https://www.eipo.com.hk/en/Allotment***; Chinese ***https://www.eipo.com.hk/zh-hk/Allotment***) with a "search by ID Number/Business Registration Number" function on a 24-hour basis from 8:00 a.m. on Monday, 10 January 2022 to 12:00 mid-night on Sunday, 16 January 2022;

- by telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from Monday, 10 January 2022 to Thursday, 13 January 2022.

If our Company accepts your offer to subscribe (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer shares will not be allotted to you:

(i) If your application is revoked:

By applying through the **CCASS EIPO** service or through the **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Sponsor, the Sole Global Coordinator, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Public Offer Shares is void:

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;

- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Placing Shares;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Sponsor or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$1.44 per Offer Share (excluding brokerage fee, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled as set out in the paragraph headed "Structure and Conditions of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage fee, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee, will be refunded, without interest.

Any refund of your application monies will be made on or before Monday, 10 January 2022.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made through the **CCASS EIPO** service where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application.

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Monday, 10 January 2022. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, 11 January 2022 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply through the White Form eIPO service

If you apply for 1,000,000 Hong Kong Public Offer Shares or more through the **White Form eIPO** service and your application is wholly or partially successful, you may collect any refund cheques (where applicable) and/or your share certificate(s) from the Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 10 January 2022, or such other date as notified by our Company as the date of despatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares through the **White Form eIPO** service, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, 10 January 2022 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(ii) If you apply through CCASS EIPO service

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, 10 January 2022, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraph headed "11. Publication of results" in this section on Monday, 10 January 2022. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 10 January 2022 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your **broker** or **custodian** to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that **broke**r or **custodian**.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, 10 January 2022. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage fee, SFC transaction levy, FRC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your **broker** or **custodian** on Monday, 10 January 2022.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second settlement day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of the Company, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong.

GrantThornton
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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF VANOV HOLDINGS COMPANY LIMITED AND CMBC INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of Vanov Holdings Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages I-5 to I-84, which comprises the consolidated statements of financial position of the Group as at 31 December 2018, 2019, 2020 and 30 June 2021, the statements of financial position of the Company as at 31 December 2018, 2019, 2020 and 30 June 2021, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2018, 2019, 2020 and six months ended 30 June 2021 (the "**Track Record Period**"), and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages I-5 to I-84 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 29 December 2021 (the "**Prospectus**") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 to the Historical Financial Information, respectively, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Group's consolidated financial position as at 31 December 2018, 2019, 2020 and 30 June 2021, of the Company's financial position as at 31 December 2018, 2019, 2020 and 30 June 2021 and of the Group's consolidated financial performance and consolidated cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 to the Historical Financial Information, respectively.

Review of interim period comparative financial information

We have reviewed the interim period comparative financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended 30 June 2020 and other explanatory information (the "**Interim Period Comparative Financial Information**"). The directors of the Company are responsible for the presentation and preparation of the Interim Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in notes 1.2 and 2.1 to the Historical Financial Information, respectively.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-5 have been made.

Dividends

We refer to note 11 to the Historical Financial Information which contains information about dividends paid by the Company's subsidiary in respect of the Track Record Period and states that no dividend have been paid by the Company since its incorporation.

No historical financial statements for the Company

No financial statements have been prepared for the Company since its date of incorporation.

Grant Thornton Hong Kong Limited
Certified Public Accountants
11th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

29 December 2021

Lin Ching Yee Daniel
Practising Certificate No.: P02771

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Six months ended 30 June	
		2018	2019	2020	2020	2021
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	*4*	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	*5*	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	*6*	(7,483)	(6,669)	(7,241)	(3,640)	(3,803)
Profit before income tax	*7*	43,460	41,478	48,494	14,259	16,457
Income tax expense	*8*	(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 interests		2,840	444	496	133	152
		37,206	35,077	41,013	11,512	14,286
Earnings per share attributable to equity holders of the Company						
Basic and diluted (RMB cents)	*10*	9.39	9.47	11.08	3.11	3.86

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December			As at 30 June
		2018	2019	2020	2021
		RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	12	65,735	61,566	72,694	131,246
Land lease prepayment	13	6,532	6,194	5,856	5,687
Intangible assets	14	39,896	44,155	51,108	55,736
Prepayment of acquisition for property, plant and equipment and intangible assets		3,503	3,600	22,593	4,958
Deposit		2,100	2,100	2,100	2,100
Deferred tax assets	24	1,472	942	1,086	1,128
		119,238	118,557	155,437	200,855
Current assets					
Inventories	15	12,311	11,263	10,034	11,529
Trade and other receivables	16	107,511	128,885	141,111	123,767
Amounts due from related parties	30(c)	3,220	3,389	205	99
Restricted bank deposit	17	1,800	1,000	1,000	1,002
Cash and cash equivalent	17	14,851	28,439	29,775	37,702
		139,693	172,976	182,125	174,099
Current liabilities					
Contract liabilities	18	737	711	739	1,034
Trade and other payables	19	41,850	43,899	47,221	46,484
Lease liabilities	20	1,453	1,397	1,545	1,574
Amount due to a related party	30(c)	27	30	27	5
Discounted bills financing	21	500	450	—	—
Bank borrowings	22	122,500	117,000	115,000	115,000
Other borrowing	23	—	—	—	7,942
Income tax payable		3,765	4,642	6,586	4,344
		170,832	168,129	171,118	176,383
Net current (liabilities)/assets		(31,139)	4,847	11,007	(2,284)
Total assets less current liabilities		88,099	123,404	166,444	198,571
Non-current liabilities					
Lease liabilities	20	1,405	8	1,338	541
Other borrowing	23	—	—	—	18,606
Deferred tax liabilities	24	433	117	814	846
		1,838	125	2,152	19,993
Net assets		86,261	123,279	164,292	178,578

		As at 31 December			As at 30 June
	Notes	**2018**	**2019**	**2020**	**2021**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
CAPITAL AND RESERVES					
Share capital	*25*	—*	1	1	1
Reserves	*26*	78,649	121,895	162,412	176,546
Equity attributable to equity holders of the Company		78,649	121,896	162,413	176,547
Non-controlling interests		7,612	1,383	1,879	2,031
Total equity		86,261	123,279	164,292	178,578

* Represent amount less than RMB1,000

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December			As at 30 June
	Notes	**2018**	**2019**	**2020**	**2021**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
ASSETS AND LIABILITIES					
Non-current assets					
Interests in subsidiaries	*32*	1	1,594	1,594	1,594
Current assets					
Prepaid listing expenses	*16*	1,260	2,705	3,141	3,245
Current liabilities					
Amount due to a subsidiary		283	10,209	16,408	20,437
Accruals	*19*	4,855	5,682	8,425	5,361
		5,138	15,891	24,833	25,798
Net current liabilities		(3,878)	(13,186)	(21,692)	(22,553)
Total assets less current liabilities/ net liabilities		(3,877)	(11,592)	(20,098)	(20,959)
CAPITAL AND RESERVES					
Share capital	*25*	—*	1	1	1
Reserves	*26*	(3,877)	(11,593)	(20,099)	(20,960)
Capital deficiencies		(3,877)	(11,592)	(20,098)	(20,959)

* Represent amount less than RMB1,000

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Attributable to equity holders of the Company					Non-controlling interests	Total
		Share capital	Capital reserve	Statutory reserve	Retained profits	Subtotal		
		RMB'000	*RMB'000* (note 26(b))	*RMB'000* (note 26(b))	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2018		—	35,228	13,794	15,261	64,283	4,772	69,055
Profit and total comprehensive income for the year		—	—	—	34,366	34,366	2,840	37,206
Dividend recognised as distribution	*11*	—	—	—	(20,000)	(20,000)	—	(20,000)
Transfer		—	—	5,645	(5,645)	—	—	—
Issue of shares upon Reorganisation	*25*	—*	—	—	—	—*	—	—*
As at 31 December 2018 and 1 January 2019		—*	35,228	19,439	23,982	78,649	7,612	86,261
Profit and total comprehensive income for the year		—	—	—	34,633	34,633	444	35,077
Capital injection		—	1,940	—	—	1,940	—	1,940
Recognition of non-controlling interests		—	(1,365)	—	—	(1,365)	1,365	—
Derecognition of non-controlling interests		—	8,038	—	—	8,038	(8,038)	—
Share allotment	*25*	1	—	—	—	1	—	1
Transfer		—	—	4,463	(4,463)	—	—	—
As at 31 December 2019 and 1 January 2020		1	43,841	23,902	54,152	121,896	1,383	123,279
Profit and total comprehensive income for the year		—	—	—	40,517	40,517	496	41,013
Transfer		—	—	5,001	(5,001)	—	—	—
As at 31 December 2020		1	43,841	28,903	89,668	162,413	1,879	164,292
Profit and total comprehensive income for the period		—	—	—	14,134	14,134	152	14,286
As at 30 June 2021		1	43,841	28,903	103,802	176,547	2,031	178,578
As at 1 January 2020		1	43,841	23,902	54,152	121,896	1,383	123,279
Profit and total comprehensive income for the period		—	—	—	11,379	11,379	133	11,512
As at 30 June 2020 (unaudited)		1	43,841	23,902	65,531	133,275	1,516	134,791

* Represent amount less than RMB1,000

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	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*
Operating activities						
Profit before income tax		43,460	41,478	48,494	14,259	16,457
Adjustments for:						
Amortisation of intangible assets		280	803	1,261	556	719
Depreciation of property, plant and equipment		7,455	8,242	9,141	4,595	4,649
Depreciation of land lease prepayment		225	338	338	169	169
Loss on disposal of property, plant and equipment		27	37	9	2	86
Provision/(Reversal) of provisions for inventories		123	42	(750)	464	243
Provision for legal claim		—	—	1,303	400	297
Provision of allowance on receivables, net		1,397	802	1,456	1,568	319
Provision of warranty		3,116	2,363	3,928	816	2,013
Interest income		(75)	(105)	(191)	(63)	(89)
Rent concessions		—	—	(387)	(231)	—
Finance costs		7,483	6,669	7,241	3,640	3,803
Operating cash flows before working capital changes		63,491	60,669	71,843	26,175	28,666
Decrease/(Increase) in inventories		4,681	1,006	1,979	(3,017)	(1,738)
(Increase)/Decrease in trade and other receivables		(19,570)	(22,176)	(13,682)	13,011	17,025
Decrease/(Increase) in amounts due from related parties		776	(168)	3,184	—	106
Increase/(Decrease) in trade and other payables		3,047	8,882	(3,734)	(9,084)	(4,207)
(Decrease)/Increase in contract liabilities		(1,177)	(26)	28	54	295
(Decrease)/Increase in amount due to a related party		(55)	3	(3)	(25)	(22)
Cash generated from operations		51,193	48,190	59,615	27,114	40,125
Income 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

		Year ended 31 December			Six months ended 30 June	
	Notes	**2018**	**2019**	**2020**	**2020**	**2021**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Investing activities						
Acquisition of property, plant and equipment		(15,579)	(4,034)	(30,247)	(4,780)	(14,881)
Acquisition of intangible assets		(4,243)	(5,062)	(8,214)	(3,862)	(5,347)
Land lease prepayment		(6,757)	—	—	—	—
Interest received		75	105	191	63	89
Proceeds from disposal of property, plant and equipment		46	—	23	—	177
(Increase)/Decrease in restricted bank deposit		(1,800)	800	—	(2)	(2)
Net cash used in investing activities		(28,258)	(8,191)	(38,247)	(8,581)	(19,964)
Financing activities						
Proceeds of bank borrowings		123,000	117,000	115,000	92,000	85,000
Repayment of bank borrowings		(105,500)	(122,500)	(117,000)	(94,000)	(85,000)
Repayment of lease liabilities		(1,388)	(1,453)	(1,282)	(532)	(768)
Interest paid		(7,570)	(6,669)	(7,230)	(3,630)	(3,405)
Listing expenses paid		(188)	(9,369)	(4,086)	(5,285)	(3,638)
Decrease in discounted bills financing		(4,154)	(50)	(450)	(450)	—
Dividends paid		(20,000)	—	—	—	—
Proceeds of capital contributions		—	1,940	—	—	—
Net cash used in from 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 beginning of year/period		13,382	14,851	28,439	28,439	29,775
Cash and cash equivalents at end of year/period	*17*	14,851	28,439	29,775	31,134	37,702

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

1.1 General information

Vanov Holdings Company Limited (the "**Company**") was incorporated in the Cayman Islands on 5 November 2018 as an exempted company with limited liability under the Companies Act of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111 Cayman Islands and its principal place of business is No.519, Section 2, Xinhua Avenue, Chengdu Strait Science and Technology Industry Development Park, Wenjiang District, Chengdu, Sichuan Province, the People's Republic of China (the "**PRC**").

The Company is an investment holding company and its subsidiaries are principally engaged in the design, manufacture and sales of papermaking felts (the "**Listing Business**").

The Company's immediate holding company is Perfect Angle Limited ("**Perfect Angle**"), a company incorporated in the British Virgin Islands ("**BVI**"). The Company's ultimate controlling parties are Ms. Shen Genlian ("**Ms. Shen**") and Mr. Zhou Jun ("**Mr. Zhou**"), the Spouse of Ms. Shen (together, the "**Controlling Shareholders**").

Pursuant to a group reorganisation (the "**Reorganisation**") as detailed in the section headed "History, Reorganisation and Corporate Structure" to the Prospectus, the Company became the holding company of the companies now comprising the Group on 13 August 2019.

As at the date of this report, the Company had direct and indirect interest in the following subsidiaries, all of which are private limited liability companies, and the particulars of which are set out below:

Company name	Place and date of incorporation and operation	Registered/ Issued and paid up capital	Equity interest attributable to the Group: As at 31 December 2018	2019	2020	As at 30 June 2021	As at the date of this report	Principal activities
Directly held:								
Lion Courage Enterprises Limited (note a)	BVI, 23 October 2018	USD100	100%	100%	100%	100%	100%	Investment holding
Virtuous Way Limited (note a)	BVI, 22 August 2019	USD100	—	100%	100%	100%	100%	Investment holding
Indirectly held:								
Vanov Tianhe International Holdings Limited (note b)	Hong Kong, 30 November 2018	HKD10,000	100%	100%	100%	100%	100%	Investment holding
成都環龍賦能科技有限公司 Chengdu Huanlong Funeng Technology Co., Ltd.* (note b)	The PRC, 28 February 2019	RMB1,000,000	—	100%	100%	100%	100%	Investment holding
成都環龍立欣科技有限公司 Chengdu Huanlong Lixin Technology Co., Ltd.* (note b)	The PRC, 27 March 2019	RMB1,000,000	—	99%	99%	99%	99%	Investment holding
Marvel Dragon Development Limited (note b)	Hong Kong, 6 July 2018	HKD100	—	100%	100%	100%	100%	Investment holding
四川環龍技術織物有限公司 Sichuan Huanlong Technology Fabrics Co., Ltd.* (note c)	The PRC, 7 February 2007	RMB40,650,000	93%	99%	99%	99%	99%	Manufacturing and sales of papermaking felts
上海金熊造紙網毯有限公司 Shanghai Jinxiong Paper Making Net Carpet Co., Ltd.* (note c)	The PRC, 31 October 2000	RMB35,590,000	100%	100%	100%	100%	100%	Manufacturing and sales of papermaking felts

* The translation of name in English is for identification purposes only.

Notes:

(a) No statutory financial statements have been prepared for these entities as these entities were not subject to any statutory audit requirements under relevant rules and regulations in their jurisdiction of incorporation.

(b) Vanov Tianhe International Holdings Limited, Chengdu Huanlong Funeng Technology Co., Ltd., Chengdu Huanlong Lixin Technology Co., Ltd. and Marvel Dragon Development Limited were newly incorporated and no statutory audited financial statements has been prepared since its incorporation.

(c) No statutory financial statements for each of the year ended 31 December 2018, 2019 and 2020 as there was no requirement to issue audited accounts by local government authorities.

All companies now comprising the Group has adopted 31 December as their financial year end.

1.2 Basis of presentation

Pursuant to the Reorganisation as more fully explained in the paragraphs headed "Reorganisation" in the section headed "History, Reorganisation and Corporate Structure" to the Prospectus, the Company became the holding company of the companies now comprising the Group on 13 August 2019.

The group entities were under the common control of the Controlling Shareholders throughout the Track Record Period. Accordingly, for the purpose of the preparation of the Group's Historical Financial Information, the Company has been considered as the holding company of the companies now comprising the Group throughout the Track Record Period. The Group is under the common control of the Controlling Shareholders prior to and after the Reorganisation. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended 31 December 2018 and 2019, which include the financial performance, changes in equity and cash flows of all the companies now comprising the Group has been prepared using the principles of merger accounting under Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA as if the current group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation where this is a shorter period. The consolidated statement of financial position as at 31 December 2018 have been prepared to present the assets and liabilities of the subsidiaries and/or business using the existing book values from the Controlling Shareholders' perspectives. No adjustments are made to reflect fair values or recognise any new assets or liabilities as a result of the Reorganisation.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the HKICPA effective for the accounting period beginning from 1 January 2021 and the Group has early adopted amendments to HKFRS 16 "COVID-19-Related Rent Concessions" and "COVID-19-Related Rent Concessions beyond 30 June 2021" for the accounting period beginning from 1 January 2020. The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Listing Rules**").

The Group had net current liabilities of RMB2,284,000 as of 30 June 2021. In view of the net current liabilities position as of 30 June 2021, the directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Having considered the cash inflow from operations and the refinancing of bank borrowings upon their expiry by drawing down new bank borrowings, the directors are satisfied that the Group is able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The Historical Financial Information does not include any adjustments that would result from the failure of the Group to continue in business as a going concern.

The significant accounting policies that have been used in the preparation of this Historical Financial Information are summarised below. These policies have been consistently applied to all the years presented in the Historical Financial Information, unless otherwise stated.

The Historical Financial Information has been prepared on the historical cost basis. The Historical Financial Information is presented in RMB, which is also the functional currency of the Company and its subsidiaries.

It should be noted that accounting estimates and assumptions are used in preparation of the Historical Financial Information. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 3.

Amendment to HKFRS 16 "COVID-19-Related Rent Concessions" and Amendment to HKFRS 16 "COVID-19-Related Rent Concessions beyond 30 June 2021"

The amendments to HKFRS 16 only apply to lessee accounting and have no effect on lessor accounting. The amendments provide a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 ("**COVID-19-Related Rent Concessions**") are lease modification and, instead, account for those rent concessions as if they were not lease modifications.

The practical expedient is only applicable to COVID-19-Related Rent Concessions and only if all of the following conditions are met:

a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b) any reduction in lease payments affects only payments originally due on or before 30 June 2022 (for example, a rent concession would meet this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022); and

c) there is no substantive change to other terms and conditions of the lease.

The Group has elected to early adopt the above amendments and applies the practical expedient to all qualifying COVID-19-Related Rent Concessions granted to the Group throughout the Track Record Period.

Consequently, rent concessions received have been recognised RMB387,000 for the year ended 31 December 2020 and nil for the six months period ended 30 June 2021 as negative variable lease payments in profit or loss in the period in which the event or condition that triggers those payments occurred.

2.2 Issued but not yet effective HKFRSs

The Group has not early applied the following new and amended standards, amendments and interpretations ("**new and amended HKFRSs**") which have been issued but not yet effective:

HKFRS 17	Insurance Contracts and related amendments[2]
Amendments to HKFRS 3	Reference to the Conceptual Framework[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[2]
Amendments to HKAS 8	Definition of Accounting Estimates[2]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[2]

Amendments to HKAS 16	Property, Plant and Equipment — Proceeds before Intended Use[1]
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract[1]
Amendments to HKFRSs	Annual Improvements to HKFRS Standards 2018-2020[1]
Accounting Guideline 5 (Revised)	Merger Accounting for Common Control Combination[4]

1 Effective for annual periods beginning on or after 1 January 2022

2 Effective for annual periods beginning on or after 1 January 2023

3 Effective date not yet determined

4 Effective for business combination/common control combination for which the acquisition/combination date is on or after the beginning of the first annual period beginning on or after 1 January 2022

The directors anticipate that all of the new and amended HKFRSs will be adopted in the Group's accounting policy for the first period beginning after the effective date of the new and amended HKFRSs. Except for those mentioned below, other new and amended HKFRSs are not expected to have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 1 and HKFRS Practice Statement 2 "Disclosure of Accounting Policies"

The amendments to HKAS 1 require entities to disclose material accounting policy information instead of significant accounting policies in its financial statements. The amendments also provide some guidance on how material policy information are being identified and provide some examples of when accounting policy information is likely to be material.

In March 2021, HKICPA issued HKFRS Practice Statement 2 "Making Materiality Judgements" to provide entities with non-mandatory guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with HKFRS. HKFRS Practice Statement 2 was subsequently revised to provide guidance and examples on how to apply the concept of materiality to accounting policy disclosures.

The amendments to HKAS 1 are effective for annual reporting period beginning on or after 1 January 2023 and are applied prospectively. Earlier application is permitted. Except for the disclosures of accounting policies in note 2 may need to be revised to cope with the above changes, the directors expect that the amendments have no other material impact on the Historical Financial Information.

Amendments to HKAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"

The amendments clarify that the initial recognition exemption of deferred tax in HKAS 12 does not apply to transactions that give rise to equal taxable and deductible temporary differences, such as lease contracts that give rise to the recognition of a lease liability and the corresponding right-of-use assets. Instead, entities are required to recognise the related deferred tax asset and liability on initial recognition, with the recognition of any deferred tax asset being subject to the recoverability criteria in HKAS 12. The amendments are effective for annual reporting period beginning on or after 1 January 2023. Earlier application is permitted. The directors expect that the amendments have no other material impact on the Historical Financial Information.

2.3 Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and its subsidiaries for the Track Record Period.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Subsidiaries are entities controlled by the Group.

The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the Historical Financial Information from the date it gains control until the date when the Group ceases to control the subsidiary. Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

In the Company's statements of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.4 Merger accounting for business combination involving entities under common control

The Historical Financial Information incorporates the assets and liabilities of the combining entities in which the common control combination occurs as if they had been combined from the date when the combining entities first came under the control of the controlling party.

The net assets of the combining entities are combined using the existing book values from the Controlling Shareholders' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities from the earliest date presented or since the date when the combining entities first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

2.5 Foreign currency translation

The Historical Financial Information is presented in RMB, which is also the functional currency of the Company.

In the individual financial statements of the combined entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e. only translated using the exchange rate at the transaction date).

In the Historical Financial Information, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into the RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the translation reserve in equity.

2.6 Property, plant and equipment

Property, plant and equipment (other than construction-in-progress as described below) are stated at cost less accumulated depreciation and impairment losses. Cost (other than cost of right-of-use assets as described in note 2.13) includes expenditure that is directly attributable to the acquisition of the asset.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Costs include professional fees. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on property, plant and equipment is provided to write off the cost less their residual values, if any, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Building	20 years or shorter of the lease term
Leasehold improvements	5 years or shorter of the lease term
Plant and machinery	5-12 years
Furniture and fixtures	3-5 years
Motor vehicles	5 years

Accounting policy for depreciation of right-of-use assets is set out in note 2.13.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are charged to the profit or loss during the financial period in which they are incurred.

2.7 Intangible assets (other than goodwill) and research and development activities

Intangible assets

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Computer software	5 years
Capitalised development costs	10 years

Intangible assets with indefinite useful lives (i.e. trademarks) are carried at cost less any subsequent accumulated impairment losses.

The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described below in note 2.19.

Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

— demonstration of technical feasibility of the prospective product for internal use or sale;

— there is intention to complete the intangible asset and use or sell it;

— the Group's ability to use or sell the intangible asset is demonstrated;

— the intangible asset will generate probable economic benefits through internal use or sale;

— sufficient technical, financial and other resources are available for completion; and

— the expenditure attributable to the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

2.8 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with HKFRS 15, all financial assets are initially measured at fair value, in case of a financial asset not at fair value through profit or loss ("**FVTPL**"), plus transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets are classified into the following categories:

— amortised cost;

— FVTPL; or

— fair value through other comprehensive income ("**FVOCI**").

The classification is determined by both the entity's business model for managing the financial asset; and the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, or other income, except for expected credit losses ("**ECL**") of trade receivables which is presented within administrative and other operating expenses.

Subsequent measurement of financial assets

Debt investments

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

— they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and

— the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in other income in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group's trade and other receivables, amounts due from related parties, restricted bank deposit and cash and cash equivalent fall into this category of financial instruments.

Financial liabilities

Classification and measurement of financial liabilities

The Group's financial liabilities include bank borrowings, other borrowing, lease liabilities, trade and other payables, amount due to a related party and discounted bills financing.

Financial liabilities (other than lease liabilities) are initially measured at fair value, and, where applicable, adjusted for transaction costs.

Subsequently, financial liabilities (other than lease liabilities) are measured at amortised cost using the effective interest method.

All interest-related charges are included within finance costs.

Accounting policies of lease liabilities are set out in note 2.13.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Other financial liabilities

Other financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

2.9 Impairment of financial assets

HKFRS 9's impairment requirements use more forward-looking information to recognise ECL — the "ECL model". Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and trade receivables recognised and measured under HKFRS 15.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

— financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ("**Stage 1**") and

— financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ("**Stage 2**").

"Stage 3" would cover financial assets that have objective evidence of impairment at the reporting date.

"12-month ECL" are recognised for the Stage 1 category while "lifetime ECL" are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade receivables

For trade receivables, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at each reporting date. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix with appropriate groupings and/or individually assessed for debtors with significant balances, that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Other financial assets measured at amortised cost

The Group measures the loss allowance for other receivables equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood of risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial assets at the reporting date with the risk of default occurring on the financial assets at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

— an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

— significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

— existing or forecast adverse changes in regulatory, business, financial, economic conditions or technology environment that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations; and

— an actual or expected significant deterioration in the operating results of the debtor.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when (i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group); (ii) the financial asset is 90 days past due.

Detailed analysis of the ECL assessment of trade receivables and other financial assets measured at amortised cost are set out in note 33.4.

2.10 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost, which comprises all cost of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, and is determined by using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

2.11 Cash and cash equivalents and restricted bank deposit

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank deposits which are restricted to use are included in "restricted bank deposit" of the consolidated statements of financial position. Restricted bank deposit are excluded from cash and cash equivalents.

2.12 Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2.16). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.8).

2.13 Lease

Definition of a lease

At inception of a contract, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

— the contracts contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;

— the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

— the Group has the right to direct the use of the identified asset throughout the period of use. The Group assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statements of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

Except for those right-of-use assets meeting the definition of investment properties and those relating to a class of property, plant and equipment to which revaluation model was applied, the Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset (except for those meeting the definition of investment properties) for impairment when such indicator exists.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments.

For lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification. The only exception is any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 "Leases". In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 month or less.

Right-of-use assets that do not meet the definition of investment property have been included in property, plant and equipment. The prepaid lease payments for leasehold land are presented as "land lease prepayment" under non-current assets.

Refundable rental deposits paid are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

2.14 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.15 Share capital

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2.16 Revenue recognition

Revenue is recognised to depict the transfer of promised goods and services to customers in an amount that reflect the consideration to which the Group expects to be entitled in exchange for those goods and services. Specially, the Group uses a 5-step approach for revenue recognition.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

Control of the goods or services may be transferred over time or at a point in time. Control of the goods or services is transferred over time if:

— the customer simultaneously receives and consumes the benefits provided by the entity's performance as the Group performs;

— the Group's performance creates and enhances an asset that customer controls as the Group performs; or

— the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress toward complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or services.

Revenue from sales of papermaking felts products are recognised at a point in time when the legal title of the finished good is transferred and the Group has present right to payment and the collection of the consideration is probable. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Sales-related warranties associated with papermaking felts cannot be purchased separately and are served as an assurance that the products sold comply with agreed-upon specifications (i.e. assurance-type warranties). Accordingly, the Group accounts for warranties in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Interest income is recognised on a time proportion basis using the effective interest rate method.

2.17 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Government grants relating to income is presented in gross under "Other income" in the consolidated statements of profit or loss and other comprehensive income.

2.18 Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Impairment of non-financial assets

Property, plant and equipment (including right-of-use assets), intangible assets, land lease prepayment and investments in subsidiaries in the Company's statements of financial position are subject to impairment testing. Intangible assets with indefinite useful lives and that are not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. Others are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.20 Employee benefits

Retirement benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contributions retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries, subject to a certain ceiling.

The municipal and provincial governments undertake to assure the retirement benefit obligations of all existing and future retired PRC based employees payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The contributions are recognised as employee benefit expenses when they are due.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

2.21 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year/period. All changes to current tax assets or liabilities are recognised as a component of tax expense in the profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the Historical Financial Information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in the profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

(i) the same taxable entity; or

(ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.22 Related parties

For the purposes of this Historical Financial Information, a party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and if that person:

(i) has control or joint control over of the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) the party is an entity and if any of the following conditions applies:

(i) the entity and the Group are members of the same group.

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) the entity and the Group are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) the entity, or any member of a company of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2.23 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker ("**CODM**") for their decisions about resources allocation to the Group's business components and for their review of the performance of those components.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

3.1 Sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Warranty provision

The Group provides warranty to certain customers. The provision for warranty is estimated based on expected warranty work to be performed for goods under the warranty period and labor charges expected to be incurred. As historical maintenance and service record may not resemble the future maintenance and service of the products sold, differences between the actual amount and the estimated amount of this provision may affect future profit or loss. The carrying amount of the Group's warranty provision at the end of each Track Record Period is set out in note 19 to the Historical Financial Information.

Estimation of impairment of trade and other receivables

The Group follows the guidance of HKFRS 9 to determine when a receivable is impaired. In making this estimation and judgment, the Group evaluate, among other factors, the ageing analysis of receivables, the financial healthiness and collection history of the individual debtors and expected future change of credit risks, including the consideration of factors such as general economy measure, existing market conditions and change in macro-economic indicators, etc.

The carrying amount of the Group's trade and other receivables as at 31 December 2018, 2019, 2020 and 30 June 2021 amounted to approximately RMB107,122,000, RMB123,629,000, RMB135,509,000 and RMB119,574,000 respectively and allowance of expected credit loss as at 31 December 2018, 2019, 2020 and 30 June 2021 amounted to approximately RMB8,053,000, RMB4,268,000, RMB5,724,000 and RMB5,950,000 respectively. Details of the trade and other receivables are disclosed in note 16 to the Historical Financial Information.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation for its property, plant and equipment. The estimates are based on the historical experience of the actual economic lives of property, plant and equipment of similar nature and functions. Actual economic lives may differ from estimated useful lives. Management will adjust the depreciation where the useful lives are estimated to be different from the previous estimates. Periodic reviews could result in a change in useful lives and therefore depreciation expense in future periods. The carrying amounts of property, plant and equipment at the end of each Track Record Period is set out in note 12 to the Historical Financial Information.

Provision for inventories

The Group reviews the carrying amount of inventories based on consideration of obsolescence of raw materials and the net realisable value of finished goods. The identification of inventory obsolescence and estimated selling price in the ordinary course of business require the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of inventories in the period in which such estimate has been changed. Provision for inventories of RMB123,000, RMB42,000, RMB750,000 (reversal) and RMB243,000 was recognised during the years ended 31 December 2018, 2019, 2020 and six months ended 30 June 2021 respectively. Carrying amount of inventories is set out in note 15 to the Historical Financial Information.

3.2 Critical accounting judgments

In the process of applying the Group's accounting policies, management has made the following accounting judgments:

Current income tax

The Group is subject to Enterprise Income Tax ("**EIT**") in the PRC. Significant judgment is required in determining the provision for EIT. There are transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that we initially recorded, such differences will impact the current income tax and deferred tax provision in the period in which such determination is made.

Research and development activities

Careful judgment by the Company's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the best information available at the end of each Track Record Period. In addition, all internal activities related to the research and development of new products or know how are continuously monitored by the Company's management.

4 REVENUE AND SEGMENT REPORTING

4.1 Revenue

During the Track Record Period, the Group was engaged in the design, manufacture and sales of papermaking felts. An analysis of the Group's revenue by products during the Track Record Period is as follows:

	Year ended 31 December			Six months ended 30 June	
Recognised at a point in time:	**2018**	**2019**	**2020**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Packaging papermaking felts	106,027	114,670	124,863	44,017	52,661
Specialty papermaking felts	25,755	26,951	32,090	11,496	12,709
Printing papermaking felts	14,859	11,451	10,732	4,193	4,958
Household papermaking felts	9,975	10,600	9,490	4,225	4,364
Pulp papermaking felts	2,740	3,642	5,584	2,274	1,823
	159,356	167,314	182,759	66,205	76,515

Remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) is as follows:

	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*
Within one year	7,015	4,435	11,108	11,445	15,987
After one year but within two years	857	731	247	435	—
	7,872	5,166	11,355	11,880	15,987

4.2 Segment information

During the Track Record Period, the Group is mainly engaged in the design, manufacture and sales of papermaking felts in the PRC. Information reported to the CODM (i.e. the board of directors) for the purpose of resources allocation and performance assessment focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete financial information is available.

No segment of assets and liabilities are presented as no discrete financial information is available.

Geographical information

The following table sets out information on the geographical locations of the Group's revenue determined based on geographical region of the customers 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*
The PRC	153,385	159,709	175,171	62,558	72,812
Overseas	5,971	7,605	7,588	3,647	3,703
	159,356	167,314	182,759	66,205	76,515

As at 31 December 2018, 2019, 2020 and 30 June 2021, all of the non-current assets of the Group were located in the PRC.

Information about major customers

Since none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue for the Track Record Period, no information about major customers in accordance with HKFRS 8 "Operating Segments" is presented.

5 OTHER INCOME

	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*
Bank interest income	75	105	191	63	89
Sales of scrap materials	1,551	1,465	1,836	733	873
Government subsidies *(note)*	5,934	2,865	3,509	310	133
Exchange gains	282	—	—	140	—
Rental income	—	149	—	—	—
Rent concessions	—	—	387	231	—
Sundry income	241	177	102	50	169
	8,083	4,761	6,025	1,527	1,264

Note: The amount represents unconditional government subsidies received from the local government authorities for the purpose of research and development and supporting its operation.

6 FINANCE COSTS

	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*
Interest expenses on:					
Discounted bills financing	160	209	—	—	—
Bank borrowings	7,148	6,353	7,194	3,613	3,344
Other borrowing	—	—	—	—	398
Lease liabilities	175	107	47	27	61
	7,483	6,669	7,241	3,640	3,803

7 PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	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*
Amortisation of intangible assets	280	803	1,261	556	719
Depreciation of land lease prepayment	225	338	338	169	169
Cost of inventories recognised as expenses	53,135	49,139	51,743	17,486	21,271
Depreciation of owned assets	6,090	6,876	7,762	3,910	3,824
Depreciation of right-of-use asset	1,365	1,366	1,379	685	825
Exchange (gains)/losses, net	(282)	319	613	(140)	116
Listing expenses	3,782	8,751	6,394	1,434	470
Lease charges on short term leases	323	310	216	69	154
Loss on disposal of property, plant and equipment	27	37	9	2	86
Provision of allowance on receivables, net	1,397	802	1,456	1,568	319
Provision for legal claim *(note a)*	—	—	1,303	400	297
Provision for warranty	3,116	2,363	3,928	816	2,013
Research and development costs	5,438	7,292	5,681	1,777	3,006
Provision/(Reversal) of provisions for inventories	123	42	(750)	464	243
Staff cost (including directors' remuneration)					
Salaries, wages and other benefits	22,426	21,053	24,093	10,044	12,623
Contributions to defined contribution plans *(note b)*	3,482	3,652	1,964	1,199	2,435

Notes:

(a) As set out in paragraph headed "Legal proceedings and compliance" in the section headed "Business" to the Prospectus, a subsidiary of the Group, being the defendant, was involved in litigation during the year ended 31 December 2020 in relation to the dispute on construction of a factory of the Group. Based on the advice of the Group's legal advisers, the directors estimated that the total potential claims payable to the claimant, being the previous constructor, is approximately RMB1.9 million, which included certain site preparation and construction works of approximately RMB0.6 million performed by the claimant (in which the amount have been recognised as part of the additions to the property, plant and equipment for the year ended 31 December 2020) and provision of legal claims of approximately RMB1.3 million recognised in profit or loss for the year ended 31 December 2020.

(b) Due to the impact of COVID-19, a number of policies including the relief of social insurance have been promulgated by the government since February 2020 to expedite resumption of economic activities, which resulted in the relief of certain contributions to defined contribution scheme for the year ended 31 December 2020.

8 INCOME TAX EXPENSE

	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*
Current tax					
PRC EIT	4,818	6,187	7,181	1,913	2,221
Over-provision in prior year	—	—	(253)	—	(40)
	4,818	6,187	6,928	1,913	2,181
Deferred tax					
Current year *(Note 24)*	1,436	214	553	834	(10)
Income tax expense	6,254	6,401	7,481	2,747	2,171

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

No provision for Hong Kong Profits Tax was made in the Historical Financial Information as the Group had no assessable profits subject to Hong Kong Profits Tax during the Track Record Period.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, PRC EIT is calculated at 25% of the assessable profits for subsidiary established in the PRC.

Pursuant to the relevant laws and regulations in the PRC, a subsidiary of the Group, Sichuan Huanlong Technology Fabric Co., Ltd. ("**Sichuan Huanlong**"), is qualified as a company under the development strategy of the PRC's western region and was able to enjoy a preferential income tax rate of 15% for the years ended 31 December 2018, 2019, 2020 and six months ended 30 June 2021.

The Company's subsidiary, Shanghai Jinxiong Paper Making Net Carpet Co., Ltd. ("**Shanghai Jinxiong**") was accredited as High and New Technology Enterprise since in 2014 and further renewed in November 2017 and November 2020, therefore entitled to a preferential tax rate of 15% for three years ended 31 December 2019 and for the three years ending 31 December 2022.

In addition, both Sichuan Huanlong and Shanghai Jinxiong are eligible for tax deduction up to 175% of approved research and development costs incurred for each of the year ended 31 December 2018, 2019, 2020 and six months ended 30 June 2021.

Reconciliation between income tax expense and accounting profit at applicable tax rate:

	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*
Profit before income tax	43,460	41,478	48,494	14,259	16,457
Tax at the applicable income tax of 25%	10,865	10,370	12,124	3,565	4,115
Tax effects of non-deductible expenses *(note)*	1,177	2,801	2,314	454	198
Tax effects of non-taxable income	(1,053)	—	—	(44)	(10)
Tax effect of temporary differences previously not recognised	718	—	—	449	18
Utilisation of temporary differences previously not recognised	—	(582)	(92)	—	—
Additional deduction for research and development expenses	(1,803)	(2,200)	(1,291)	(435)	(921)
Over-provision in prior year	—	—	(253)	—	(40)
Effect of income taxed at concessionary rate	(3,650)	(3,988)	(5,321)	(1,242)	(1,189)
Income tax expenses	6,254	6,401	7,481	2,747	2,171

Note: Non-deductible expenses mainly included listing expenses and certain entertainment expenses.

9 DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

9.1 Directors' emolument

	Year ended 31 December 2018				
	Fees	Salaries, allowances and benefits	Bonus	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors:					
Mr. Zhou	—	—	—	—	—
Ms. Shen	—	—	—	—	—
	—	—	—	—	—

	Year ended 31 December 2019				
	Fees	Salaries, allowances and benefits	Bonus	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Zhou	—	—	—	—	—
Ms. Shen	—	—	—	—	—
Mr. Xie Zongguo ("**Mr. Xie**")	—	50	—	9	59
	—	50	—	9	59
Non-executive director:					
Ms. Yuan Aomei ("**Ms. Yuan**")	—	—	—	—	—

	Year ended 31 December 2020				
	Fees	Salaries, allowances and benefits	Bonus	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Zhou	—	—	—	—	—
Ms. Shen	—	—	—	—	—
Mr. Xie	—	392	—	22	414
	—	392	—	22	414
Non-executive director:					
Ms. Yuan	—	—	—	—	—

	Six months ended 30 June 2021				
	Fees	Salaries, allowances and benefits	Bonus	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Zhou	—	400	—	—	400
Ms. Shen	—	—	—	—	—
Mr. Xie	—	350	—	30	380
Ms. Yuan *(Note c)*	—	78	—	15	93
	—	828	—	45	873

	Six months ended 30 June 2020 (unaudited)				
	Fees	Salaries, allowances and benefits	Bonus	Contributions to retirement benefit schemes	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Mr. Zhou	—	—	—	—	—
Ms. Shen	—	—	—	—	—
Mr. Xie	—	200	—	9	209
	—	200	—	9	209
Non-executive director:					
Ms. Yuan	—	—	—	—	—

Notes:

(a) Ms. Shen and Mr. Zhou were appointed as directors of the Company on 5 November 2018, and redesignated as executive directors on 29 September 2019.

(b) Mr. Xie was appointed as executive director of the Company on 29 September 2019.

(c) Ms. Yuan was appointed as non-executive director of the Company on 29 September 2019, and redesignated as executive director on 14 April 2021.

(d) The appointments of Mr. Ip Wang Hoi, Mr. Zhang Shenjin and Mr. Wang Yunchen as independent non-executive directors of the Company will take effect upon listing. During the Track Record Period, the independent non-executive directors have not yet been appointed and have not received any directors' remuneration in the capacity of independent non-executive directors.

Except for the emoluments of Mr. Xie as stated below, the emoluments above represent emoluments received from the Group by these directors in their capacity as employees of the Group and/or in their capacity as directors of the companies comprising the Group during the Track Record Period. During the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2020 and 2021, salaries, allowances and benefits of RMB400,000, RMB200,000, nil, nil (unaudited) and nil and retirement scheme contributions of RMB9,000 and RMB26,000, nil, nil (unaudited) and nil respectively were received from the Group by Mr. Xie in his capacity as employee of the Group.

9.2 Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2020 and 2021 include nil, nil, one director, one director (unaudited) and two directors whose emoluments are disclosed in note 9.1. The aggregate of the emoluments of the five, five, four, four (unaudited) and three individuals for the years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2020 and 2021 are as follows:

	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*
Salaries, allowances and benefits	2,292	1,844	1,850	518	410
Contributions to retirement benefit schemes	44	141	66	36	84
	2,336	1,985	1,916	554	494

The above individuals' emoluments are within the following band:

	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*
Nil to HK$1,000,000	5	5	4	4	3

No director or the five highest paid individual received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the Track Record Period. No director or the five highest paid individual has waived or agreed to waive any emoluments during the Track Record Period.

10 EARNINGS PER SHARE

The calculation of basic earnings per share attributable to equity holders of the Company is based on the following:

	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*
Earnings					
Profit for the year attributable to equity holders of the Company	34,366	34,633	40,517	11,379	14,134
Number of ordinary shares for the purpose of calculating basic earnings per share	365,800,000	365,800,000	365,800,000	365,800,000	365,800,000
Earnings per share (RMB cents)	9.39	9.47	11.08	3.11	3.86

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and the Capitalisation Issue as described in "History, Reorganisation and Corporate Structure" section to the Prospectus had been effective on 1 January 2018.

Diluted earnings per share is the same as basic earnings per share for the Track Record Period as there were no dilutive potential ordinary shares in issue during the Track Record Period.

11 DIVIDEND

No dividend has been paid or declared by the Company since its date of incorporation.

During the years ended 31 December 2018, 2019, 2020 and six months ended 30 June 2020 and 2021, dividends of RMB20,000,000, nil, nil, nil (unaudited) and nil respectively were declared by a subsidiary now comprising the Group to its then shareholders.

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost							
As at 1 January 2018	41,648	391	64,050	2,509	630	285	109,513
Additions	56	434	1,078	89	28	14,439	16,124
Transfers	—	—	8,605	—	—	(8,605)	—
Disposals	—	—	(1,461)	(9)	—	—	(1,470)
As at 31 December 2018	41,704	825	72,272	2,589	658	6,119	124,167
As at 1 January 2019	41,704	825	72,272	2,589	658	6,119	124,167
Additions	1,871	156	9	57	—	2,017	4,110
Transfers	—	—	5,725	—	—	(5,725)	—
Disposals	—	—	(239)	(86)	—	—	(325)
As at 31 December 2019	43,575	981	77,767	2,560	658	2,411	127,952
As at 1 January 2020	43,575	981	77,767	2,560	658	2,411	127,952
Additions	3,686	—	614	132	—	15,869	20,301
Transfers	—	—	589	16	—	(605)	—
Disposals	—	—	(483)	(33)	—	(2)	(518)
As at 31 December 2020	47,261	981	78,487	2,675	658	17,673	147,735
As at 1 January 2021	47,261	981	78,487	2,675	658	17,673	147,735
Additions	—	—	55	97	—	63,312	63,464
Transfers	—	—	2,504	—	—	(2,504)	—
Disposals	(136)	—	(1,220)	(8)	—	—	(1,364)
As at 30 June 2021	47,125	981	79,826	2,764	658	78,481	209,835
Accumulated depreciation							
As at 1 January 2018	14,219	341	35,088	2,190	536	—	52,374
Charge for the year	3,061	111	4,096	146	41	—	7,455
Written back on disposals	—	—	(1,388)	(9)	—	—	(1,397)
As at 31 December 2018	17,280	452	37,796	2,327	577	—	58,432
As at 1 January 2019	17,280	452	37,796	2,327	577	—	58,432
Charge for the year	3,117	104	4,863	141	17	—	8,242
Written back on disposals	—	—	(204)	(84)	—	—	(288)
As at 31 December 2019	20,397	556	42,455	2,384	594	—	66,386

	Buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2020	20,397	556	42,455	2,384	594	—	66,386
Charges for the year	3,601	128	5,297	103	12	—	9,141
Written back on disposals	—	—	(459)	(27)	—	—	(486)
As at 31 December 2020	23,998	684	47,293	2,460	606	—	75,041
As at 1 January 2021	23,998	684	47,293	2,460	606	—	75,041
Charges for the period	1,890	60	2,641	52	6	—	4,649
Written back on disposals	(62)	—	(1,034)	(5)	—	—	(1,101)
As at 30 June 2021	25,826	744	48,900	2,507	612	—	78,589
Net book amount							
As at 31 December 2018	24,424	373	34,476	262	81	6,119	65,735
As at 31 December 2019	23,178	425	35,312	176	64	2,411	61,566
As at 31 December 2020	23,263	297	31,194	215	52	17,673	72,694
As at 30 June 2021	21,299	237	30,926	257	46	78,481	131,246

As at 31 December 2018, 2019, 2020 and 30 June 2021, the Group's property, plant and machinery with aggregate net book amount of RMB21,818,000, RMB51,705,000, RMB46,494,000 and RMB70,152,000 respectively were pledged to secure the bank borrowings granted to the Group (note 31).

As at 31 December 2018, the Group was in the process of applying for the title certificates of certain buildings with an aggregate carrying value of RMB11,319,000. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy and use these buildings. The Group has completed the application and obtained the title certificate of these buildings which are located in the PRC in August 2019. For the remaining properties issue, please refer to paragraph headed "Legal proceedings and compliance" on the section headed "Business" to the Prospectus.

Included in the net carrying amount of property, plant and equipment is right-of-use assets as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Buildings	2,605	1,239	2,996	2,171

The above right-of-use assets is depreciated on a straight-line basis over their estimated useful life or lease term as follows:

Buildings	5% or shorter of the lease term

During the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021, expenses of RMB323,000, RMB310,000, RMB216,000 and RMB154,000 related to short-term leases was recognised in profit or loss in the respective Track Record Period.

13 LAND LEASE PREPAYMENT

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The Group's land lease prepayments comprise:				
PRC, held on:				
— Leases of between 10 to 50 years	6,532	6,194	5,856	5,687
Carrying amount at the beginning of the year/period	—	6,532	6,194	5,856
Additions	6,757	—	—	—
Depreciation	(225)	(338)	(338)	(169)
Carrying amount at the end of the year/period	6,532	6,194	5,856	5,687

The leasehold land is situated in the PRC and held under medium lease. As at 31 December 2018, 2019, 2020 and 30 June 2021, the Group's land lease prepayment with a carrying amount of RMB6,532,000, RMB6,194,000, RMB5,856,000 and RMB5,687,000 respectively were pledged to a bank to secure bank borrowings granted to the Group (note 31).

14 INTANGIBLE ASSETS

	Trademarks	Computer software	Capitalised development costs	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost					
As at 1 January 2018	—	34	1,111	2,509	3,654
Additions	32,454	—	—	—	32,454
Additions from internal developments	—	—	—	4,243	4,243
Transfer	—	—	4,243	(4,243)	—
As at 31 December 2018	32,454	34	5,354	2,509	40,351
As at 1 January 2019	32,454	34	5,354	2,509	40,351
Additions	—	581	—	—	581
Additions from internal developments	—	—	—	4,481	4,481
Transfer	—	—	2,509	(2,509)	—
As at 31 December 2019	32,454	615	7,863	4,481	45,413
As at 1 January 2020	32,454	615	7,863	4,481	45,413
Additions	—	96	—	1,474	1,570
Additions from internal developments	—	—	—	6,644	6,644
Transfer	—	—	4,481	(4,481)	—
As at 31 December 2020	32,454	711	12,344	8,118	53,627
As at 1 January 2021	32,454	711	12,344	8,118	53,627
Additions	—	—	—	87	87
Additions from internal developments	—	—	—	5,260	5,260
As at 30 June 2021	32,454	711	12,344	13,465	58,974
Accumulated amortisation					
As at 1 January 2018	—	34	141	—	175
Charge for the year	—	—	280	—	280
As at 31 December 2018	—	34	421	—	455
As at 1 January 2019	—	34	421	—	455
Charge for the year	—	17	786	—	803
As at 31 December 2019	—	51	1,207	—	1,258
As at 1 January 2020	—	51	1,207	—	1,258
Charge for the year	—	29	1,232	—	1,261
As at 31 December 2020	—	80	2,439	—	2,519
As at 1 January 2021	—	80	2,439	—	2,519
Charge for the year	—	28	691	—	719
As at 30 June 2021	—	108	3,130	—	3,238
Net book amount					
As at 31 December 2018	32,454	—	4,933	2,509	39,896
As at 31 December 2019	32,454	564	6,656	4,481	44,155
As at 31 December 2020	32,454	631	9,905	8,118	51,108
As at 30 June 2021	32,454	603	9,214	13,465	55,736

Intangible assets mainly represent:

(1) the trademarks were acquired from the non-controlling shareholder of a subsidiary. The trademarks were regarded as having indefinite useful lives because in opinion of the directors of the Group, they are capable of being renewed indefinitely at insignificant cost;

(2) computer software were acquired from third parties; and

(3) capitalised development costs generated through internal research and developments and capitalised technical know-hows by the Group.

The Group assesses the useful lives capitalised developments costs by considering the economic life cycles, continuous technological advancement of the patents, the experience on previous products of the Group and contractual legal rights of the patents, it is concluded that the useful lives of these patents are 10 years.

The amortisation charge for the Trade Record Period is included in "Administrative and other operating expenses" in the consolidated statements of profit or loss and other comprehensive income.

Impairment testing

The trademarks with indefinite useful lives and the intangible assets that under construction in progress which not yet available for use have been allocated to the relevant cash-generating units (the "**CGU**") which is the same for impairment testing.

The recoverable amount of the CGU has been determined based on value in use calculations, covering a detailed four-year budget plan, followed by an extrapolation of expected cash flows at the average growth rates of 4%.

The discount rates applied to the cash flow projections were 13.6%, 12.4%, 13.0% and 12.8% as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. The key assumptions for the Group has been determined by the Group's management based on past performance and its expectations for the industry development. The discount rates used are pre-tax and reflects specific risks relating to the segment.

Based on the above key assumptions, the recoverable amount would exceed the carrying amounts of the cash-generating unit by not less than approximately RMB32.0 million, RMB46.0 million, RMB57.0 million and RMB57.1 million as at 31 December 2018, 2019, 2020 and 30 June

2021, respectively. If the growth rate decreased by 1% or the discount rate (pre-tax) increased by 1%, the recoverable amount of the relevant CGU would be dropped by approximately RMB5.0 million and RMB6.5 million as at 31 December 2018, RMB7.3 million and RMB9.2 million as at 31 December 2019, RMB7.8 million and RMB9.8 million as at 31 December 2020 and RMB8.5 million and RMB12.2 million as at 30 June 2021, respectively.

In the opinion of the directors of the Company, a reasonably possible change in key parameters would not cause the carrying amount of the relevant cash-generating unit to exceed the recoverable amount. If the growth rate decreased by 15% or discount rate increased by 8% as at 31 December 2018 or the growth rate decreased by 18% or discount rate increased by 10% as at 31 December 2019 or the growth rate decreased by 25% or discount rate increased by 13% as at 31 December 2020 or the growth rate decreased by 26% or discount rate increased by 13% as at 30 June 2021, the recoverable amount of the relevant CGU would be approximated to its carrying amount.

In the opinion of the directors, there is no reasonably possible change in the key assumptions on which the recoverable amount of the trademarks is based that would cause the carrying amounts to exceed the recoverable amount.

As at 31 December 2018, 2019, 2020 and 30 June 2021, the Group's intangible assets with a carrying amount of RMB4,516,000, RMB4,024,000, RMB3,531,000 and RMB3,285,000 respectively were pledged to a bank to secure bank borrowings granted to the Group (note 31).

15 INVENTORIES

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	7,870	7,574	5,448	5,582
Work-in-progress	2,658	2,162	2,922	3,296
Finished goods	3,658	3,444	2,831	4,061
	14,186	13,180	11,201	12,939
Less: provision for inventories	(1,875)	(1,917)	(1,167)	(1,410)
	12,311	11,263	10,034	11,529

Analysis of the provision for inventory write down is as below:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period	1,752	1,875	1,917	1,167
Provision/(reversal) for the year/period	123	42	(750)	243
At the end of the year/period	1,875	1,917	1,167	1,410

During the year ended 31 December 2020, the reversal of provision for inventory arose from sale of obsolete inventory.

As at 31 December 2018, 2019, 2020 and 30 June 2021, the Group's inventories of RMB3,931,000, RMB3,119,000, RMB2,421,000 and RMB2,767,000 are pledged to a bank to secure bank borrowings granted to the Group (note 31).

16 TRADE AND OTHER RECEIVABLES

	The Company				The Group			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2018	2019	2020	2021	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables								
— Third parties	—	—	—	—	82,069	97,568	110,475	106,417
— Related parties	—	—	—	—	1,140	847	577	470
Bills receivables	—	—	—	—	23,719	22,684	27,408	15,786
Less: Loss allowance provision	—	—	—	—	(8,053)	(4,268)	(5,724)	(5,950)
	—	—	—	—	98,875	116,831	132,736	116,723
Prepayments	—	—	—	—	585	2,657	3,004	2,049
Prepaid listing expenses	1,260	2,705	3,141	3,245	1,260	2,705	3,141	3,245
Other receivables	—	—	—	—	6,791	6,692	2,230	1,750
	1,260	2,705	3,141	3,245	8,636	12,054	8,375	7,044
	1,260	2,705	3,141	3,245	107,511	128,885	141,111	123,767

The directors considered that the fair values of trade and other receivables are not materially different from their carrying amounts. As at 31 December 2018, 2019, 2020 and 30 June 2021, the Group's trade receivables of RMB24,367,000, RMB15,826,000, RMB15,782,000 and RMB15,418,000 are pledged to secure bank borrowings granted to the Group (note 31).

As at each reporting date, the ageing analysis of trade receivables based on the delivery date is as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 90 days	51,827	66,545	73,589	53,344
91 days to 180 days	15,855	14,890	20,472	12,206
181 days to 365 days	6,647	12,072	11,314	35,593
Over 365 days	8,880	4,908	5,677	5,744
	83,209	98,415	111,052	106,887

The bills represent promissory notes issued by banks received by the Group from customers who discharge their liabilities to pay the Group for the goods or services invoiced. These bills are endorsable, unsecured, non-interest bearing and matured within 1 year.

Included in the balances, bills receivables of RMB500,000, RMB450,000, nil and nil were discounted with recourse as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. These bills receivables were not derecognised as the title of these bills receivables were not transferred to the counterparties. In the other hand, discounted bills financing of RMB500,000, RMB450,000, nil and nil was recognised for the cash received as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively (note 21).

The ageing analysis of bills receivables presented based on issue date at the end of each of the Track Record Period is as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–90 days	16,453	14,608	12,894	8,959
91–180 days	6,565	7,066	12,395	6,197
181–365 days	701	1,010	2,119	630
	23,719	22,684	27,408	15,786

Bills receivables endorsed

Not included in the years end balances, during the years ended 31 December 2018, 2019, 2020 and six months ended 30 June 2021, the Group has transferred bills receivables amounted to RMB64,171,000, RMB67,781,000, RMB80,189,000 and RMB44,500,000 to settle its payables through endorsing the bills to its suppliers. Under the bills arrangements which the details are set out under the paragraph headed "Business — Legal Proceedings and Compliance — Bills Arrangements", the Group has also transferred bills receivables amounted to RMB30,200,000, RMB20,390,000, RMB281,000 and nil to the parties under Bills-To-Cash/Bills Arrangement and to customers under Bills Change Arrangement during the Track Record Period. In accordance with the Law of Negotiable Instruments in the PRC, the endorsee of the bills have a right of recourse against the endorser if the issuing banks default. For those endorsed to its suppliers, the Group has derecognised these bills receivables and the trade and other payables in their entirety. For those endorsed under Bills-To-Cash/Bills Arrangement or Bills Change Arrangement, the Group has also derecognised these bills receivables in their entirety and recognised the corresponding amount of cash and/or endorsed bank acceptance bills of total equal value. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these bills to the endorsee. The Group has limited exposure in respect of the settlement obligation of these bills receivables under relevant PRC rules and regulations should the issuing banks failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

The maximum exposure to loss, which is same as the amount payable by the Group to the endorsee in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date amounted to RMB94,371,000, RMB88,171,000, RMB80,470,000 and RMB44,500,000 as at 31 December 2018, 2019, 2020 and 30 June 2021, respectively. All the bills receivables endorsed have a maturity date of less than one year from the end of each of the Track Record Period.

The movement in the loss allowance provision of trade and bills receivables is as follows:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At the beginning of the year/period. . .	6,656	8,053	4,268	5,724
Amounts written off	—	(4,587)	—	(93)
Provision of allowance	1,397	802	1,456	319
At the end of the year/period	8,053	4,268	5,724	5,950

Included in the balance of loss allowance provision are individually impaired trade receivables with an aggregate balance of RMB3,408,000, RMB1,883,000, RMB1,652,000 and RMB2,231,000 as at 31 December 2018, 2019, 2020 and 30 June 2021 respectively, with reference to the historical experience of these receivables, the collection of these receivables may not be recoverable. The Group does not hold any collateral over these balances.

Further details of the Group's credit policy and credit risk arising from trade and other receivables are set out in note 33.4.

17 CASH AND CASH EQUIVALENT AND RESTRICTED BANK DEPOSIT

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	16,651	29,439	30,775	38,704
Less: Restricted bank deposit	(1,800)	(1,000)	(1,000)	(1,002)
Cash and cash equivalents	14,851	28,439	29,775	37,702

Cash at banks earns interests at floating rates based on daily bank deposit rates. As at 31 December 2018, 2019, 2020 and 30 June 2021, the restricted bank deposit is denominated in RMB, carries 0.35%, 0.35%, 0.35% and 0.35% interest at prevailing market rate and pledged to a bank to secure bank borrowings granted to the Group (note 31).

18 CONTRACT LIABILITIES

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Amount received in advance for sales of papermaking felts products expected to be recognise:				
— within one year	737	711	739	1,034

As at 1 January 2018, the carrying amounts of contract liabilities were RMB1,914,000.

Contract liabilities represent the deposits received from the customers in advance of the transfer of papermaking felts to the customers.

For the contract liabilities as at 1 January 2018, 31 December 2018, 2019, 2020 and 30 June 2021, the balances of RMB1,545,000, RMB463,000, RMB513,000, RMB424,000 and RMB200,000 are recognised as revenue to profit or loss within one year after the end of each of the Track Record Period.

19 TRADE AND OTHER PAYABLES

	The Company				The Group			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2018	2019	2020	2021	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables								
Trade payables								
— Third parties	—	—	—	—	20,027	20,131	19,054	16,718
Other payables								
Other payables	—	—	—	—	3,870	5,015	3,237	14,410
Accruals	—	—	—	—	3,527	3,985	4,514	2,963
Accrued listing expenses	4,855	5,682	8,425	5,361	4,855	5,682	8,425	5,361
Warranty provision	—	—	—	—	3,279	3,422	3,932	4,161
Provision for legal claim	—	—	—	—	—	—	1,903	2,200
Other tax payables	—	—	—	—	6,292	5,664	6,156	671
	4,855	5,682	8,425	5,361	21,823	23,768	28,167	29,766
	4,855	5,682	8,425	5,361	41,850	43,899	47,221	46,484

The Group is granted by its suppliers a credit periods of 30 to 90 days. Based on the invoice dates, the ageing analysis of the trade payables is as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 30 days	3,555	10,063	7,961	6,501
31 days to 60 days	9,148	2,989	4,646	3,270
61 days to 90 days	3,028	1,736	1,920	1,476
91 days to 180 days	1,423	2,242	2,087	2,692
181 days to 365 days	1,894	1,580	1,568	1,632
Over 365 days	979	1,521	872	1,147
	20,027	20,131	19,054	16,718

The carrying values of trade and other payables are considered to be reasonable approximation of their fair values.

The movement in the warranty provision is as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Product warranties:				
At beginning of the year/period	3,077	3,279	3,422	3,932
Additional provision	3,116	2,363	3,928	2,013
Amounts utilised during the year/period	(2,914)	(2,220)	(3,418)	(1,784)
At end of the year/period	3,279	3,422	3,932	4,161

The warranty provision represents management's best estimate of the Group's liability under 45 to 120 days warranty granted on papermaking felts, based on prior experience and industry averages for defective products.

20 LEASE LIABILITIES

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total minimum lease payment due:				
— Within one year	1,560	1,432	1,648	1,640
— After one year but within two years	1,440	8	1,367	547
	3,000	1,440	3,015	2,187
Future finance charges on leases liabilities	(142)	(35)	(132)	(72)
Present value of lease liabilities	2,858	1,405	2,883	2,115

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Present value of minimum lease payments:				
— Within one year	1,453	1,397	1,545	1,574
— After one year but within two years	1,405	8	1,338	541
	2,858	1,405	2,883	2,115
Less: Portion due within one year included under current liabilities	(1,453)	(1,397)	(1,545)	(1,574)
Portion due after one year included under non-current liabilities	1,405	8	1,338	541

The Group leases properties for operation and these lease liabilities were measured at the present value of the lease payments that are not yet paid. All leases are entered at fixed prices and typically made for fixed periods of 1 to 5 years, lease terms are negotiated on an individual basis.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

The total cash outflows for leases including the payments of lease liabilities for the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021 were RMB1,886,000, RMB1,870,000, RMB1,534,000 and RMB983,000 respectively.

21 DISCOUNTED BILLS FINANCING

The balance represents borrowings from banks by discounting, with recourse, bills receivables to the Group which were endorsed by third parties. The Group continues to recognise the carrying amount of the underlying bills receivables, as presented in note 16, since the title of receivables was not transferred to the counterparties.

22 BANK BORROWINGS

Bank borrowings were carried at amortised cost, secured and repayable within one year.

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans, secured:				
— repayable within one year.	122,500	117,000	115,000	115,000

As at 31 December 2018, 2019, 2020 and 30 June 2021, the effective interest rate of the bank borrowings were at 5.75%, 6.26%, 6.05% and 6.02% per annum respectively.

The bank borrowings were secured by:

(a) pledged assets (note 31);

(b) personal guarantee provided by the Controlling Shareholders; and

(c) corporate guarantee provided by a related party.

As confirmed by the directors, the personal guarantee provided by the Controlling Shareholders and corporate guarantee provided by a related party mentioned above will be released on or around listing of the Company.

23 OTHER BORROWING

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sale and leaseback obligation				
— repayable within one year.	—	—	—	7,942
— repayable in the second to fifth year inclusive	—	—	—	18,606
	—	—	—	26,548

During the six months ended 30 June 2021, the Group entered into a sale and leaseback agreement amounting to RMB26,548,000 with a leasing company for acquisition of machinery and equipment ("**Secured Assets**") amounting to RMB36,420,000 for a period of 3 years. On loan drawndown date, the amount of RMB26,548,000 was directly transferred from the leasing company to the supplier of the Secured Assets. Upon maturity, the Group will be entitled to purchase the Secured Assets.

The effective interest rates underlying the contract is 7.2% per annum.

Sale and leaseback obligation of RMB26,548,000 as at 30 June 2021 was secured by the Group's construction in progress, the total carrying amount of which at 30 June 2021 was RMB29,988,000 (note 12).

As confirmed by the directors, the personal guarantee provided by the Controlling Shareholders mentioned above will be released on or around listing of the Company.

24 DEFERRED TAX

The movements in deferred tax assets/(liabilities) during the Track Record Period are as follows:

Deferred Tax Assets

	Accelerated tax depreciation	Provision for inventories	Provision of allowance on receivables	Unrealised profit in inventories	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2018	1,307	263	941	62	2,573
Credited to/(Recognised in) profit or loss *(Note 8)*	(1,307)	18	242	(54)	(1,101)
As at 31 December 2018 and 1 January 2019	—	281	1,183	8	1,472
(Recognised in)/Credited to profit or loss *(Note 8)*	33	7	(604)	34	(530)
As at 31 December 2019 and 1 January 2020	33	288	579	42	942
Credited to/(Recognised in) profit or loss *(Note 8)*	(33)	(113)	280	10	144
As at 31 December 2020 and 1 January 2021	—	175	859	52	1,086
Credited to/(Recognised in) profit or loss *(Note 8)*	—	36	34	(28)	42
As at 30 June 2021	—	211	893	24	1,128

Deferred Tax Liabilities

	Accelerated tax depreciation	Lease liabilities	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2018	—	(98)	(98)
Recognised in profit or loss *(Note 8)*	(286)	(49)	(335)
As at 31 December 2018 and 1 January 2019	(286)	(147)	(433)
Credited to profit or loss *(Note 8)*	286	30	316
As at 31 December 2019 and 1 January 2020	—	(117)	(117)
Recognised in profit or loss *(Note 8)*	(648)	(49)	(697)
As at 31 December 2020 and 1 January 2021	(648)	(166)	(814)
Recognised in profit or loss *(Note 8)*	(31)	(1)	(32)
As at 30 June 2021	(679)	(167)	(846)

As at 31 December 2018, 2019, 2020 and 30 June 2021, deferred tax liabilities has not been recognised on the aggregate amount of temporary differences associated with the undistributed profits of Sichuan Huanlong for the withholding taxes that would be payable on the unremitted earnings of approximately RMB30,723,000, RMB70,682,000, RMB115,266,000 and RMB130,421,000 that are subject to withholding taxes. The Company controls the dividend policy of Sichuan Huanlong and it is not probable that the temporary differences will reverse in the foreseeable future.

25 SHARE CAPITAL

	No. of shares	RMB'000
Authorised:		
Ordinary shares of HK$0.01 each	38,000,000	335
Issued and fully paid:		
Upon incorporation	1	—*
Issuance of shares upon Reorganisation	9,999	—*
As at 31 December 2018 and 1 January 2019	10,000	—*
Share allotment	2,000	1
As at 31 December 2019, 1 January 2020, 31 December 2020 and 30 June 2021	12,000	1

* Represent amount of less than RMB1,000.

The Company was incorporated in the Cayman Islands on 5 November 2018 with an authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares of HK$0.01 each. On the date of incorporation, 1 share was allotted and issued to the subscriber credited as fully paid.

On the same date, 1 issued ordinary share was transferred to South Source Enterprises Limited ("**South Source**"), a company incorporated in the BVI and wholly-owned by Mr. Zhou. In addition, 2,499 and 7,500 ordinary shares with par value of HK$0.01 being allotted and issued to South Source and Fame Attain Limited ("**Fame Attain**"), a company incorporated in the BVI and wholly-owned by Ms. Shen, respectively.

On 31 December 2018, South Source and Fame Attain transferred their respective 2,500 and 7,500 ordinary shares of the Company to Wonderful Advisor Limited and Perfect Angle, respectively.

On 26 June 2019, 452 and 1,356 ordinary shares with par value of HK$0.01 being allotted and issued to Wonderful Advisor Limited and Perfect Angle, respectively.

On 13 August 2019, a share transfer agreement was entered into among the Company, High Resource Holdings Limited ("**High resource**") and Mr. Leung Chee Hung Vincent, pursuant to which High Resource transferred the entire issued share capital of Virtuous Way Limited to the Company, at the consideration of 192 ordinary shares issued by the Company to High Resource.

26 RESERVES

(a) The Company

	Capital reserve	Accumulated losses	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 30 November 2018 (date of incorporation)	—	—	—
Loss for the period	—	(3,877)	(3,877)
As at 31 December 2018 and 1 January 2019	—	(3,877)	(3,877)
Loss for the year	—	(9,308)	(9,308)
Capital injection	1,592	—	1,592
As at 31 December 2019 and 1 January 2020	1,592	(13,185)	(11,593)
Loss for the year	—	(8,506)	(8,506)
As at 31 December 2020 and 1 January 2021	1,592	(21,691)	(20,099)
Loss for the period	—	(861)	(861)
As at 30 June 2021	1,592	(22,552)	(20,960)

(b) The Group

The reconciliation between the opening and closing balances of each component of the Group's equity is set out in the consolidated statements of changes in equity.

Statutory reserve

In accordance with the Company Law of the PRC, each of the company that was registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with the PRC accounting standards, to the statutory reserve until the balance of the reserve funds reaches 50% of the entity's registered capital. The statutory reserve can be utilised to offset prior years' losses or to increase capital, provided the remaining balance of the statutory reserve is not less than 25% of the registered capital.

Capital reserve

The capital reserve of the Group as at 31 December 2018, 2019, 2020 and 30 June 2021 represents the share capital of entities comprising the Group prior to the reorganisation and the reserves arising from the reorganisation for the purpose of listing of the Company's shares on the Stock Exchange.

27 LEASE COMMITMENTS

As at each reporting date, the lease commitments for short-term leases are as follows:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	21	25	59	29

As at 31 December 2018, 2019, 2020 and 30 June 2021, the Group leases properties with a lease period of 12 months, which are qualified to be accounted for short-term lease exemption under HKFRS 16.

28 CAPITAL COMMITMENTS

As at each reporting date, the Group has capital commitments are as follows:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for				
Property, plant and equipment	2,829	—	44,746	21,170

29 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of liabilities arising from financing activities:

	Bank borrowings	Other borrowing	Discounted bills financing	Lease liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2018	105,000	—	4,654	4,190
Cash flows:				
Proceeds	123,000	—	500	—
Repayment	(105,500)	—	(4,654)	—
Capital element of lease rentals paid	—	—	—	(1,388)
Interest element of lease rentals paid	—	—	—	(175)
Non-cash transactions:				
New lease	—	—	—	56
Effect of interest charges	—	—	—	175
As at 31 December 2018 and 1 January 2019	122,500	—	500	2,858
Cash flows:				
Proceeds	117,000	—	450	—
Repayment	(122,500)	—	(500)	—
Capital element of lease rentals paid	—	—	—	(1,453)
Interest element of lease rentals paid	—	—	—	(107)
Non-cash transactions:				
Effect of interest charges	—	—	—	107
As at 31 December 2019 and 1 January 2020	117,000	—	450	1,405
Cash flows:				
Proceeds	115,000	—	—	—
Repayment	(117,000)	—	(450)	—
Capital element of lease rentals paid	—	—	—	(1,282)
Interest element of lease rentals paid	—	—	—	(36)
Non-cash transaction:				
New lease	—	—	—	3,136
Rental concession	—	—	—	(387)
Effect of interest charges	—	—	—	47

	Bank borrowings	Other borrowing	Discounted bills financing	Lease liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2020 and 1 January 2021	115,000	—	—	2,883
Cash flows:				
Proceeds	85,000	—	—	—
Repayment	(85,000)	—	—	—
Capital element of lease rentals paid	—	—	—	(768)
Interest element of lease rentals paid	—	—	—	(61)
Non-cash transaction:				
New borrowing *(Note 23)*	—	26,548	—	—
Effect of interest charges	—	—	—	61
As at 30 June 2021	115,000	26,548	—	2,115
As at 1 January 2020	117,000	—	450	1,405
Cash flows:				
Proceeds	92,000	—	—	—
Repayment	(94,000)	—	(450)	—
Capital element of lease rentals paid	—	—	—	(532)
Interest element of lease rentals paid	—	—	—	(17)
Increase in restricted bank deposit	—	—	—	—
Rent concession	—	—	—	(231)
Non-cash transaction:				
Effect of interest charges	—	—	—	27
As at 30 June 2020 (unaudited)	115,000	—	—	652

(b) Major non-cash transactions:

During the year ended 31 December 2018, the acquisition of intangible assets amounted to RMB32,454,000 from Huanlong Industrial Group Co., Ltd was settled against amount due from a related party.

30 RELATED PARTY TRANSACTIONS

Save as disclosed in note 16, 22 and 29(b) to the Historical Financial Information, the Group had the following transactions with its related parties during the Track Record Period:

(a) Names and relationship

Name of related party	Relationship with the Group
Huanlong Industrial Group Co., Ltd. (環龍工業集團有限公司) (formerly known as Chengdu Huanlong Industrial Felt Group Co., Ltd.* (成都環龍工業用呢集團有限公司))	A company controlled by the Controlling Shareholders
Sichuan Huanlong New Material Ltd.* (四川環龍新材料有限公司)	A company controlled by the Controlling Shareholders
Sichuan Xilong Biomass Materials Technology Ltd.* (四川省西龍生物質材料科技有限公司) (formerly known as Sichuan Xilong Paper Ltd.* (四川省西龍紙業有限公司))	A company controlled by the Controlling Shareholders
Sichuan Huanlong Daily Products Ltd.* (四川省環龍生活用品有限公司) (formerly known as Anxian Paper Ltd.* (安縣紙業有限公司))	A company controlled by the Controlling Shareholders
Chengdu Huanlong Robot Ltd.* (成都環龍智能系統設備有限公司)	A company controlled by the Controlling Shareholders
Mr. Zhou	The controlling shareholder
Ms. Shen	The controlling shareholder
Mr. Xie	An executive director of the Company
Ms. Yuan	An executive director of the Company

* The translation of name in English is for identification purposes only.

(b) Related party transactions

		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*
(i) Material transactions with related parties						
Name of related party	**Nature**					
Sichuan Huanlong New Material Ltd.	Sales	604	500	371	68	8
Sichuan Huanlong Daily Products Ltd.	Sales	488	1,333	617	84	353
Huanlong Industrial Group Co., Ltd.	Purchase	(1,204)	—	—	—	—
Huanlong Industrial Group Co., Ltd.	Acquisition of intangible assets	(32,454)	—	—	—	—
Sichuan Huanlong New Material Ltd.	Rental income	—	149	—	—	—
(ii) Key management personnel compensation						
Salaries, allowances and benefits		848	1,007	1,466	482	1,100
Contribution to defined contribution retirement plans		26	79	73	29	102
		874	1,086	1,539	511	1,202

(c) Balances with related parties

Amounts due from/(to) related parties:	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Sichuan Huanlong New Material Ltd.				
— trade	279	259	132	26
— non-trade *(Note 1)*	—	155	155	—
Sichuan Xilong Biomass Materials Technology Ltd.				
— non-trade *(Note 1)*	3,204	3,204	—	—
Sichuan Huanlong Daily Products Ltd.				
— trade	696	566	444	444
Mr. Zhou				
— non-trade *(Note 1)*	8	15	25	30
Ms. Shen				
— non-trade *(Note 1)*	8	15	25	30
Mr. Xie				
— non-trade *(Note 2)*	(27)	(30)	(27)	(5)
Ms. Yuan				
— non-trade *(Note 1)*	—	—	—	39
	4,168	4,184	754	564

Notes:

1. The amounts comprised to "amounts due from related parties" in the face of consolidated statements of financial position. The amounts will be settled prior to the Listing.

2. The amount comprised to "amount due to a related party" in the face of consolidated statements of financial position. The amounts will be settled prior to the Listing.

The maximum outstanding balances during the Track Record Period are as follows:

	Year ended 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Maximum outstanding balances due from:				
— Sichuan Huanlong New Material Ltd.	291	428	507	403
— Sichuan Xilong Biomass Materials Technology Ltd.	3,204	3,204	3,204	—
— Sichuan Huanlong Daily Products Ltd.	696	1,302	1,302	806
— Mr. Zhou	8	15	25	30
— Ms. Shen	8	15	25	30
— Ms. Yuan	—	—	—	39

The amounts due, which are non-trade in nature, are unsecured, interest-free and repayable on demand. The carrying amounts approximates their fair value and are denominated in RMB. The outstanding balances with the related parties will be settled prior to the listing.

31 PLEDGE OF ASSETS

At the end of each of the Track Record Period, certain of the Group's assets were pledged to secure bank borrowings of the Group. The aggregate carrying amount of the assets of the Group pledged at the end of the reporting period are as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	21,818	51,705	46,494	70,152
Intangible assets	4,516	4,024	3,531	3,285
Land lease prepayment	6,532	6,194	5,856	5,687
Inventories	3,931	3,119	2,421	2,767
Trade receivables	24,367	15,826	15,782	15,418
Restricted bank deposit	1,800	1,000	1,000	1,002
	62,964	81,868	75,084	98,311

32 INTERESTS IN SUBSIDIARIES

	The Company			
	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted shares, at cost	1	1,594	1,594	1,594

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Group's overall financial risk management policies focuses on the unpredictability and volatility at financial markets and seeks to minimise potential adverse effects on the financial position, financial performance and cash flows of the Group. No derivative financial instruments are used to hedge any risk exposures.

33.1 Categories of financial assets and liabilities

	The Company				The Group			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2018	2019	2020	2021	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets								
Financial assets measured at amortised cost:								
Trade and other receivables	—	—	—	—	107,122	123,629	135,509	119,574
Amounts due from related parties	—	—	—	—	3,220	3,389	205	99
Restricted bank deposit	—	—	—	—	1,800	1,000	1,000	1,002
Cash and cash equivalent	—	—	—	—	14,851	28,439	29,775	37,702
	—	—	—	—	126,993	156,457	166,489	158,377

	The Company				The Group			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2018	2019	2020	2021	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities								
Financial liabilities measured at amortised cost:								
Trade and other payables	4,855	5,682	8,425	5,361	32,279	34,813	37,133	41,652
Lease liabilities	—	—	—	—	2,858	1,405	2,883	2,115
Amount due to a subsidiary	283	10,209	16,408	20,437	—	—	—	—
Amount due to a related party	—	—	—	—	27	30	27	5
Discounted bills financing	—	—	—	—	500	450	—	—
Bank borrowings	—	—	—	—	122,500	117,000	115,000	115,000
Other borrowing	—	—	—	—	—	—	—	26,548
	5,138	15,891	24,833	25,798	158,164	153,698	155,043	185,320

33.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to foreign currency risk arise primarily from its sales transactions, which are primarily denominated in US$ which is not the functional currencies of the respective entities within the Group to which these transactions relate.

As at the end of each of the Track Record Period, US$ denominated financial assets translated into RMB at the closing rates, are as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	845	1,373	676	1,215

The following table illustrates the sensitivity of the Group's profit after income tax for the year/period and equity in regards to an appreciation in the functional currencies of respective group entities against US$. These sensitivity rates are the rates used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rates.

	Sensitivity rate	Decrease in profit	Decrease in equity
		RMB'000	*RMB'000*
Year ended 31 December 2018	5%	36	36
Year ended 31 December 2019	5%	58	58
Year ended 31 December 2020	5%	29	29
Six months ended 30 June 2021	5%	52	52

The same % depreciation in the respective group entities' functional currencies against the respective foreign currencies would have the same magnitude on the Group's profit for the year/period and equity but of opposite effect.

The Group currently does not have a foreign currency hedging policy, and manages its foreign currency risk by closely monitor the scale of foreign currency transactions, foreign currency assets and liabilities.

33.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. Bank borrowings and other borrowing bearing variable rates expose the Group to cash flow interest rate risk and the Company was not subject to interest rate risk. The Group's interest rate risk arises primarily from variable rates bank borrowings and other borrowing. The exposure to interest rates for the Group's bank deposits is considered immaterial.

The interest rates of the Group's borrowings at the reporting date were as follows:

	As at 31 December						As at 30 June	
	2018		2019		2020		2021	
	Interest rate	*RMB'000*	Interest rate	*RMB'000*	Interest rate	*RMB'000*	Interest rate	*RMB'000*
Bank borrowings								
— Floating interest rate	6.2%-7.8%	102,500	5.8%-7.0%	95,000	6.1%-6.5%	95,000	6.1%-6.5%	95,000
— Fixed interest rate	3.8%	20,000	7.0%	22,000	5.2%-7.0%	20,000	5.2%-5.6%	20,000
		122,500		117,000		115,000		115,000
Other borrowing								
— Floating interest rate	N/A	—	N/A	—	N/A	—	7.2%	26,548
		122,500		117,000		115,000		141,548

The following table illustrates the sensitivity of the Group's profit for the year/period for the Track Record Period and the total equity as at the end of each of the Track Record Period to a possible change in interest rates.

	Decrease in profit for the year/period and total equity			
	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Increase by 50 basis points	44	41	41	51

The same degree of decrease in basis point would have the same magnitude on the Group's profit for the Track Record Period and the total equity as at the end of each of the Track Record Period but of opposite effect.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate. The analysis is performed on the same basis during the Track Record Period.

33.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations. The Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets at end of each of the Track Record Period as detailed in note 33.1.

Trade and bills receivables

The Group usually grants a credit period of 30 to 180 days to its customers. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits granted to customers are reviewed periodically.

To measure the expected credit losses, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss below also incorporate forward looking information.

The Group applies the HKFRS 9 simplified approach to measuring ECL, which uses a lifetime expected loss allowance for all trade and bills receivables using a provision matrix and individual assessment. The ECL rate of collectively assessed trade and bills receivables are detailed in the following table:

	As at 31 December			As at 30 June
	2018	**2019**	**2020**	**2021**
Trade receivables				
Neither past due nor impaired	1%	1%	1%	1%-2%
Less than 91 days past due	5%	5%	5%	5%
91-365 days past due	10%-30%	10%-30%	10%-30%	10%-30%
More than 365 days past due	40%	40%	40%	40%
Individually impaired	3,408,000	1,883,000	1,652,000	2,231,000
Bills receivables	—	—	—	1%-3%

Throughout the Track Record Period, the historical credit loss experience of the customers of the Group, the forward-looking factors specific to the debtors and the economic environment remains no significant changes. As such, expected credit loss rate throughout the Track Record Period remains stable.

Other receivables and amounts due from related parties

In order to minimise the credit risk of other receivables, the management of the Group has designated a team responsible for determination of credit limits and credit approvals. The management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience as well as current external information and adjusted to reflect probability weighted forward-looking information, including the default rate where the relevant debtors operates. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In these regards, the credit risk of other receivables are considered to be low.

Besides, the management is of opinion that there is no significant increase in credit risk on these other receivables since initial recognition as the risk of default is low after considering the factors as set out in note 2.9 and, thus, no ECL recognised during the Track Record Period.

Restricted bank deposits and cash and cash equivalents

The credit risks are considered to be insignificant because the counterparties are financial institutions that have sound credit rating.

33.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of its payables, and also in respect of its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

Analysed below is the Group's remaining contractual maturities for its financial liabilities as at 31 December 2018, 2019, 2020 and 30 June 2021. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay. The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

The Group	Within 1 year or on demand	More than 1 year but not exceeding two years	More than 2 years but not exceeding five years	Total undiscounted amount	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2018					
Trade and other payables	32,279	—	—	32,279	32,279
Lease liabilities	1,560	1,440	—	3,000	2,858
Amount due to a related party	27	—	—	27	27
Discounted bills financing	500	—	—	500	500
Bank borrowings	125,378	—	—	125,378	122,500
	159,744	1,440	—	161,184	158,164
As at 31 December 2019					
Trade and other payables	34,813	—	—	34,813	34,813
Lease liabilities	1,432	8	—	1,440	1,405
Amount due to a related party	30	—	—	30	30
Discounted bills financing	450	—	—	450	450
Bank borrowings	119,488	—	—	119,488	117,000
	156,213	8	—	156,221	153,698
As at 31 December 2020					
Trade and other payables	37,133	—	—	37,133	37,133
Lease liabilities	1,648	1,367	—	3,015	2,883
Amount due to a related party	27	—	—	27	27
Bank borrowings	117,432	—	—	117,432	115,000
	156,240	1,367	—	157,607	155,043
As at 30 June 2021					
Trade and other payables	41,652	—	—	41,652	41,652
Lease liabilities	1,640	547	—	2,187	2,115
Amount due to a related party	5	—	—	5	5
Bank borrowings	119,349	—	—	119,349	115,000
Other borrowing	9,942	9,942	9,942	29,826	26,548
	172,588	10,489	9,942	193,019	185,320

The Company	Within 1 year or on demand	More than 1 year but not exceeding two years	Total undiscounted amount	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2018				
Trade and other payables.	4,855	—	4,855	4,855
Amount due to a subsidiary.	283	—	283	283
	5,138	—	5,138	5,138
As at 31 December 2019				
Trade and other payables.	5,682	—	5,682	5,682
Amount due to subsidiary	10,209	—	10,209	10,209
	15,891	—	15,891	15,891
As at 31 December 2020				
Trade and other payables.	8,425	—	8,425	8,425
Amount due to subsidiary	16,408	—	16,408	16,408
	24,833	—	24,833	24,833
As at 30 June 2021				
Trade and other payables.	5,361	—	5,361	5,361
Amount due to subsidiary	20,437	—	20,437	20,437
	25,798	—	25,798	25,798

33.6 Fair value measurements of financial instruments

The carrying amounts of the Group's financial assets and liabilities are not materially different from their fair value at the end of each of the Track Record Period due to their short maturities.

34 CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to the equity holders by pricing goods and services commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose, net debt is defined as borrowings, discounted bills financing and lease liabilities less cash and cash equivalents. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to the equity holders, issue new shares and raise new debt financing.

The net debt to equity ratio as at the end of each reporting period is as follows:

	As at 31 December			As at 30 June
	2018	2019	2020	2021
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings	122,500	117,000	115,000	141,548
Discounted bills financing	500	450	—	—
Lease liabilities	2,858	1,405	2,883	2,115
Less: Cash and cash equivalents	(14,851)	(28,439)	(29,775)	(37,702)
Net debt	111,007	90,416	88,108	105,961
Total equity	86,261	123,279	164,292	178,578
Net debt to equity ratio	128.69%	73.34%	53.63%	59.34%

35 EVENT AFTER THE END OF THE REPORTING PERIOD

The following significant events took place subsequent to 30 June 2021:

(i) As a result of the continuous outbreak of novel coronavirus ("**COVID-19**"), the global has taken numerous measures including travel and transportation restrictions to prevent the spread of the epidemic. Certain measures were undertaken by the PRC central government and various provincial or municipal governments including but not limited to implementation of travel restrictions and quarantine policies. Pending development of such subsequent non-adjusting event, the Group's financial results may be affected, the extent of which could not be estimated as at date of this report.

(ii) As set out in paragraph headed "Legal proceedings and compliance" in the section headed "Business" to the Prospectus, subsequent to the reporting period, the court made the first-instance judgment on 16 July 2021, according to which the Group was liable to pay the claimant (i) construction fees in sum of approximately RMB0.7 million together with interest; and (ii) damages in sum of approximately RMB1.3 million. As such, a further provision of legal claims of approximately RMB0.3 million recognised in profit or loss for the six months ended 30 June 2021 and approximately RMB2.2 million in aggregate was recorded as provision for legal claim in the statement of financial position of the Group as at 30 June 2021. Further, no party had lodged an appeal to the court and the Group settled the amount of approximately RMB2.1 million to the claimant according to the aforesaid judgement on 27 August 2021. The Group has provided sufficient provision on the potential claims payable as at 30 June 2021.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2021.

The following information does not form part of the Accountants' Report from the Company's reporting accountant, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, as set out in Appendix I to this prospectus, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared in accordance with paragraph 4.29 of the Listing Rules for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2021, as if the Global Offering had taken place on that date.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 30 June 2021 or at any future dates. The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared based on the audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2021 as set out in the Accountants' Report of the Company, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted consolidated net tangible assets does not form part of the Accountants' Report.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2021	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company**	**Unaudited pro forma adjusted consolidated net tangible assets per share**	
	RMB'000 *(Note 1)*	*RMB'000* *(Note 2)*	*RMB'000*	*RMB* *(Note 3)*	*HK$* *(Note 5)*
Based on an Offer Price of HK$1.10 per Share, after a Downward Offer Price Adjustment of 10%	120,811	84,741	205,552	0.4282	0.5098
Based on the Offer Price of HK$1.22 per Share	120,811	95,523	216,334	0.4507	0.5365
Based on the Offer Price of HK$1.44 per Share	120,811	115,291	236,102	0.4919	0.5856

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 30 June 2021 is extracted from the Accountants' Report of the Company as set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company of approximately RMB176,547,000 with an adjustment for the intangible assets as at 30 June 2021 of RMB55,736,000.

(2) The estimated net proceeds from the Global Offering are based on 114,200,000 Shares at the Offer Price of HK$1.22 (equivalent to RMB1.02) and HK$1.44 (equivalent to RMB1.21) per Share, and also based on an Offer Price of HK$1.10 (equivalent to RMB0.92) per Share, after making a Downward Offer Price Adjustment of 10%, after deduction of the estimated underwriting fee and commissions and other estimated listing-related expenses expected to be incurred by the Group subsequent to 30 June 2021. The calculation of such estimated net proceeds does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option or allotted and issued or repurchased by the Company under the general mandates granted to the Directors or any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis of 480,000,000 Shares (being the number of Shares expected to be in issue immediately after completion of the Capitalisation Issue and the Global Offering). No account has been taken of any Shares which may be issued upon the exercise of the Over-allotment Option or allotted and issued or repurchased by the Company under the general mandates granted to the Directors or any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme.

(4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2021 to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2021.

(5) For the purpose of this unaudited pro forma adjusted consolidated net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of HK$1.00 to RMB0.84.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the report received from the reporting accountants, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong for the purpose of incorporation in this prospectus.

Grant Thornton
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TO THE DIRECTORS OF VANOV HOLDINGS COMPANY LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Vanov Holdings Company Limited (the "**Company**") and its subsidiaries (together, the "**Group**") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as at 30 June 2021 and related notes (the "**Unaudited Pro Forma Financial Information**") as set out on pages II-1 to II-2 of the Company's prospectus dated 29 December 2021 (the "**Prospectus**"). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Global Offering on the Group's financial position as at 30 June 2021 as if the Global Offering had taken place at 30 June 2021. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's consolidated financial information for the six months ended 30 June 2021, on which an accountants' report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2021 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related unaudited pro forma adjustments give appropriate effect to those criteria; and

- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Grant Thornton Hong Kong Limited
Certified Public Accountants

11th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay
Hong Kong

29 December 2021

Lin Ching Yee Daniel
Practising Certificate Number: P02771

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation of the property interest held by the Group as at 31 October 2021.

JLL
仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No.: C-030171

29 December 2021

The Board of Directors
Vanov Holdings Company Limited
40th Floor, Dah Sing Financial Centre
248 Queen's Road East, Wanchai
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property interest held by Vanov Holdings Company Limited (the "**Company**") and its subsidiaries (hereinafter together referred to as the "**Group**") in the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion on the market value of the property interest as at 31 October 2021 (the "**valuation date**").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Due to the nature of the buildings and structures of the property and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available. The property interest has therefore been valued by the cost approach with reference to its depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its values.

In valuing the property interest, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by the Stock Exchange of Hong Kong Limited; the RICS Valuation — Global Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, and other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Grant Contract, Construction Land Planning Permit, Real Estate Title Certificate, Construction Work Planning Permit, Construction Work Commencement Permit and other official plans relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Beijing Dentons Law Offices, LLP, concerning the validity of the property interest in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the property was carried out in June and December 2021 by Ms. Cyndi Huang, who is a Chartered Surveyor and a China Real Estate Appraiser and has 9 years' experience in the valuation of properties in the PRC.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

We are instructed to provide our opinion of value as per the valuation date only. It is based on economic, market and other conditions as they exist on, and information made available to us as of the valuation date and we assume no obligation to update or otherwise revise these materials for events in the time since then. In particular, the outbreak of the Novel Coronavirus (COVID-19) since declared Global Pandemic on 11 March 2020 has caused much disruption to economic activities around the world. As of the report date, China's economy has recovered and most business activities have been back to normal. We also note that market activity and market sentiment in this particular market sector remain stable. However, we remain cautious due to uncertainty for the pace of global economic recovery in the midst of the outbreak which may have future impact on the real estate market. Therefore, we recommend that you keep the valuation of this property under frequent review.

Our valuation certificate is attached below for your attention.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Senior Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 27 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2021 *RMB*
Chengdu Production Site located at No. 519, Section 2, Xinhua Avenue, Chengdu Strait Science and Technology Industry Development Park, Wenjiang District, Chengdu, Sichuan Province, the PRC	Chengdu Production Site is located in the Chengdu Strait Science and Technology Industry Development Park. The Park is an important modern light industry base in Chengdu. Along Xinhua Avenue, which is one of the arterial roads of the locality, there are many factory complexes. The property is on the southern side of Xinhua Avenue, near its junction with Qingtai Road. The property comprises a parcel of land with a site area of approximately 38,390.91 sq.m. and 6 completed buildings and various ancillary structures erected thereon. Completed in 2009 and 2021, the 6 completed buildings of the property are factory building one, a staff dormitory, a staff canteen, 2 power distribution houses and factory building two. These buildings have a total gross floor area of approximately 34,613.25 sq.m. The structures mainly include a shower room, a bicycle shed, a basketball court, a fire service pump room, boundary walls and roads. The property also comprises a gross floor area of approximately 5,039.00 sq.m. referring to factory building three, and the demolition works including the demolition of the west facade of exterior wall and the roof of factory building three had been completed as at the valuation date. The land use rights of the property have been granted for a term of 20 years expiring on 22 May 2038 for industrial use.	As at the valuation date, portions of the property were occupied by the Group for production and ancillary purposes, whilst factory building three was vacant. As at the valuation date, the guard room (without title certificate but mentioned in the relevant mortgage contract) of the Chengdu Production Site had been demolished, and the demolition works including the demolition of the west facade of exterior wall and the roof of factory building three had been completed.	66,080,000 *(refer to note 6)*

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — 510115-2018-C-008 dated 17 April 2018, the land use rights of a parcel of land with a site area of approximately 38,390.91 sq.m. were contracted to be granted to Sichuan Huanlong Technology Fabric Co., Ltd. (四川環龍技術織物有限公司, "Sichuan Huanlong", an indirect non-wholly owned subsidiary of the Company) for a term of 20 years for industrial use. The land premium is RMB6,524,539.12.

2. Pursuant to a Construction Land Planning Permit — Di Zi Di No. 510115201820160, permission towards the planning of the land parcel with a site area of approximately 38,390.91 sq.m. has been granted to Sichuan Huanlong.

3. Pursuant to a Construction Work Planning Permit — Jian Zi Di No. 510115202030201, the buildings with a total gross floor area of approximately 29,464.16 sq.m. (portions of the property) have been approved for construction.

4. Pursuant to a Construction Work Commencement Permit — No. 510115202007090401 in favour of Sichuan Huanlong, permission by the relevant local authority was given to commence the construction of factory building two and the power distribution house next to it with a total gross floor area of approximately 18,721.40 sq.m.

5. Pursuant to a Real Estate Title Certificate — Chuan (2020) Wen Jiang Qu Bu Dong Chan Quan Di No. 0075516, 4 buildings (factory building one, a staff dormitory, a staff canteen and a power distribution house) with a total gross floor area of approximately 15,891.85 sq.m. are owned by Sichuan Huanlong. The relevant land use rights of these buildings with a total apportioned site area of approximately 11,600.72 sq.m. have been granted to Sichuan Huanlong for a term of 20 years expiring on 22 May 2038 for industrial use.

6. In the valuation of the property, we have attributed no commercial value to factory building three with a gross floor area of approximately 5,039.00 sq.m. which has not obtained relevant title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of the building (excluding the land) as at the valuation date would be RMB4,470,000.

7. Pursuant to a Construction Work Completion and Inspection Report dated 8 September 2021, the construction of factory building two and the power distribution house next to it with a total gross floor area of approximately 18,721.40 sq.m. has been completed and passed the inspection acceptance.

8. Pursuant to 2 Mortgage Contracts of Maximum Amount — Nos. ZD7301202000000137 and ZD7301202000000138, the land parcel, 4 completed buildings, factory building three and the guard room (which had been demolished as at the valuation date) of the Chengdu Production Site are subject to two mortgages in favour of Shanghai Pudong Development Bank Co., Ltd. Chengdu Branch as security to guarantee the obligations for a total amount of RMB49,150,000 with the security term from 4 January 2021 to 4 January 2024.

9. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

    a. Sichuan Huanlong is the legal owner of the land use rights of the property and legally has the ownership of the aforementioned land use rights. The actual use of the land is consistent with the use specified in the real estate title certificate. Sichuan Huanlong has the rights to legally occupy and use the land within the tenure of the land use rights. With the consent of the mortgagee, Sichuan Huanlong can transfer, remortgage or otherwise dispose of the land use rights in any other legal ways;

b. Sichuan Huanlong has obtained the necessary administrative permissions before the construction of factory building two and the power distribution house next to it. The construction work of these buildings has been completed and passed the inspection acceptance. The real estate registration of these buildings will be legally applied for in the future;

c. As to the buildings stated on the real estate title certificate mentioned above, there are the following situations: i) Sichuan Huanlong has started the construction before obtaining the construction land planning permit, construction work planning permit and construction work commencement permit; ii) Sichuan Huanlong has not fulfilled the procedures of fire service record within the legal time limit after completion, iii) Sichuan Huanlong has started to use these buildings before the construction work completion and inspection acceptance. The possibility of substantial adverse effects due to the above situations on the existence, operation and production of Sichuan Huanlong is relatively small; and

d. Except for the aforementioned mortgages, Sichuan Huanlong has not sold, transferred, mortgaged or set other third party's interests or restrictions on the use rights of the land and the buildings that has obtained the real estate title certificate. The land and the buildings have not been sequestrated, blocked, compulsorily expropriated or under other legal procedures that have a significant adverse impact on the use of them.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 November 2018 under the Companies Act, Cap. 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Companies Act**"). The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "**Memorandum**") and its Amended and Restated Articles of Association (the "**Articles**").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Act and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 22 December 2021 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) Shares

(i) Classes of shares

The share capital of the Company consists of ordinary shares.

(ii) **Variation of rights of existing shares or classes of shares**

Subject to the Companies Act, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) **Alteration of capital**

The Company may by ordinary resolution of its members:

(i) increase its share capital by the creation of new shares;

(ii) consolidate all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) **Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Act in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) **Power of the Company to purchase its own shares**

The Company is empowered by the Companies Act and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

The board may accept the surrender for no consideration of any fully paid share.

(vi) **Power of any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) **Calls on shares and forfeiture of shares**

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) **Appointment, retirement and removal**

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the

Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

(aa) he resigns by notice in writing delivered to the Company;

(bb) he becomes of unsound mind or dies;

(cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) he is prohibited from being a director by law; or

(ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) **Power to allot and issue shares and warrants**

Subject to the provisions of the Companies Act and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Act and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) **Power to dispose of the assets of the Company or any of its subsidiaries**

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Act to be exercised or done by the Company in general meeting.

(iv) **Borrowing powers**

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) **Remuneration**

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

(vi) **Compensation or payments for loss of office**

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) **Loans and provision of security for loans to Directors**

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) **Disclosure of interests in contracts with the Company or any of its subsidiaries**

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

(aa) the giving of any security or indemnity either:

(aaa) to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries; or

(bbb) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(bb) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(cc) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:

(aaa) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or

(bbb) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to the Directors, his close associate(s) and employee(s) of the Company or any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates;

(dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) **Special and ordinary resolutions**

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) **Voting rights and right to demand a poll**

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

All shareholders have the right to speak and vote at a general meeting except where a shareholder is required, by the rules of the Stock Exchange, to abstain from voting to approve the matter under consideration.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) **Annual general meetings and extraordinary general meetings**

The Company must hold an annual general meeting of the Company every financial year and such general meeting must be held within six (6) months after the end of the Company's financial year unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

Any one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right to require the board to (a) give to shareholders entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and/or (b) circulate to shareholders entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting, Such requisition shall be made in writing to the board or the secretary. The Company shall give such notice of any resolution to circulate any statement in the circumstance that: (a) a copy of the requisition signed by the requisitionist(s) is deposited at the registered office or head office (aa) in the case of a requisition requiring notice of a resolution, not less than six weeks before the meeting; and (bb) in the case of any other requisition, not less than one week before the meeting; and (b) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto, provided that if, after a copy of the requisition requiring notice of a resolution has been deposited at the registered office or head office, an annual general meeting is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the time required by the Articles shall be deemed to have been properly deposited. Notice of any such resolution shall be given and such statement shall be circulated to shareholders entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such shareholder, and such notice shall be given to any other shareholder by giving notice of the general effect of the resolution.

(iv) **Notices of meetings and business to be conducted**

An annual general meeting must be called by notice of not less than twenty-one (21) clear days. All other general meetings must be called by notice of at least fourteen (14) clear days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers; and

(ee) the fixing of the remuneration of the directors and of the auditors.

(v) **Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy or, for quorum purposes only, two persons appointed by the clearing house as authorized representative or proxy, and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) **Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by ordinary resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Act.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Act or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Act and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Act provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "**Court**"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Act expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not to be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Act.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to the Tax Concessions Act of the Cayman Islands, the Company has obtained an undertaking:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 25 July 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Act prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Act. A branch register must be kept in the same manner in which a principal register is by the Companies Act required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

(u) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Act, 2018 of the Cayman Islands ("**ES Act**") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Act. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Act.

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available on display as referred to in the paragraph headed "Documents available on Display" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Act as an exempted company with limited liability on 5 November 2018. Our Company established a principal place of business in Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 18 March 2020 and our principal place of business in Hong Kong is at 40th Floor, Dah Sing Financial Centre, 248 Queen's Road East, Wanchai, Hong Kong. Ms. Mak Po Man Cherie has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company is incorporated in the Cayman Islands, our Company is subject to the relevant laws of the Cayman Islands and the constitution which comprises the Memorandum and the Articles. A summary of the relevant aspects of the Companies Act and certain provisions of our constitution is set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company

(a) As at the date of incorporation of our Company, the authorised share capital was HK$380,000 divided into 38,000,000 Shares of HK$0.01 each. One fully-paid Share was allotted and issued to the initial subscriber, which was then transferred to South Source, followed by an addition of 2,499 Shares and 7,500 Shares being allotted and issued to South Source and Fame Attain respectively on 5 November 2018.

(b) On 31 December 2018, 2,500 Shares and 7,500 Shares of our Company held by South Source and Fame Attain, respectively, were transferred at a nominal consideration to Wonderful Advisor and Perfect Angle, both being companies incorporated in the BVI and wholly owned by Vistra Trust in its capacity as trustee for both the SGL Trust and ZJ Trust.

(c) On 26 June 2019, an additional 452 Shares and 1,356 Shares of our Company were allotted and issued to Wonderful Advisor and Perfect Angle respectively.

(d) On 13 August 2019, a share transfer agreement was entered into among our Company, High Resource and Mr. Leung, pursuant to which High Resource transferred the entire issued share capital of Virtuous Way to our Company, at the consideration of 192 Shares issued by our Company to High Resource. Upon completion of the share swap, our

Company has an issued share capital of 12,000 Shares, out of which 8,856 Shares, 2,952 Shares and 192 Shares were owned by Perfect Angle, Wonderful Advisor and High Resource, respectively.

(e) On 9 December 2021, our Shareholders resolved to increase the authorised share capital of our Company from HK$380,000 to HK$20,000,000 by the creation of 1,962,000,000 additional Shares, each ranking *pari passu* with the Shares then in issue in all respects.

(f) Immediately following completion of the Capitalisation Issue and the Global Offering, and taking no account of any Share which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, 480,000,000 Shares will be issued fully paid or credited as fully paid, and 1,520,000,000 Shares will remain unissued.

(g) Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "Written resolutions of our Shareholders passed on 9 December 2021 and 22 December 2021" in this Appendix and pursuant to the Share Option Scheme, our Company does not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

(h) Save as disclosed in the section headed "Share Capital" in this prospectus and in this paragraph headed "Changes in share capital of our Company", there has been no alteration in our Company's share capital since its incorporation.

3. Written resolutions of our Shareholders passed on 9 December 2021 and 22 December 2021

Pursuant to the written resolutions of our Shareholders passed on 9 December 2021, *inter alia*:

(a) our Company conditionally approved and adopted the Memorandum to take effect from the Listing Date, the terms of which are summarised in Appendix IV to this prospectus;

(b) the authorised share capital of our Company was increased from HK$380,000 divided into 38,000,000 Shares of HK$0.01 each to HK$20,000,000 divided into 2,000,000,000 Shares of HK$0.01 each by the creation of an additional of 1,962,000,000 Shares of HK$0.01 each, each ranking *pari passu* with the Shares then in issue in all respects;

(c) conditional on (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:

(i) the Global Offering was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering to rank *pari passu* with the then existing Shares in all respects;

(ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed "Share Option Scheme" in this Appendix, were approved and adopted and our Directors were authorised, at their absolute discretion, subject to the terms and conditions of the Share Option Scheme to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of subscription rights attaching to any options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme; and

(iii) conditional further on the share premium account of the Company being credited as a result of the Global Offering, the Capitalisation Issue be approved, and our Directors were authorised to capitalise an amount of HK$3,657,880 standing to the credit of the share premium account of our Company and to appropriate such amount as capital to pay up in full at par 365,788,000 Shares for allotment and issue to the person(s) whose name(s) appear on the register of members of our Company at the close of business on 8 December 2021 in proportion (as nearly as possible without involving fractions) to its/their then existing shareholdings in our Company, each ranking *pari passu* in all respects with our Shares then in issue, and our Directors were authorised to give effect to such capitalisation and distributions;

(d) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share option scheme of our Company or any Shares allotted and issued in lieu of the whole or part of a dividend on Shares or similar arrangement in accordance with the Memorandum and the Articles or pursuant to a specific authority granted by our Shareholders in general meeting or pursuant to the Capitalisation Issue and the Global Offering, Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements or options which might require the exercise of such power, with such number of Shares not exceeding 20% of the total number of the Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering but excluding any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, and such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company; or

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Act or any other applicable laws of the Cayman Islands to be held; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting;

(e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the total number of the Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering but excluding any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, and such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of our Company; or

(ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Act or any other applicable laws of the Cayman Islands to be held; or

(iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting; and

(f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to the number of Shares which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the total number of the Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

Pursuant to the written resolutions of our Shareholders passed on 22 December 2021, our Company conditionally approved and adopted the Articles to take effect from the Listing Date, the terms of which are summarised in Appendix IV to this prospectus.

4. Corporate reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the Listing, details of which are set out in the paragraph headed "History, Reorganisation and Corporate Structure — Reorganisation" in this prospectus. Following the Reorganisation, our Company became the holding company of our Group.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountants' Report, the text of which is set forth in Appendix I to this prospectus.

Save as mentioned in the section headed "History, Reorganisation and Corporate Structure" in this prospectus, there has been no change in the share capital of the subsidiaries of our Company during the two years immediately preceding the date of this prospectus.

6. Repurchase of our Shares by our Company

This section includes information required by the Stock Exchange to be included in the prospectus concerning the repurchase of our Shares by our Company.

(a) Provisions of the Listing Rules

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

(i) Shareholders' approval

The Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval of a specific transaction.

Note: Pursuant to the written resolutions of our Shareholders passed on 9 December 2021, a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors authorising our Directors to exercise all powers of our Company to purchase on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares representing up to 10% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering but excluding any Share which may fall to be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme, and the Repurchase Mandate shall remain in effect until the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Act or any other applicable laws of the Cayman Islands to be held, or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

(ii) Source of funds

Any repurchase must be funded out of funds legally available for the purpose in accordance with the Articles, the applicable laws of the Cayman Islands and the Listing Rules. A listed company may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Act, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time our Shares are repurchased or, if authorised by the Articles and subject to the Companies Act, out of capital.

(iii) Connected parties

The Listing Rules prohibit our Company from knowingly repurchasing our Shares on the Stock Exchange from a "core connected person" (as defined in the Listing Rules), which includes a director, chief executive or substantial shareholder of our Company or any of its subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell Shares to our Company.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 480,000,000 Shares in issue after completion of the Capitalisation Issue and the Global Offering but excluding any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, could accordingly result in up to 48,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchased Mandate must be fully paid up.

(d) Funding of repurchase

In repurchasing the Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(e) General

None of our Directors or, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles and the applicable laws from time to time in force in the Cayman Islands.

If, as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code), depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as disclosed above, our Directors are not aware of any consequence which may arise under the Takeovers Code as a result of a repurchase of Shares if made immediately after the Listing pursuant to the Repurchase Mandate. At present, so far as is known to our Directors, no Shareholder may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code in the event that the Directors exercise the power in full to repurchase the Shares pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules). No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

(a) the Deed of Non-Competition;

(b) the Deed of Indemnity;

(c) the cornerstone investment agreement dated 28 December 2021 entered into among the Company, Mr. Gong Chaohui (龔朝暉), the Sole Sponsor and Sole Global Coordinator, pursuant to which Mr. Gong agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 2,000 Shares) which may be purchased for an aggregate amount of HK$20,000,000 at the Offer Price;

(d) the cornerstone investment agreement dated 28 December 2021 entered into among the Company, Mr. Chen Xiong (陳雄), the Sole Sponsor and Sole Global Coordinator, pursuant to which Mr. Chen agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 2,000 Shares) which may be purchased for an aggregate amount of HK$20,000,000 at the Offer Price; and

(e) the Hong Kong Underwriting Agreement.

2. Intellectual property rights

(a) Trademarks

(i) As at the Latest Practicable Date, our Group had registered the following trademarks in the PRC, which are material in relation to our business:

Trademark	Class	Registration Number	Place of Registration	Registered Owner	Term
	24	508672	PRC	Sichuan Huanlong	30 December 2019 to 29 December 2029
	24	4392889	PRC	Sichuan Huanlong	7 November 2018 to 6 November 2028
	22	4393327	PRC	Sichuan Huanlong	7 November 2018 to 6 November 2028
环龙	24	4392890	PRC	Sichuan Huanlong	7 September 2018 to 6 September 2028
环龙	22	4393328	PRC	Sichuan Huanlong	7 September 2018 to 6 September 2028
Huanlong	24	4392891	PRC	Sichuan Huanlong	7 September 2018 to 6 September 2028
Huanlong	22	4392892	PRC	Sichuan Huanlong	7 September 2018 to 6 September 2028

Trademark	Class	Registration Number	Place of Registration	Registered Owner	Term
VANOV	24	6137929	PRC	Sichuan Huanlong	28 March 2020 to 27 March 2030
	24	6137933	PRC	Sichuan Huanlong	28 March 2020 to 27 March 2030
环龙	42	11705534	PRC	Sichuan Huanlong	28 April 2014 to 27 April 2024
Gobear	40	8895282	PRC	Sichuan Huanlong	14 December 2011 to 13 December 2021
Gobear	24	8895274	PRC	Sichuan Huanlong	14 December 2011 to 13 December 2021
Gobear	22	8895264	PRC	Sichuan Huanlong	14 December 2011 to 13 December 2021
Gobear	17	8895260	PRC	Sichuan Huanlong	14 May 2012 to 13 May 2022
Gobear	5	8895240	PRC	Sichuan Huanlong	28 February 2012 to 27 February 2022
环龙	22	42319840	PRC	Sichuan Huanlong	7 August 2020 to 6 August 2030
环龙	24	42329269	PRC	Sichuan Huanlong	7 August 2020 to 6 August 2030
环龙	42	42335547	PRC	Sichuan Huanlong	7 August 2020 to 6 August 2030

(ii) As at the Latest Practicable Date, our Group had registered the following trademarks in Hong Kong:

Trademark	Class	Registration Number	Place of Registration	Registered Owner	Term
VANOV	24, 35, 42	304782312	Hong Kong	Vanov Tianhe	24 December 2018 to 23 December 2028
Gobear	24, 35, 42	304782321	Hong Kong	Vanov Tianhe	24 December 2018 to 23 December 2028

(b) Domain names

As at the Latest Practicable Date, our Group has registered the following domain names:

Registrant	Domain Name	Registration Date	Expiry Date
Sichuan Huanlong	vanov.cn	10 July 2006	10 July 2028
Sichuan Huanlong	環龍.網址	13 December 2018	13 December 2028
Sichuan Huanlong	造紙毛毯.net	10 January 2019	10 January 2029
Shanghai Jinxiong	金熊網毯.中國	30 September 2003	30 September 2027
Shanghai Jinxiong	脱水器材.中國	30 September 2003	30 September 2027
Shanghai Jinxiong	造紙毛毯.中國	30 September 2003	30 September 2027
Shanghai Jinxiong	造紙毛毯.網址	25 October 2018	25 October 2028

(c) Patents

(i) As at the Latest Practicable Date, our Group has registered the following patents with the State Intellectual Property Bureau in the PRC which, in the opinion of our Directors, are material to our business:

Type	Registered Owner	Patent number	Patent	Term
Invention patent	Sichuan Huanlong	ZL200510022040.7	Three-layer seamless bottom net paper press felts* (三層無交織底網造紙壓榨毛毯)	9 November 2005 to 8 November 2025
Utility model patent	Sichuan Huanlong	ZL201220114048.1	A characteristic strip felts* (一種特色條痕毯)	23 March 2012 to 22 March 2022

Type	Registered Owner	Patent number	Patent	Term
Utility model patent	Sichuan Huanlong	ZL201220114044.3	Double layer dry fabric* (一種雙層乾燥織物)	23 March 2012 to 22 March 2022
Utility model patent	Sichuan Huanlong	ZL201220114043.9	Multilayer random seamless papermaking felts* (一種多層任意無交織造紙毛毯)	23 March 2012 to 22 March 2022
Utility model patent	Sichuan Huanlong	ZL201220114042.4	Dry fabric* (一種乾燥織物)	23 March 2012 to 22 March 2022
Utility model patent	Sichuan Huanlong	ZL201220114041.X	Double-layer blanketless papermaking felts* (一種雙層無毯痕造紙毛毯)	23 March 2012 to 22 March 2022
Invention patent	Sichuan Huanlong	ZL201210079868.6	A characteristic strip felts* (一種特色條痕毯)	23 March 2012 to 22 March 2032
Design patent	Sichuan Huanlong	ZL201430025498.8	Paper felt moisture detector* (造紙毛毯水分檢測儀)	8 February 2014 to 7 February 2024
Utility model patent	Sichuan Huanlong	ZL201420059677.8	Microwave moisture rapid detection device* (微波水分快速檢測裝置)	8 February 2014 to 7 February 2024
Utility model patent	Sichuan Huanlong	ZL201420059253.1	Automatic calibration of papermaking felts microwave moisture measuring device* (自動定標造紙毛毯微波水分測量裝置)	8 February 2014 to 7 February 2024
Utility model patent	Sichuan Huanlong	ZL201420059252.7	Resonant cavity for microwave moisture detecting device* (用於微波水分檢測裝置的諧振腔)	8 February 2014 to 7 February 2024
Utility model patent	Sichuan Huanlong	ZL201420059189.7	Multi-frequency microwave measurement papermaking felts humidity device* (多頻微波測量造紙毛毯濕度裝置)	8 February 2014 to 7 February 2024
Utility model patent	Sichuan Huanlong	ZL201420059153.9	Automatically adjusted microwave cavity moisture measuring system* (自動調整的微波諧振腔水分測量系統)	8 February 2014 to 7 February 2024
Utility model patent	Sichuan Huanlong	ZL201420059053.6	Microwave moisture detecting device* (微波水分檢測裝置)	8 February 2014 to 7 February 2024

Type	Registered Owner	Patent number	Patent	Term
Utility model patent	Sichuan Huanlong	ZL201420059004.2	Device for measuring the humidity of papermaking felts based on microwave phase change* (基於微波相位變化測量造紙毛毯濕度的裝置)	8 February 2014 to 7 February 2024
Utility model patent	Sichuan Huanlong	ZL201420059003.8	Device for measuring humidity of papermaking felts based on variation of microwave amplitude* (基於微波幅度變化測量造紙毛毯濕度的裝置)	8 February 2014 to 7 February 2024
Utility model patent	Sichuan Huanlong	ZL201420383652.3	Multi-axial press papermaking felts* (用於在紙機上縫合的多軸向壓榨造紙毛毯)	14 July 2014 to 13 July 2024
Utility model patent	Sichuan Huanlong	ZL201420383651.9	Multi-axial base web-looped papermaking felts* (多軸向基網成環的造紙毛毯)	14 July 2014 to 13 July 2024
Utility model patent	Sichuan Huanlong	ZL201420383650.4	Stitchable ring papermaking felts* (可縫合的環形造紙毛毯)	14 July 2014 to 13 July 2024
Utility model patent	Sichuan Huanlong	ZL201420383649.1	Seamable papermaking felts* (可接縫造紙毛毯)	14 July 2014 to 13 July 2024
Utility model patent	Sichuan Huanlong	ZL201420383648.7	Double seam papermaking felts that can be seamed on a paper machine* (可在紙機上接縫的雙縫造紙毛毯)	14 July 2014 to 13 July 2024
Invention patent	Sichuan Huanlong	ZL201410330277.0	Base line scribing loop process for seamed papermaking felts* (接縫造紙毛毯的基網劃線成環工藝)	14 July 2014 to 13 July 2034
Invention patent	Sichuan Huanlong	ZL201410330276.6	High-speed press-slant woven seam papermaking felts and its production process* (高車速高線壓斜織接縫造紙毛毯及其生產工藝)	14 July 2014 to 13 July 2034
Utility model patent	Sichuan Huanlong	ZL201620931206.0	High-strength fabric structure for producing nonwoven web* (一種非織造材料網狀物生產用高強度織物結構)	24 August 2016 to 23 August 2026

Type	Registered Owner	Patent number	Patent	Term
Invention patent	Sichuan Huanlong	ZL201610720547.8	Felt tape and its preparation process* (一種氈帶及其製備工藝)	24 August 2016 to 23 August 2036
Invention patent	Sichuan Huanlong	ZL201610714115.6	Composite fibre polyester multi-layer papermaking base structure* (一種複合纖維聚酯多層造紙網結構)	24 August 2016 to 23 August 2036
Invention patent	Sichuan Huanlong	ZL201610714114.1	Composite industrial filter fabric structure with high resistance* (一種具備高抗性的複合工業過濾織物結構)	24 August 2016 to 23 August 2036
Invention patent	Sichuan Huanlong	ZL201610713836.5	High-strength fabric structure for producing nonwoven web* (一種非織造材料網狀物生產用高強度織物結構)	24 August 2016 to 23 August 2036
Invention patent	Sichuan Huanlong	ZL201610713835.0	Papermaking machine mesh felts and process for producing the papermaking machine mesh felts* (一種造紙機網毯及用於生產該造紙機網毯的工藝)	24 August 2016 to 23 August 2036
Invention patent	Sichuan Huanlong	ZL201610713834.6	Preparation method of high-resistance composite industrial monofilaments for papermaking net* (一種造紙網用高抗性複合工業單絲的製備方法)	24 August 2016 to 23 August 2036
Invention patent	Sichuan Huanlong	ZL201610713820.4	Preparation process of joint base area of cloth base fabric for papermaking machine net* (一種造紙機網用布基底織物連接接縫區域製備工藝)	24 August 2016 to 23 August 2036
Utility model patent	Sichuan Huanlong	ZL201920005180.0	Needle-punching machine for papermaking felts capable of preventing bent needle lines from becoming large and uneven carpet surface*(可防止刺針彎曲針紋變大毯面不平整的造紙毛毯針刺機)	3 January 2019 to 2 January 2029
Utility model patent	Sichuan Huanlong	ZL201920005118.1	Needle punching machine for paper felt with high-precision anti-broken needle* (一種高精度防斷針的造紙毛毯針刺機)	3 January 2019 to 2 January 2029

Type	Registered Owner	Patent number	Patent	Term
Utility model patent	Sichuan Huanlong	ZL201920990962.4	Felt applied to high-speed vacuum rotary screen paper machine* (一種應用於高速真空圓網造紙機的毛毯)	28 June 2019 to 27 June 2029
Utility model patent	Sichuan Huanlong	ZL201921237164.0	Needle for needle punching machine for high-speed vacuum rotary screen papermaking felts* (一種用於高速真空圓網造紙毛毯針刺機的刺針)	1 August 2019 to 31 July 2029
Utility model patent	Sichuan Huanlong	ZL201921282286.1	Non-interlaced yarn sheet forming device for let-off mode of winding frame* (一種絡子架送經方式的無交織紗片成型設備)	8 August 2019 to 7 August 2029
Utility model patent	Sichuan Huanlong	ZL201921277215.2	Non-woven yarn forming equipment with a kind of warp let-off method* (一種經盤送經方式的無交織紗片成型設備)	8 August 2019 to 7 August 2029
Invention patent	Sichuan Huanlong	ZL201711087444.3	Papermaking felts needle punching machine transmission spindle connecting method* (一種造紙毛毯針刺機傳動主軸連接方法)	8 November 2017 to 7 November 2037
Utility model patent	Sichuan Huanlong	ZL202021173774.1	Papermaking press felts* (一種造紙壓榨毛毯)	22 June 2020 to 21 June 2030
Utility model patent	Sichuan Huanlong	ZL202021163384.6	Papermaking press felts* (一種造紙壓榨毛毯)	22 June 2020 to 21 June 2030
Utility model patent	Sichuan Huanlong	ZL202021163436.X	Papermaking felts based on grid type elastomer* (基於網格型彈性體的造紙毛毯)	22 June 2020 to 21 June 2030
Utility model patent	Sichuan Huanlong	ZL202021162379.3	Papermaking felts based on monofilament elastomer* (基於單絲型彈性體的造紙毛毯)	22 June 2020 to 21 June 2030
Utility model patent	Sichuan Huanlong	ZL202021170735.6	Papermaking felts based on monofilament elastomer* (基於單絲型彈性體的造紙毛毯)	22 June 2020 to 21 June 2030
Utility model patent	Sichuan Huanlong	ZL202021170649.5	Papermaking felts based on grid type elastomer* (基於網格型彈性體的造紙毛毯)	22 June 2020 to 21 June 2030

Type	Registered Owner	Patent number	Patent	Term
Utility model patent	Sichuan Huanlong	ZL202021175583.9	Papermaking press felts* (一種造紙壓榨毛毯)	22 June 2020 to 21 June 2030
Utility model patent	Sichuan Huanlong	ZL202021184778.X	A new type of felt base net for press section of paper machine * (一種新型造紙機壓榨部毛毯基網)	23 June 2020 to 22 June 2030
Utility model patent	Sichuan Huanlong	ZL202021184612.8	Fiber layer structure of papermaking felt* (造紙毛毯的纖維層結構)	23 June 2020 to 22 June 2030
Utility model patent	Sichuan Huanlong	ZL202021184625.5	Papermaking felts capable of improving paper surface smoothness * (可提高紙張表面平滑度的造紙毛毯)	23 June 2020 to 22 June 2030
Utility model patent	Sichuan Huanlong	ZL202021162380.6	Papermaking felts based on monofilament elastomer* (一種基於單絲型彈性體的造紙毛毯)	22 June 2020 to 21 June 2030
Utility model patent	Sichuan Huanlong	ZL202021170727.1	Papermaking press felts* (一種造紙壓榨毛毯)	22 June 2020 to 21 June 2030
Utility model patent	Sichuan Huanlong	ZL202021170732.2	Papermaking felts based on grid type elastomer* (一種基於網格型彈性體的造紙毛毯)	22 June 2020 to 21 June 2030
Utility model patent	Sichuan Huanlong	ZL202021173694.6	Papermaking felts based on monofilament elastomer* (一種基於單絲型彈性體的造紙毛毯)	22 June 2020 to 21 June 2030
Utility model patent	Sichuan Huanlong	ZL202021173717.3	Papermaking felts based on grid type elastomer* (一種基於網格型彈性體的造紙毛毯)	22 June 2020 to 21 June 2030
Invention patent	Sichuan Huanlong	ZL201910720093.8	Seamless paper press felts manufactured with yarns from yarn creel and its manufacturing method* (一種基於紗架供紗的無交織壓榨毛毯及其製備方法)	6 August 2019 to 5 August 2039
Invention patent	Sichuan Huanlong	ZL201910720094.2	Seamless paper press felts manufactured with warping technique and its manufacturing method* (一種基於整經工藝的無交織壓榨毛毯及其製備方法)	6 August 2019 to 5 August 2039

Type	Registered Owner	Patent number	Patent	Term
Utility model patent	Sichuan Huanlong	ZL202121562162.6	Multi-layer composite high press woven papermaking felts* (一種多層複合耐高線壓造紙毛毯)	9 July 2021 to 8 July 2031
Invention patent	Sichuan Huanlong	ZL201910571865.6	Manufacturing method of felt applied to high-speed vacuum rotary screen paper machine* (一種應用於高速真空圓網造紙機毛毯的製備方法)	28 June 2019 to 27 June 2039
Invention patent	Shanghai Jinxiong	ZL200710044782.9	Computer control method for felts loom operation* (毛毯織機運行的計算機控制方法)	10 August 2007 to 9 August 2027
Invention patent	Shanghai Jinxiong	ZL200910045776.4	Papermaking felts and its preparation method* (造紙毛毯及其製備方法)	5 February 2009 to 4 February 2029
Utility model patent	Shanghai Jinxiong	ZL201120145539.8	Warping machine tension automatic control system* (整經機張力自動控制系統)	10 May 2011 to 9 May 2021
Invention patent	Shanghai Jinxiong	ZL201210306230.1	Base fabric preparation device* (基底織物製備裝置)	24 August 2012 to 23 August 2032
Utility model patent	Shanghai Jinxiong	ZL201220628721.3	Papermaking felts* (造紙毛毯)	23 November 2012 to 22 November 2022
Utility model patent	Shanghai Jinxiong	ZL201220708337.4	Heat setting device for papermaking felts of different widths* (一種用於不同寬度造紙毛毯的熱定型裝置)	19 December 2012 to 18 December 2022
Utility model patent	Shanghai Jinxiong	ZL201220708329.X	Edge support device for papermaking felts loom* (造紙毛毯織機的邊撐裝置)	19 December 2012 to 18 December 2022
Utility model patent	Shanghai Jinxiong	ZL201220705067.1	Heat setting furnace* (熱定型爐)	19 December 2012 to 18 December 2022
Utility model patent	Shanghai Jinxiong	ZL201220705002.7	Curved heat setting furnace for papermaking felts* (一種用於造紙毛毯的弧形熱定型爐)	19 December 2012 to 18 December 2022

Type	Registered Owner	Patent number	Patent	Term
Invention patent	Shanghai Jinxiong	ZL201210555458.4	Heat setting furnace for papermaking felts* (一種用於造紙毛毯的熱定型爐)	19 December 2012 to 18 December 2032
Utility model patent	Shanghai Jinxiong	ZL201420098797.9	Papermaking felts* (造紙毛毯)	5 March 2014 to 4 March 2024
Utility model patent	Shanghai Jinxiong	ZL201420098765.9	Papermaking felts* (一種造紙毛毯)	5 March 2014 to 4 March 2024
Utility model patent	Shanghai Jinxiong	ZL201420098505.1	Papermaking felts* (造紙毛毯)	5 March 2014 to 4 March 2024
Invention patent	Shanghai Jinxiong	ZL201610716761.6	Non-woven industrial fabric based on interlocking connection relationship* (一種基於互鎖連接關係的無紡工業織物)	24 August 2016 to 23 August 2036
Utility model patent	Shanghai Jinxiong	ZL201821909583.X	Papermaking felts depilation machine* (一種造紙毛毯去毛機)	20 November 2018 to 19 November 2028
Utility model patent	Shanghai Jinxiong	ZL201821909582.5	Papermaking felts hot air depilation device* (一種造紙毛毯熱風去毛裝置)	20 November 2018 to 19 November 2028
Utility model patent	Shanghai Jinxiong	ZL201821909578.9	Heat setting device for papermaking felts of different widths* (一種用於不同寬度造紙毛毯的熱定型裝置)	20 November 2018 to 19 November 2028
Utility model patent	Shanghai Jinxiong	ZL201821909576.X	Heat setting device* (熱定型裝置)	20 November 2018 to 19 November 2028
Utility model patent	Shanghai Jinxiong	ZL201821973405.3	Side support device for papermaking felts weaving machine* (一種造紙毛毯織機的邊撐裝置)	28 November 2018 to 27 November 2028
Utility model patent	Shanghai Jinxiong	ZL201821984786.5	A new type of papermaking felts heat setting equipment* (一種新型造紙毛毯熱定型設備)	29 November 2018 to 28 November 2028
Utility model patent	Shanghai Jinxiong	ZL201821984213.2	Papermaking felts winding device* (一種造紙毛毯捲繞裝置)	29 November 2018 to 28 November 2028

Type	Registered Owner	Patent number	Patent	Term
Utility model patent	Shanghai Jinxiong	ZL201821984190.5	Papermaking felts repairing device* (一種造紙毛毯修毛裝置)	29 November 2018 to 28 November 2028
Utility model patent	Shanghai Jinxiong	ZL201821921315.X	Bottom net papermaking felts trimming device* (底網造紙毛毯修邊裝置)	20 November 2018 to 19 November 2028
Utility model patent	Shanghai Jinxiong	ZL201821973049.5	A thermoforming machine for papermaking felts production* (一種造紙毛毯生產用的熱定型設備)	28 November 2018 to 27 November 2028
Utility model patent	Shanghai Jinxiong	ZL201921419022.6	Device for scraping surface hairs of hair roller* (毛卷輥的表面雜毛刮除裝置)	29 August 2019 to 28 August 2029
Utility model patent	Shanghai Jinxiong	ZL201921418965.7	Lifting device for hair roller* (毛卷輥的升降裝置)	29 August 2019 to 28 August 2029
Utility model patent	Shanghai Jinxiong	ZL201921418958.7	New type hair roller* (新型毛卷輥)	29 August 2019 to 28 August 2029
Utility model patent	Shanghai Jinxiong	ZL201921418655.5	Up and down movable roller mechanism* (可上、下活動的毛卷輥機構)	29 August 2019 to 28 August 2029
Invention patent	Shanghai Jinxiong	ZL201811548140.7	A papermaking felts* (一種造紙毛毯)	18 December 2018 to 17 December 2038
Invention patent	Shanghai Jinxiong	ZL201811557515.6	Double-layer bottom net papermaking felts* (一種雙層底網造紙毛毯)	19 December 2018 to 18 December 2038
Utility model patent	Shanghai Jinxiong	ZL201922153442.0	Internal support device for papermaking felts* (一種造紙毛毯內支撐裝置)	5 December 2019 to 4 December 2029
Utility model patent	Shanghai Jinxiong	ZL201922153134.8	Bracket structure supporting rotation of hair roller* (一種支撐毛卷輥轉動的支架結構)	5 December 2019 to 4 December 2029
Utility model patent	Shanghai Jinxiong	ZL201922153155.X	Edger for papermaking felts* (造紙毛毯燙邊器)	5 December 2019 to 4 December 2029

Type	Registered Owner	Patent number	Patent	Term
Utility model patent	Shanghai Jinxiong	ZL201922153172.3	Papermaking felts dewatering device* (造紙毛毯脫水裝置)	5 December 2019 to 4 December 2029
Invention patent	Shanghai Jinxiong	ZL201910857357.4	Drying device for special hair roller of papermaking felts*(造紙毛毯專用毛卷輥的烘乾裝置)	11 September 2019 to 10 September 2039
Invention patent	Shanghai Jinxiong	ZL201910857171.9	Dewatering device for wool rolls special for papermaking felts* (造紙毛毯專用毛卷輥的脫水裝置)	11 September 2019 to 10 September 2039
Utility model patent	Shanghai Jinxiong	ZL202120335546.8	Mobile edge sealing device for paper marking felts* (一種移動式的造紙毛毯封邊裝置)	5 February 2021 to 4 February 2031
Utility model patent	Shanghai Jinxiong	ZL202120334347.5	Papermaking felts stretching device* (一種造紙毛毯內的拉伸裝置)	5 February 2021 to 4 February 2031
Utility model patent	Shanghai Jinxiong	ZL202120359440.1	Papermaking felts cleaning device* (一種造紙毛毯內的清洗裝置)	9 February 2021 to 8 February 2031
Utility model patent	Shanghai Jinxiong	ZL202120359430.8	Papermaking felts hair roller adjustment device* (一種造紙毛毯用的毛卷輥調節裝置)	9 February 2021 to 8 February 2031
Utility model patent	Shanghai Jinxiong	ZL202120335516.7	Papermaking felts trimming device* (一種造紙毛毯用的裁剪裝置)	5 February 2021 to 4 February 2031
Utility model patent	Shanghai Jinxiong	ZL202120334349.4	Papermaking felts winding device* (一種造紙毛毯的捲繞裝置)	5 February 2021 to 4 February 2031

(ii) As at the Latest Practicable Date, our Group had applied for registration of the following patents in the PRC, the registration of which has not yet been granted:

Type	Applicant	Application number	Patent	Date of application
Invention patent	Sichuan Huanlong	201711087443.9	High-efficiency tension driving device for papermaking felts needle punching machine* (一種造紙毛毯針刺機用高效張力行車傳動裝置)	8 November 2017
Invention patent	Sichuan Huanlong	201711087209.6	Method for manufacturing multi-axial warping papermaking felts with seamless base* (一種多軸向經編任意無交織基網造紙毛毯製造方法)	8 November 2017
Invention patent	Sichuan Huanlong	201711087208.1	Warp and weft seamless papermaking felts* (一種經緯紗無交織造紙毛毯)	8 November 2017
Invention patent	Sichuan Huanlong	201711087207.7	Random seamless base paper papermaking wet felts* (一種任意無交織基網造紙濕毯)	8 November 2017
Invention patent	Sichuan Huanlong	201711087206.2	Constant tension control method for needling machine used for manufacturing papermaking felts* (一種造紙毛毯針刺機用張力恒定控制方法)	8 November 2017
Invention patent	Sichuan Huanlong	201711087191.X	Multi-layer seamless papermaking felts suitable for various papermaking machines* (一種適用於各種紙機的多層無交織造紙毛毯)	8 November 2017
Invention patent	Sichuan Huanlong	201711108646.1	Wool net automatic balancing device for producing needled papermaking felts* (一種生產針刺造紙毛毯用毛網自動平衡裝置)	11 November 2017
Invention patent	Sichuan Huanlong	201711108641.9	Method for manufacturing seamless base web felts* (一種無交織基網毛毯的製造方法)	11 November 2017

Type	Applicant	Application number	Patent	Date of application
Invention patent	Sichuan Huanlong	201711108635.3	Hot-pressing forming method for random seamless base papermaking felts* (一種任意無交織基網造紙毛毯熱壓成型方法)	11 November 2017
Invention patent	Sichuan Huanlong	201910003715.5	Papermaking felts production method with high precision broken needle and needling machine thereof* (一種高精度防斷針的造紙毛毯生產方法及其針刺機)	3 January 2019
Invention patent	Sichuan Huanlong	201910003682.4	Automatic high precision papermaking felts needling machine* (一種自動化高精度的造紙毛毯針刺機)	3 January 2019
Invention patent	Sichuan Huanlong	201910003681.X	High-precision needle beam and needle plate structure for papermaking felts needling machine* (一種造紙毛毯針刺機用高精度的針梁與針板結構)	3 January 2019
Invention patent	Sichuan Huanlong	201910003675.4	A new type of high-efficiency anti-breaking papermaking felts needling machine* (一種新型高效防斷針的造紙毛毯針刺機)	3 January 2019
Invention patent	Sichuan Huanlong	201910003674.X	Papermaking felts production method for preventing uneven surface of papermaking felts and the relevant needling machine* (一種可防止毯面不平整的造紙毛毯生產方法及針刺機)	3 January 2019
Invention patent	Sichuan Huanlong	201910003672.0	A new type of anti-break and low noise papermaking felts needling machine* (一種新型防斷針低噪音的造紙毛毯針刺機)	3 January 2019
Invention patent	Sichuan Huanlong	201910003655.7	Improved method of a new papermaking felts needling machine* (一種新型造紙毛毯針刺機的改進方法)	3 January 2019

Type	Applicant	Application number	Patent	Date of application
Invention patent	Sichuan Huanlong	201910572145.1	Felts applied to high speed vacuum rotary papermaking machine* (一種應用於高速真空圓網造紙機的毛毯)	28 June 2019
Invention patent	Sichuan Huanlong	201910616001.1	Papermaking felts needling machine unwinding device* (一種造紙毛毯針刺機放卷裝置)	9 July 2019
Invention patent	Sichuan Huanlong	201910827415.9	Production monitoring method, device and system of papermaking felts*(造紙網毯的生產監控方法、裝置和系統)	3 September 2019
Invention patent	Sichuan Huanlong	201910903202.X	Analysis method, device and system of paper machine operation information*(紙機運行信息的分析方法、裝置和系統)	24 September 2019
Invention patent	Sichuan Huanlong	201911068914.0	A data acquisition and monitoring system applied to paper-making press felt equipment*(一種應用於造紙壓榨毛毯設備的數據採集監控系統)	5 November 2019
Invention patent	Sichuan Huanlong	202010571662.X	Papermaking press felts* (一種造紙壓榨毛毯)	22 June 2020
Invention patent	Sichuan Huanlong	202010571490.6	Papermaking press felts* (一種造紙壓榨毛毯)	22 June 2020
Invention patent	Sichuan Huanlong	202110773954.6	Winding device* (一種卷緯機)	8 July 2021
Invention patent	Sichuan Huanlong	202110801785.2	IOT papermaking net carpet manufacture intelligent surveillance system and method* (一種基於物聯網造紙網毯生產智慧監控系統及方法)	15 July 2021
Invention patent	Sichuan Huanlong	202110822826.6	IOT remote customized papermaking net carpettechnology services system and method* (一種物聯網遠程定制式造紙網毯技術服務管理系統及方法)	21 July 2021
Invention patent	Sichuan Huanlong	202110829147.1	Remote surveillance papermaking net carpet manufacture management control system and its method* (一種遠端監控式造紙網毯生產管理控制系統及其方法)	22 July 2021

Type	Applicant	Application number	Patent	Date of application
Invention patent	Shanghai Jinxiong	201410079137.0	Warp and weft seamless papermaking felts and its manufacturing method* (一種經緯紗無交織造紙毛毯及其製備方法)	5 March 2014
Utility model patent	Shanghai Jinxiong	202120359437.X	Movable edging device for papermaking felts* (一種造紙毛毯用的移動燙邊裝置)	9 February 2021
Utility model patent	Shanghai Jinxiong	202120359466.5	Edging device for papermaking felts* (造紙毛毯用的燙邊裝置)	9 February 2021
Utility model patent	Shanghai Jinxiong	202120359931.6	Trimming device for papermaking felts* (一種造紙毛毯用的修邊裝置)	9 February 2021

(d) Software copyrights

As at the Latest Practicable Date, our Group has registered the following computer software copyrights with the National Copyright Administration of the PRC:

Software Name	Registration Number	Copyright Owner	First Publication Date
Huanlong papermaking machine efficiency operation system (abbr. papermaking machine efficiency system) V1.0	2020SR1655560	Sichuan Huanlong	15 July 2019
Huanlong papermaking machine efficiency operation system WeChat mini programme APP (abbr. papermaking machine efficiency system mini programme APP) V1.0	2020SR1655719	Sichuan Huanlong	16 July 2019

3. Information about the PRC subsidiaries of our Group

(a) Chengdu Huanlong Funeng Technology Co., Ltd (成都環龍賦能科技有限公司)*

Date of establishment:	28 February 2019
Corporate nature:	Limited liability company (wholly foreign-owned enterprise)
Total registered capital:	RMB1,000,000
Paid-up registered capital:	Nil
Term:	Long-term
Scope of business:	Research and development, technical consulting, technical services and sales related to textiles and paper materials
Legal representative:	Mr. Zhou Jun

(b) Chengdu Huanlong Lixin Technology Co., Ltd. (成都環龍立欣科技有限公司)*

Date of establishment:	27 March 2019
Corporate nature:	Limited liability company (Foreign-invested enterprise and domestic joint venture)
Total registered capital:	RMB1,000,000
Paid-up registered capital:	RMB10,000
Term:	Long-term
Scope of business:	Research and development, technical consulting and technical services related to textiles and paper materials.
Legal representative:	Mr. Zhou Jun

(c) Sichuan Huanlong Technology Fabric Co., Ltd.* (四川環龍技術織物有限公司)

Date of establishment:	7 February 2007
Corporate nature:	Limited liability company (Sino-foreign joint venture)
Total registered capital and paid-up registered capital:	RMB40,650,000
Term:	Long-term
Scope of business:	Production and sales of industrial felt; sales of industrial felt and paper related materials; import and export business of products and technologies of the Company and the mechanical equipment, spare parts and raw materials and technologies required by the Company (projects subject to approval according to law; can be carried out after approval by relevant departments)
Legal representative:	Mr. Zhou Jun

(d) Shanghai Jinxiong Paper Making Net Carpet Co., Ltd.* (上海金熊造紙網毯有限公司)

Date of establishment:	31 October 2000
Corporate nature:	Limited liability company
Total registered capital and paid-up registered capital:	RMB35,590,000
Term:	Long-term
Scope of business:	Production and sales of industrial felt, paper nets, textile products; import and export of goods and technology (projects subject to approval according to law; can be carried out after approval by relevant departments)
Legal representative:	Mr. Zhou Jun

C. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

1. Disclosure of interests

(a) Interests and short positions of the Directors and the chief executives of our Company in the shares, underlying shares and debentures of our Company and our associated corporations

Immediately following completion of the Capitalisation Issue and the Global Offering but taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the interests and short positions of our Directors or chief executive of our Company in the shares, underlying shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which, once our Shares are listed on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to our Company and the Stock Exchange, in each case once our Shares are listed on the Stock Exchange, will be as follows:

(i) Long position in our Shares

Name of Director	Capacity/Nature	Number of Shares held/interested in	Approximate Percentage of interest in our Company immediately following the completion of the Global Offering and the Capitalisation Issue
Ms. Shen *(Note)*	Founder of a discretionary trust; interest of spouse	359,947,200	74.99%
Mr. Zhou *(Note)*	Founder of a discretionary trust; interest of spouse	359,947,200	74.99%

Note: Immediately following the completion of the Capitalisation Issue and the Global Offering, Perfect Angle and Wonderful Advisor will hold 269,960,400 and 89,986,800 Shares, representing approximately 56.24% and 18.75% of the entire issued share capital of our Company, respectively. Each of Perfect Angle and Wonderful Advisor is directly and wholly owned by Vistra Trust, the trustee of the SGL Trust and the ZJ Trust. The SGL Trust is an irrevocable discretionary trust established by Fame Attain, which is wholly-owned by Ms. Shen, as the settlor. The beneficiaries of the SGL Trust are Ms. Shen and the children of Ms. Shen. The ZJ Trust is an irrevocable discretionary trust established by South Source, which is wholly-owned by Mr. Zhou, as the settlor. The beneficiaries of the ZJ Trust are Mr. Zhou and the children of Ms. Shen. Ms. Shen and Mr. Zhou are wife and husband. Accordingly, each of Ms. Shen and Mr. Zhou is deemed to be interested in the said 269,960,400 and 89,986,800 Shares (in aggregate 359,947,200 Shares) under the SFO.

(ii) Long position in the ordinary shares of our associated corporation

Name of Director	Name of associated corporation	Capacity/Nature	Number of Shares or registered capital held/ interested in	Percentage of interest (approximate)
Ms. Shen *(Note 1)*	Perfect Angle	Founder of a discretionary trust	100	100%
Mr. Zhou *(Note 1)*	Perfect Angle	Interest of spouse	100	100%
Ms. Shen *(Note 2)*	Huanlong Lixin	Interest in a controlled corporation/ interest of spouse	RMB10,000	1%
Mr. Zhou *(Note 2)*	Huanlong Lixin	Interest of spouse	RMB10,000	1%

Notes:

1 Immediately following the completion of the Capitalisation Issue and the Global Offering, Perfect Angle will hold 269,960,400 Shares, representing approximately 56.24% of the entire issued share capital of our Company. Perfect Angle is directly and wholly owned by Vistra Trust, the trustee of the SGL Trust. The SGL Trust is an irrevocable discretionary trust established by Fame Attain, which is wholly-owned by Ms. Shen, as the settlor. The beneficiaries of the SGL Trust are Ms. Shen and the children of Ms. Shen. Ms. Shen and Mr. Zhou are wife and husband. Accordingly, Perfect Angle is a holding company and an associated corporation of our Company, and each of Ms. Shen and Mr. Zhou is deemed to be interested in the said shares of our associated corporation under the SFO.

2 Huanlong Lixin is an indirect non-wholly owned subsidiary of our Company, the equity interest of which is held as to 99% by Huanlong Funeng, a wholly-owned subsidiary of our Company and 1% by Chengdu Huanlong, respectively. Chengdu Huanlong is held as to 75% by Ms. Shen and 25% by Mr. Zhou, respectively. Ms. Shen and Mr. Zhou are wife and husband. Accordingly, Huanlong Lixin is an associated corporation of our Company, and each of Ms. Shen and Mr. Zhou is deemed to be interested in the equity interest of our associated corporation under the SFO.

(b) Interests and short positions of substantial shareholders in the Shares and underlying Shares of our Company

So far as is known to our Directors and taking no account of any Shares which may be taken up under the Global Offering, and Shares to be issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the Capitalisation Issue and the Global Offering, have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:

Long Position in our Company

Name	Capacity/Nature of interest	Number of Shares held/Interested in	Approximate Percentage of interest in our Company immediately following the completion of the Global Offering and the Capitalisation Issue
Perfect Angle	Beneficial Owner	269,960,400	56.24%
Wonderful Advisor	Beneficial Owner	89,986,800	18.75%
Vistra Trust *(Note)*	Trustee	359,947,200	74.99%

Note: Vistra Trust is the trustee of the SGL Trust and ZJ Trust and holds 100% issued share capital of both Perfect Angle and Wonderful Advisor, thus Vistra Trust is deemed to be interested in all the Shares held by Perfect Angle and Wonderful Advisor for the purpose of the SFO.

2. Particulars of service agreements

No Director has entered into any service agreement with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

3. Directors' remuneration

(a) The aggregate amount of remuneration paid to our Directors by our Group in respect of the three years ended 31 December 2020 and the six months ended 30 June 2021 were approximately RMB409,000, RMB226,000 and RMB414,000 and RMB873,000, respectively.

(b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ending 31 December 2021 will be approximately RMB1,700,000.

(c) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

	RMB
Executive Directors	
Ms. Shen Genlian	1
Mr. Zhou Jun	800,000
Mr. Xie Zongguo	760,000
Ms. Yuan Aomei	240,000
Independent non-executive Directors	
Mr. Wang Yunchen	120,000
Mr. Zhang Shenjin	120,000
Mr. Ip Wang Hoi	120,000

4. Fees or commission received

Save as disclosed in the section headed "Underwriting" in this prospectus, none of our Directors or the experts named in the paragraph headed "E. Other information — 7. Consents of experts" in this Appendix had received any agency fee or commissions from our Group within the two years preceding the date of this prospectus.

5. Related party transactions

Details of the related party transactions are set out under notes 30 to the Accountants' Report set out in Appendix I to this prospectus.

6. Disclaimers

(a) There are no existing or proposed service contracts (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)) between our Directors and any member of our Group;

(b) none of our Directors or the experts named in the paragraph headed "E. Other information — 6. Qualifications of experts" in this Appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(c) none of our Directors or the experts named in the paragraph headed "E. Other information — 7. Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;

(d) Save as disclosed in the paragraph headed "C. Further information about substantial Shareholders, Directors and experts — 1. Disclosure of interests" in this Appendix, none of our Directors or the experts named in the paragraph headed "E. Other information — 7. Consents of experts" in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

(e) Save as disclosed in the paragraph headed "C. Further information about substantial Shareholders, Directors and experts — 1. Disclosure of interests" in this Appendix, taking no account of any Shares which may be issued upon the exercise of any option which may be granted under the Share Option Scheme, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Capitalisation Issue and the Global Offering, have any interest in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be interested, directly or indirectly, in 10% or more of the issued voting shares of any other member of our Group;

(f) Save as disclosed in the paragraph headed "C. Further information about substantial Shareholders, Directors and experts — 1. Disclosure of interests" in this Appendix, none of our Directors or chief executive of our Company has any interest or short position in our Shares, underlying Shares or debentures of our Company or any of the associated corporations (within the meaning of the SFO) which, once our Shares are listed on the Stock Exchange, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which he will be taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listing Companies in the Listing Rules, to be notified to our Company and the Stock Exchange;

(g) So far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the top five customers or the top five suppliers of our Group during the Track Record Period; and

(h) Save as disclosed in the section headed "Directors and senior management" and the paragraph headed "C. Further information about substantial Shareholders, Directors and experts — 3. Directors' remuneration" in this Appendix, no remuneration or other benefits in kind have been paid by any member of our Group to any Director since the date of incorporation of our Company, nor are any remuneration or benefits in kind payable by any member of our Group to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

D. SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 9 December 2021. The following is a summary of the principal terms of the Share Option Scheme but does not form, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme.

The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

1. Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

"Adoption Date"	9 December 2021, the date on which the Share Option Scheme is conditionally adopted by our Shareholders by way of written resolution
"Board"	the board of Directors or a duly authorised committee of the board of Directors

"Business Day"	any day on which the Stock Exchange is open for the business of dealings in securities
"Group"	our Company and any entity in which our Company, directly or indirectly, holds any equity interest
"Scheme Period"	the period commencing on the Adoption Date and expiring at the close of business on the business day immediately preceding the tenth (10th) anniversary thereof

2. Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on 9 December 2021:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group and to promote the success of the business of our Group.

(b) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial Shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (c) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, where required under the Listing Rules, our independent non-executive Directors) from time to time on the basis of the participant's contribution or potential contribution to the development and growth of our Group.

(c) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a Business Day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) Business Days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option. For the purpose of calculating the subscription price, where our Company has been listed on the Stock Exchange for less than five Business Days, the issue price of the Shares on the Stock Exchange shall be used as the closing price for any Business Day fall within the period before listing.

(d) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK$1.

(e) Maximum number of Shares

(i) Subject to sub-paragraphs (ii) and (iii) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all the Shares in issue as at the Listing Date. Therefore, it is expected that our Company may grant options in respect of up to 48,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 48,000,000 Shares from time to time) to the participants under the Share Option Scheme.

(ii) The 10% limit as mentioned in the sub-paragraphs (i) above may be refreshed at any time by approval of the Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to our Shareholders containing the information as required under the Listing Rules in this regard.

(iii) Our Company may seek separate approval from our Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of such specified grantees, the number and terms of such options to be granted and the purpose of granting options to such specified grantees with an explanation as to how the terms of the options will serve such purpose and all other information required under the Listing Rules.

(iv) The aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such 30% limit being exceeded.

(f) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to each participant (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of our Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such 1% limit must be separately approved by our Shareholders in general meeting with such participant and his close associates abstaining from voting. In such event, our Company must send a circular to our Shareholders containing the identity of the participant, the number and terms of the options to be granted (and options previously granted to such person), and all other information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted to such participant must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(g) Grant of options to certain connected persons

Notwithstanding the aforesaid,

(i) any grant of an option to a Director, chief executive or substantial Shareholder of our Company (or any of their respective close associates) must be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).

(ii) where any grant of options to a substantial Shareholder or an independent non-executive Director (or any of their respective close associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under the Share Option Scheme and any other share option schemes of our Company in any 12-month period up to and including the date of grant:

(a) representing in aggregate over 0.1% of the Shares in issue; and

(b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million,

such further grant of options must be approved by our Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to our Shareholders containing all information as required under the Listing Rules in this regard. All core connected persons of our Company shall abstain from voting (except where any core connected person intends to vote against the proposed grant). Any change in the terms of an option granted to a substantial Shareholder or an independent non-executive Director or any of their respective close associates is also required to be approved by our Shareholders in the aforesaid manner.

(h) Restrictions on the times of grant of options

(i) Our Company may not grant any options after inside information has come to its knowledge until such inside information has been announced pursuant to the requirements of the Listing Rules and the SFO. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

(a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and

(b) the deadline for our Company to publish an announcement of the results for any year, or half-year under the Listing Rules, or quarterly or other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement.

(ii) Further to the restrictions in paragraph (i) above, no option may be granted to a Director on any day on which financial results of our Company are published:

(a) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and

(b) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(i) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten (10) years from the date of grant subject to the provisions of early termination thereof.

(j) Performance targets

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(k) Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that the Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(l) Rights are personal to grantee

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(m) Rights on cessation of employment by death

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (n) below arises within a period of three (3) years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (q), (r) and (s) occurs prior to his death or within such period of 12 months following his death, then his legal personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

(n) Rights on cessation of employment by dismissal

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

(o) Rights on cessation of employment for other reasons

In the event that the grantee is an employee, a consultant or an adviser (as the case may be) of a member of our Group at the date of grant and he subsequently ceases to be an employee, a consultant or an adviser (as the case may be) of our Group for any reason other than his death or the termination of his employment of an employee or engagement of a consultant or an adviser (as the case may be) on one or more of the grounds specified in (n) above, the option (to the extent not already lapsed or exercised) shall lapse on the expiry of three (3) months after the date of cessation of such employment of an employee or engagement of a consultant or an adviser (as the case may be) (which date will be in the case of an employee the last actual working day, on which the grantee was physically at work with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not, and in the case of a consultant or an adviser (as the case may be), the last actual day of providing consultancy or advisory services to the relevant member of our Group).

(p) Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, open offer, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices of any unexercised option, as the auditors of or independent financial adviser to our Company shall certify or confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the Listing Rules (or any guideline or supplemental guideline as may be issued by the Stock Exchange from time to time), provided that any such alteration shall give a grantee, as near as possible, the same proportion of the issued share capital of our Company as (but in any event shall not be greater than) that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

(q) Rights on a general offer

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all our Shareholders (or all such holders other than the offeror and/or any persons controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already lapsed or exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(r) Rights on winding-up

In the event a notice is given by our Company to our members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Group give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two (2) Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(s) Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and our Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Companies Act, our Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to our Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already lapsed or exercised) shall become exercisable in whole or in part on such date not later than two (2) Business Days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement ("**Suspension Date**"), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the Business Day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. The Board shall endeavour to procure that the

Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or wilful default on the part of our Company or any of our officers.

(t) Lapse of options

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(i) the expiry of the period referred to in paragraph (i) above;

(ii) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (m), (n), (o), (q), (r) or (s) above;

(iii) subject to paragraph (r) above, the date of the commencement of the winding-up of our Company;

(iv) the occurrence of any serious misconduct, act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;

(v) the date on which the Board exercises our Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (l);

(vi) where the grantee is only a Substantial Shareholder of any member of our Group, the date on which the grantee ceases to be a Substantial Shareholder of such member of our Group; or

(vii) subject to the compromise or arrangement as referred to in paragraph (s) become effective, the date on which such compromise or arrangement becomes effective.

(u) Cancellation of options granted but not yet exercised

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

(v) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten (10) years commencing on the date on the Adoption Date and shall expire at the close of business on the Business Day immediately preceding the tenth (10th) anniversary thereof unless terminated earlier by our Shareholders in general meeting.

(w) Alteration to the Share Option Scheme

(i) The Share Option Scheme may be altered in any respect by resolution of the Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by Rule 17.03 of the Listing Rules shall not be made except with the prior approval of our Shareholders in general meeting.

(ii) Any alteration to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme, must be approved by our Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(iii) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

(x) Termination to the Share Option Scheme

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

(y) Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon the Listing Committee granting the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

3. Present status of the Share Option Scheme

Application has been made to the Listing Committee for the listing of and permission to deal in 48,000,000 Shares which fall to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax and other indemnities

Our Controlling Shareholders, Ms. Shen and Mr. Zhou have, under the Deed of Indemnity as referred to in the paragraph headed "Summary of material contracts" in this Appendix, given joint and several indemnities to our Company for itself and as trustee for and on behalf of its subsidiaries in connection with, among other things:

(a) any liability for Hong Kong estate duty which might be payable by any member of our Group under or by virtue of the provisions of section 35 and/or section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any other similar legislation in any relevant jurisdiction outside Hong Kong arising on the death of any person at any time by reason of any transfer of any property to any member of our Group on or before the date on which the Global Offering becomes unconditional;

(b) any taxation which might be payable by any member of our Group (i) in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which Global Offering becomes unconditional; or (ii) in respect of or in consequence of any act, omission, transaction, matter, thing or event occurring or deemed to occur on or before the date on which the Global Offering becomes unconditional, but the indemnifiers will, however, not be liable under the Deed of Indemnity for taxation to the extent that, among others:

   (i) specific provision, reserve or allowance has been made for such taxation liability or taxation claim in the audited combined financial statements of any member of our Group for the Track Record Period; or

   (ii) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the Global Offering becomes unconditional; or

(iii) the taxation liability arises in the ordinary course of business of our Group after 30 June 2021 up to and including the date on which the Global Offering becomes unconditional.

(c) any penalty, claims, actions, demands, proceedings, judgments, losses, liabilities, damages, costs, administrative or other charges, fees, expenses and fines of whatever nature (which shall include legal fees and costs) which may be imposed on, suffered or incurred by any member of our Group as a result of or in connection with (i) any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings (whether criminal, administrative, contractual, tortuous or otherwise), instituted by or against any member of our Group in relation to any act, non-performance, omission, events or otherwise occurred on or before the date on which the Global Offering becomes unconditional; (ii) the implementation of the Reorganisation undergone by our Group in preparation for the Listing and/or disposal or acquisition of the equity interest in any member of our Group since the date of incorporation of each member of our Group and up to the date on which the Global Offering becomes unconditional; and (iii) any non-compliance with the applicable laws, rules or regulations by any member of our Group on or before the date on which the Global Offering becomes unconditional except that provision, reserve or allowance has been made for such liabilities in the audited combined financial statements of our Company or any other member of our Group for the Track Record Period (if any).

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands is likely to fall on our Group.

2. Litigation

Save as disclosed in the paragraph headed "Business — Legal proceedings and compliance" in this prospectus, our Directors confirmed that as at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to our Directors to be pending or threatened by or against any member of our Group.

3. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including any Shares falling to be issued pursuant to the exercise of the Over-allotment Option and any options under the Share Option Scheme).

The Sole Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 3A.07 of the Listing Rules.

We agreed to pay HK$6.0 million to the Sole Sponsor for purposes of services provided by the Sole Sponsor in the capacity of sponsor.

4. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are estimated to be approximately RMB25,000 (equivalent to approximately HK$30,000) and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

6. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
CMBC International Capital Limited	a licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
Grant Thornton Hong Kong Limited	Certified Public Accountants under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) and Registered Public Interest Entity Auditor under the Financial Reporting Council Ordinance (Chapter 588 of the Laws of Hong Kong)
Beijing Dentons Law Offices, LLP	Legal advisers as to PRC laws
Conyers Dill & Pearman	Legal advisers as to Cayman Islands laws
Hogan Lovells	Legal advisers as to International Sanctions laws
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
SHINEWING Risk Services Limited	Internal control consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property Valuer

7. Consents of experts

Each of the experts named in the paragraph headed "E. Other information — 6. Qualification of experts" in this appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its reports and/or letters and/or opinions and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which it is respectively included.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Registration procedures

The principal register of members of our Company in the Cayman Islands will be maintained by Conyers Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained by Computershare Hong Kong Investor Services Limited. Save where our Directors agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

10. Taxation of holders of Shares

(a) Hong Kong

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) Cayman Islands

No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intending holders of our Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in our Shares. It is emphasised that none of our Company, our Directors or other parties involved in the Global Offering accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

11. No material adverse change

Save for the expenses expected to be incurred in connection with the Listing, our Directors confirm that there has not been any material adverse change in the financial or trading position or prospects of our Group since 30 June 2021 (being the date to which the latest audited consolidated financial statements of our Group were made up) and there is no event since 30 June 2021 which would materially affect the information shown in our consolidated financial information included in the Accountants' Report set forth in Appendix I to this prospectus.

12. Miscellaneous

(a) Within the two years immediately preceding the date of this prospectus:

(i) Save as disclosed in the section headed "History, Reorganisation and Corporate Structure" in this prospectus, no share or loan capital of our Company or any of the subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration than cash;

(ii) Save as disclosed in the section headed "Underwriting" in this prospectus, no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of the subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of the subsidiaries;

(iii) no commission has been paid or is payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares or debenture of any of our Company or the subsidiaries;

(iv) no founder, management or deferred shares or any debentures of our Company have been issued or agreed to be issued; and

(v) Save as disclosed in the paragraph headed "D. Share Option Scheme" in this Appendix and the section headed "Structure and Conditions of the Global Offering" in this prospectus, no share or loan capital of our Company or any of the subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(b) Save as disclosed in the section headed "Underwriting" in this prospectus, none of the parties listed in the paragraph headed "Consents of experts" in this Appendix is interested legally or beneficially in any securities of our Company or any of its subsidiaries; or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities of our Company or any of its subsidiaries;

(c) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus;

(d) No company within our Group is presently listed on any stock exchange or traded on any trading system;

(e) Our Group has no outstanding convertible debt securities;

(f) Our Directors have been advised that, under Cayman Islands law, the use of a Chinese name pre-approved by the Registrar of Companies in the Cayman Islands by our Company in conjunction with the English name does not contravene Cayman Islands law;

(g) There is no arrangement under which future dividends are waived or agreed to be waived; and

(h) The English text of this prospectus shall prevail over the Chinese text.

13. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided in sections 4 and 5 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of the **GREEN** Application Form;

(b) copies of the material contracts referred to in the paragraph headed "Statutory and General Information — B. Further information about the Business — 1. Summary of material contracts" in Appendix V to this prospectus; and

(c) the written consents referred to in the paragraph headed "Statutory and General Information — E. Other information — 7. Consent of experts" in Appendix V to this prospectus.

DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Stock Exchange at ***www.hkexnews.hk*** and our website at ***www.vanov.cn*** during a period of 14 days from the date of this prospectus:

(a) the Memorandum of Association and Articles of Association of our Company;

(b) the Accountants' Report and the report on the unaudited pro forma financial information prepared by Grant Thornton Hong Kong Limited, the texts of which are set out in Appendices I and II to this prospectus;

(c) the audited consolidated financial statements of our Company as have been prepared for the companies comprising our Group for the three years ended 31 December 2020 and the six months ended 30 June 2021;

(d) the PRC legal opinions prepared by Beijing Dentons Law Offices, LLP, our PRC Legal Advisers, in respect of certain aspects of our Group as to the PRC law and the property interests of our Group in the PRC;

(e) the letter and valuation certificate relating to the property interest held by our Group as at 31 October 2021 issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the texts of which are set out in Appendix III to this prospectus;

(f) the letter of advice prepared by Conyers Dill & Pearman, our Cayman Islands legal adviser, summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;

(g) the International Sanctions memorandum issued by Hogan Lovells, our International Sanctions Legal Advisers;

(h) the Frost & Sullivan Report issued by Frost & Sullivan;

(i) the report issued by SHINEWING Risk Services Limited;

(j) the material contracts referred to the paragraph headed "Statutory and General Information — B. Further information about the Business — 1. Summary of material contracts" in Appendix V to this prospectus;

(k) the written consents referred to in the paragraph headed "Statutory and General Information — E. Other information — 7. Consents of experts" in Appendix V to this prospectus;

(l) the Companies Act; and

(m) the rules of the Share Option Scheme.

Gobear VANOV

VANOV HOLDINGS COMPANY LIMITED
環龍控股有限公司