

SUMMARY

This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read this document in its entirety before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed “Risk Factors” in this document. You should read that section carefully before you decide to invest in the [REDACTED]. Various expressions used in this summary are defined in the section headed “Definitions and Glossary of Technical Terms” in this document.

BUSINESS OVERVIEW

We are a PRC-based cigarette packaging paper manufacturer with research and development capabilities to supply customised products to our customers. We supply our products primarily to cigarette package manufacturers which operate in different provinces of the PRC, mainly including Hubei Province and Henan Province. The products sold by us are used in the manufacture of cigarette packages for well-known cigarette brands in the PRC. During the Track Record Period, our products were used as cigarette packaging materials for at least nine cigarette brands which were recognised as the “Dual 15 cigarette brands (雙十五煙草品牌)” by the STMA. The “Dual 15 cigarette brands” represent the 15 cigarette brands which derived the highest sales from mid-to-high-end cigarettes in 2020 in the PRC. According to the Industry Report, we were ranked as the largest cigarette packaging paper manufacturer (in terms of sales value) with a market share of approximately 14.9% in Hubei Province in 2020, and the tenth largest cigarette packaging paper manufacturer (in terms of sales value) with a market share of approximately 0.8% in the PRC in 2020. For FY2019, FY2020 and FY2021, our revenue generated from the sales of cigarette packaging paper for the use in the manufacture of cigarette packages for the “Dual 15 cigarette brands” accounted for approximately 64.6%, 78.0% and 76.4% of our revenue derived from the sale of cigarette packaging paper products, respectively^(Note). For further details, please refer to the paragraph headed “Business — Our products and services — Breakdown of our product sales by cigarette brands” in this document.

Note: The classification of our products by the cigarette brands that our products were applied for was compiled based on information provided by our customers and Ipsos and the product description set out in the framework sales agreements and/or purchase orders.

OUR PRODUCTS AND SERVICES

During the Track Record Period, our revenue was mainly derived from the sale of cigarette packaging paper. Our products are categorised into (i) transfer paper; (ii) laminated paper; and (iii) frame paper. To a much lesser extent, we also provide cigarette packaging paper processing services to cigarette package manufacturers. The following table sets forth a breakdown of (i) our revenue, sales volume and average selling price by type of our cigarette packaging paper products; and (ii) revenue generated from the provision of cigarette packaging paper processing services during the Track Record Period:

	FY2019				FY2020				FY2021			
	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price
	RMB'000		tonnes	RMB	RMB'000		tonnes	RMB	RMB'000		tonnes	RMB
			per tonne				per tonne				per tonne	
Sale of cigarette packaging paper												
— Transfer paper	246,017	78.6	16,162	15,200	253,250	79.6	17,326	14,600	312,741	84.5	20,357	15,400
— Laminated paper	61,414	19.6	5,517	11,100	59,616	18.7	5,553	10,700	55,889	15.1	5,137	10,990
— Frame paper	2,328	0.8	312	7,500	1,486	0.4	175	8,500	1,594	0.3	180	8,800
Sub-total	309,759	99.0	21,991		314,352	98.7	23,054		370,224	99.9	25,674	
Provision of cigarette packaging paper processing services												
	3,041	1.0			3,994	1.3			87	0.1		
Total	312,800	100.0			318,346	100.0			370,311	100.0		

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During the Track Record Period, a majority of our revenue was derived from the sales of cigarette packaging paper products applied for mid-to-high-end cigarettes. The table below sets forth a breakdown of our revenue from our sales of cigarette packaging paper products by the categories of cigarettes during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Mid-to-high-end cigarettes <i>(Note 2)</i>						
Tier 1 cigarettes	74,746	24.1	57,100	18.2	47,659	12.9
Tier 2 cigarettes	67,846	21.9	67,958	21.6	72,657	19.6
Tier 3 cigarettes	150,195	48.5	171,823	54.6	238,336	64.4
	292,787	94.5	296,881	94.4	358,652	96.9
Low-end cigarettes <i>(Note 3)</i>						
Tier 4 cigarettes	16,972	5.5	17,471	5.6	11,572	3.1
Tier 5 cigarettes	—	—	—	—	—	—
	16,972	5.5	17,471	5.6	11,572	3.1
Total	309,759	100.0	314,352	100.0	370,224	100.0

Notes:

1. The classification of our products by the tiers of cigarettes that our products were applied for was compiled based on information provided by our customers and Ipsos, and the product description set out in the framework sales agreements and/or purchase orders.
2. Mid-to-high-end cigarettes represent tier 1 to tier 3 cigarettes, with retail price at or above RMB6 per box.
3. Low-end cigarettes represent tier 4 to tier 5 cigarettes, with retail price below RMB6 per box.

Our revenue generated from the sales of cigarette packaging paper products which were used for the manufacture of tier 1 cigarette packages decreased by approximately 23.6%, from approximately RMB74.7 million for FY2019 to approximately RMB57.1 million for FY2020 and further decreased by approximately 16.5% to approximately RMB47.7 million for FY2021, which was mainly attributable to the decrease in sales of cigarette packaging paper to certain major customers for the use in the manufacture of cigarette packages for several tier 1 cigarettes due to, amongst others, (i) the loss of tender and decrease in demand of our major customers in the supply of cigarette packages for several tier 1 cigarettes; and (ii) changes to the package design of a tier 1 cigarette, resulting in a decrease in demand for our cigarette packaging paper products.

Our Directors consider that the decrease in demand or loss of tender by our major customers for the supply of tier 1 cigarette packages were one-off in nature. Notwithstanding the decrease in our revenue generated from the sales of cigarette packaging paper used for the manufacture of tier 1 cigarette packages due to the reasons aforesaid, our Group was able to achieve a growth in our revenue and gross profit and maintain our gross profit margin during the Track Record Period. Based on the aforesaid, our Directors consider that the decrease in demand or loss of tender by our major customers for the supply of tier 1 cigarette packages did not result in any material adverse impact on our Group's business and financial performance.

Our revenue generated from the sales of cigarette packaging paper products which were used for the manufacture of tier 2 cigarette packages remained stable at approximately RMB67.8 million and RMB68.0 million for FY2019 and FY2020, respectively, and subsequently increased to approximately RMB72.7 million for FY2021.

Our revenue generated from the sales of cigarette packaging paper products which were used for the manufacture of tier 3 cigarette packages increased by approximately 14.4%, from approximately RMB150.2 million for FY2019 to approximately RMB171.8 million for FY2020 and further increased by approximately 38.7%, to approximately RMB238.3 million for FY2021, which was mainly attributable to the increase in sales of cigarette packaging paper to certain major customers for the use in the manufacture of cigarette packages for several tier 3 cigarettes due to, amongst others, (i) the increase in tender amount awarded to a major customer for the supply of cigarette packages for certain tier 3 cigarettes; (ii) the award of tenders to a number of our major customers for the supply of cigarette packages for various tier 3 cigarettes; and (iii) the increase in sales of cigarette packaging paper used for newly developed cigarette package for a tier 3 cigarette.

PRODUCTION FACILITY AND CAPACITY

Our self-owned production base, which includes our production facility and office, is located in Hong'an County, Huanggang, Hubei Province, with a gross floor area of approximately 12,000 sq.m.. As at the Latest Practicable Date, we operated a total of seven production lines. Our production lines are commonly applicable to the production of transfer paper, laminated paper and frame paper. Our production workshops are equipped with basic humidity and temperature control systems. For FY2019, FY2020 and FY2021, the utilisation rate of our production facility was approximately 83.3%, 97.4% and 95.4%, respectively.

We are committed to investing in our machinery to enhance our production efficiency and ensure our product quality. Our principal machinery includes laminating machine, crosscutting machine and winding machine. We also possess various testing equipment to conduct measurement on the colour shading, temperature resistance and chemical

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compositions of our products. Our machinery is well-equipped to be used for producing products with different specifications. For further details, please refer to the paragraph headed “Business — Production facility and capacity” in this document.

OUR CUSTOMERS

We supply our products primarily to cigarette package manufacturers which operate in different provinces of the PRC. To a much lesser extent, some of our customers are trading companies in the PRC which on-sell our products to cigarette package manufacturers. The table below sets forth a breakdown of our revenue by customer types during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Cigarette package manufacturers	272,368	87.1	285,152	89.6	316,931	85.6
Trading companies	40,432	12.9	33,194	10.4	53,380	14.4
Total	<u>312,800</u>	<u>100.0</u>	<u>318,346</u>	<u>100.0</u>	<u>370,311</u>	<u>100.0</u>

Our Group has made consistent effort in geographic expansion and diversifying our customer base. Our customers are all situated in China, and a majority of them are situated in Hubei Province and Henan Province. The following table sets forth a breakdown of our revenue by geographical locations of our customers during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Hubei Province	166,038	53.1	186,063	58.4	166,162	44.9
Henan Province	63,883	20.4	94,500	29.7	121,230	32.7
North-east China ^(Note 1)	34,910	11.2	16,959	5.3	44,165	11.9
East China ^(Note 2)	11,280	3.6	13,138	4.1	33,266	9.0
Others ^(Note 3)	36,689	11.7	7,686	2.5	5,488	1.5
Total	<u>312,800</u>	<u>100.0</u>	<u>318,346</u>	<u>100.0</u>	<u>370,311</u>	<u>100.0</u>

Notes:

1. North-east China mainly include Liaoning Province, Jilin Province and Heilongjiang Province.
2. East China mainly include Shanghai Municipality, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province and Shandong Province.
3. Others mainly include Guangdong Province, Shaanxi Province and Chongqing Municipality.

For FY2019, FY2020 and FY2021, we had generated sales from 37, 40 and 34 customers, respectively. For FY2019, FY2020 and FY2021, the percentage of our total revenue attributable to our top customer amounted to approximately 27.1%, 28.8% and 25.4%, respectively, while the percentage of our total revenue attributable to our top five customers combined amounted to approximately 62.7%, 68.6% and 75.4%, respectively. For further details, please refer to the paragraph headed “Business — Our customers” in this document.

OUR SUPPLIERS

The principal types of raw materials for our production process include white cardboard, film and other accessory materials such as glue and ink. We source raw materials from various suppliers in the PRC. For FY2019, FY2020 and FY2021, the percentage of our total purchases attributable from our top supplier amounted to approximately 15.4%, 21.9% and 22.6%, respectively, while the percentage of our total purchases from our top five suppliers combined amounted to approximately 52.3%, 59.0% and 54.0%, respectively. For further details, please refer to the paragraph headed “Business — Our suppliers” in this document.

RESEARCH AND DEVELOPMENT

Our Group places emphasis on research and development. For FY2019, FY2020 and FY2021, the expenses incurred by us on research and development amounted to approximately RMB10.7 million, RMB10.4 million and RMB13.1 million, respectively. Our research and development department comprised 18 personnel as at the Latest Practicable Date. Through our research and development, we had continuously enhanced the anti-counterfeit features, appearances and eco-friendliness of our products, improved our production efficiency and expanded our product offerings in terms of texture, durability and colour mixture. In 2018, we have collaborated with a university in Xi’an in the development of new products and fine-tuning of our production process. In 2021, we have further collaborated with the university in the advancement of our technological innovation capacity. As at the Latest Practicable Date, our Group had registered 24 patents in the PRC which are, in the opinion of our Directors, material to our business. For further information, please refer to the paragraphs headed “Business — Research and development” and “Business — Intellectual property” in this document.

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MARKETING AND PRICING STRATEGY

Our Group seeks new business opportunities mainly through (i) incoming enquiries from new and existing customers; (ii) referrals from existing customers; (iii) identification of tender opportunities by regularly monitoring tender notices published by cigarette package manufacturers on various tendering platforms; and (iv) marketing and promotion activities carried out by our marketing department.

We determine our pricing on a case-by-case basis by adopting a cost-plus pricing approach. After estimating our production costs, which mainly include (i) the estimated material costs; (ii) our direct labour cost; and (iii) our other production costs, our management team will proceed to determine the additional profit margin, taking into account factors including (i) the technical requirements and specifications; (ii) the relationship with the customers; (iii) the market standing and position of the customers; and (iv) the credit history and financial track record of the customers. For further details, please refer to the paragraph headed “Business — Marketing” in this document.

COMPETITIVE LANDSCAPE AND COMPETITIVE STRENGTHS

According to the Industry Report, the cigarette packaging paper manufacturing industry in the PRC is fragmented with over 200 cigarette packaging paper manufacturers competing in the market and the top five manufacturers accounted for a total market share of approximately 12.6% in 2020 in terms of sales value. On the other hand, the overall cigarette packaging paper manufacturing industry in Hubei is concentrated with the top five manufacturers accounting for a total market share of approximately 46.8% in Hubei in 2020 in terms of sales value. Likewise, the cigarette packaging paper manufacturing industry in Henan is relatively fragmented, with over 30 cigarette packaging paper manufacturers in the industry. We were ranked as the largest cigarette packaging paper manufacturer (in terms of sales value) with a market share of approximately 14.9% in Hubei Province in 2020, and the tenth largest cigarette packaging paper manufacturer (in terms of sales value) with a market share of approximately 0.8% in the PRC in 2020.

According to our PRC Legal Advisers, the PRC Government has issued a series of tobacco control policies or health promotion plans which aim to reduce the smoking population in the PRC. Notwithstanding the tightened regulations on smoking control, it is expected that the demand for tobacco products and the number of smokers in the PRC will remain stable according to the Industry Report, mainly due to (i) the enforcement of smoking control is inherently difficult and often costly, taking into account the government cost to be incurred for deploying officers for patrol, human resources for responding to complaints and reports, as well as expenses in relation to prosecution or other enforcement actions against smokers who are in breach of the regulations; and (ii) the PRC Government has not imposed absolute ban on smoking, nor is there any indication that the PRC Government is inclined to do so in the foreseeable future. Hence, it is expected that the demand for tobacco products will remain stable in the forecast period. The number of smokers in the PRC is expected to remain stable at approximately 300 million and the sales volume of cigarettes is forecasted to increase from approximately 2,410.3 billion sticks in 2022 to 2,466.9 billion sticks in 2025 at a CAGR of approximately 0.8%. Along with the promotion of tobacco withdrawal, the PRC Government has taken the health promotion initiative to steer the consumption of cigarettes towards mid-to-high-end cigarettes which are generally associated with higher quality and inflict less harmful effect on health. This, in turn, encourages a shift in the focus of cigarette manufacturers on promoting mid-to-high-end cigarettes.

According to the Industry Report, the total sales value of cigarette packaging paper in the PRC is forecasted to grow from approximately RMB41,155.9 million in 2022 to RMB44,349.5 million in 2025, at a CAGR of approximately 2.5%. The forecasted increase in sales value of cigarette packaging paper manufacturing industry in the PRC is mainly attributable to (i) the continuation of the focus of cigarette industry towards mid-to-high-end cigarettes, which are charged at a higher selling price and generally entail the use of cigarette packaging paper with advanced technical requirements so as to enhance their brand recognition and product appeal; and (ii) the increase in purchasing power of PRC citizens will likely result in a growth in demand for mid-to-high-end cigarettes. Driven by the PRC Government’s policy in promoting mid-to-high-end cigarettes such as the “Three qualities strategy (三品戰略)” which emphasises on improving the quality of cigarettes, variety of cigarette products and reputation of cigarette brands and the “136/345 development goals” which represent a series of targets related to the expansion of cigarette brands that the PRC Government is aiming to achieve in the next four to five years, the demand for mid-to-high-end cigarette packaging paper is expected to maintain a steady growth. For further details, please refer to the section headed “Industry overview” in this document.

We believe that we have the following competitive strengths including: (i) we have established stable business relationship with established cigarette package manufacturers which supply cigarette packages for well-known cigarette brands in the PRC; (ii) we are an established cigarette packaging paper manufacturer located strategically in Hubei Province with solid production capacity; (iii) we possess research and development capabilities to supply customised products to our customers; (iv) we implement stringent quality control management to ensure a high quality standard; and (v) we have an experienced management team. For further details, please refer to the paragraph headed “Business — Competitive strengths” in this document.

BUSINESS STRATEGIES

The principal business objective of our Group is to further strengthen our market position, increase our market share and capture the growth in the PRC cigarette packaging paper manufacturing industry. We intend to achieve our business objective mainly by (i) expanding our production capacity, production efficiency and product portfolio; (ii) enhancing our research and development capabilities; (iii) enhancing our enterprise resource planning system and

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infrastructure systems to improve our operational efficiency; and (iv) increasing our marketing efforts in various provinces in the PRC. For further details, please refer to the paragraph headed “Business — Business strategies” in this document.

RISK FACTORS

Potential investors are advised to carefully read the section headed “Risk factors” in this document before making any investment decision in the [REDACTED]. Some of the more particular risk factors include the following: (i) we derive a substantial portion of our revenue from a limited number of major customers; (ii) there is no minimum purchase amount under the sales arrangements with our customers; and (iii) the economic, political and social conditions in the PRC, as well as government policies, laws and regulations, could adversely affect our business, results of operations and financial condition.

CONTROL ON THE CIGARETTE INDUSTRY AND HEALTH PROMOTION INITIATIVES

According to our PRC Legal Advisers, the PRC Government has promulgated a series of legislative and regulatory control on the cigarette industry and health promotion initiatives. Major legislative and regulatory control and initiatives include:

- Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例》) which took effect on 1 April 1987 and was last amended on 23 April 2019, and the Detailed Rules for the Implementation of the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例實施細則》) which took effect on 1 May 2011 and was subsequently amended on 19 January 2016 and 26 December 2017, prohibits smoking in indoor public areas. Conspicuous no-smoking warnings and signs shall be set up in public operations. Various provincial and municipal government authorities such as Beijing, Shanghai, Shenzhen and another 16 provinces had issued their detailed rules on smoking control in public areas in recent years;
- The Provisions of Regulating the Packaging and Labeling of Domestic Sales of Tobacco (《關於規範境內銷售捲煙包裝標識的規定》), which came into effect on 1 January 2006, requires, amongst others, the warning statement of “Smoking is harmful (吸煙有害健康)” to be shown on cigarette packages and the tobacco manufacturers are responsible for ensuring the compliance with such provisions. The latest announcement “Notice of China National Tobacco Corporation on Further Strengthening the Labeling of Warning Signs on Cigarette Packages (《中國煙草總公司關於進一步加大捲煙包裝警語標識力度的通知》)” issued in 2011, amongst others, prescribes additional requirements on the font size of the warning statement and colour difference for the relevant backgrounds;
- The Advertising Law of the People’s Republic of China (《中華人民共和國廣告法》), which was last amended by the Standing Committee of the National People’s Congress on 29 April 2021, prohibits the publication of tobacco advertisements in the mass media or public places, public transportation and outdoors;
- The “Healthy China 2030” Planning Outline (《健康中國2030規劃綱要》), which was issued by the State Council of the PRC in October 2016, emphasised the need to comprehensively push forward the implementation of tobacco control agreements, intensify tobacco control efforts, and improve the effectiveness of tobacco control through pricing, taxation, and legal means. Further publicity and education on tobacco control will be carried out. The PRC Government will actively promote a smoke-free environment, strengthen the supervision and law enforcement of tobacco control in public places and target to reduce the smoking rate among people aged 15 or above to 20% by 2030;
- The Law of the People’s Republic of China on the Promotion of Basic Medical and Health Care (《中華人民共和國基本醫療衛生與健康促進法》) was issued by the Standing Committee of the National People’s Congress on 1 June 2020 for the purposes of developing the medical and health care cause, ensuring that citizens enjoy basic medical services, improving the health care level of citizens, and promoting the construction of healthy China according to the Constitution of the PRC. The PRC Government will take measures to reduce the harm of smoking to the health of citizens, and control smoking in public places. Supervision and law enforcement will be strengthened. Tobacco product packaging should be printed with warnings describing the dangers of smoking. The sale of tobacco to minors is prohibited.

Taking into consideration our business growth and the forecasted industry growth in the PRC cigarette packaging paper manufacturing industry according to the Industry Report, our Directors considered that the current legislative and regulatory control on the cigarette industry and health promotion initiatives did not have any material impact on our business and financial performance.

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SUMMARY OF HISTORICAL FINANCIAL INFORMATION

Consolidated statements of comprehensive income

The consolidated statements of comprehensive income during the Track Record Period are summarised below, which have been extracted from the Accountant's Report set out in Appendix I to this document:

	FY2019 RMB'000	FY2020 RMB'000	FY2021 RMB'000
Revenue	312,800	318,346	370,311
Cost of sales	<u>(247,050)</u>	<u>(248,236)</u>	<u>(288,522)</u>
Gross profit	65,750	70,110	81,789
Selling expenses	(8,133)	(7,153)	(10,123)
Administrative expenses	(16,985)	(15,700)	(32,389)
Net impairment (losses)/reversal of impairment on financial assets	(2,041)	(1,755)	474
Other income	1,549	3,347	1,972
Other gains — net	<u>44</u>	<u>451</u>	<u>100</u>
Operating profit	40,184	49,300	41,823
Finance income	214	236	1,070
Finance costs	<u>(1,361)</u>	<u>(1,171)</u>	<u>(825)</u>
Finance (costs)/income — net	<u>(1,147)</u>	<u>(935)</u>	<u>245</u>
Profit before income tax	39,037	48,365	42,068
Income tax expense	<u>(4,740)</u>	<u>(6,194)</u>	<u>(6,381)</u>
Profit for the year	<u>34,297</u>	<u>42,171</u>	<u>35,687</u>
Other comprehensive income for the year	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income for the year attributable to owners of the Company	<u>34,297</u>	<u>42,171</u>	<u>35,687</u>

Our revenue increased slightly from approximately RMB312.8 million for FY2019 to approximately RMB318.3 million for FY2020. During the first quarter of FY2020, the business of our Group was substantially disrupted by the outbreak of COVID-19. In particular, transport was severely restricted and manufacturing companies like our Group, were ordered to suspend operations by the PRC Government during the lockdown period in Huanggang, Hubei Province, from 23 January 2020 to 25 March 2020. Our business suspension during the lockdown period had led to a significant decrease in the revenue of our Group recognised during the three months ended 31 March 2020. However, following the resumption of our Group's operations in full scale since late-March 2020, our Group was able to recoup the operational and financial losses due to the COVID-19 and our revenue subsequently increased substantially.

Our net profit increased from approximately RMB34.3 million for FY2019 to approximately RMB42.2 million for FY2020 which was mainly attributable to (i) the increase in our gross profit from approximately RMB65.8 million for FY2019 to approximately RMB70.1 million for FY2020 due to the increase in our revenue as aforementioned; (ii) the decrease in our administrative expenses from approximately RMB17.0 million for FY2019 to approximately RMB15.7 million for FY2020 resulting from the decrease in our staff costs, including directors' emolument; (iii) the increase in our other income from approximately RMB1.5 million for FY2019 to approximately RMB3.3 million for FY2020 which was mainly attributable to the increase in income generated from the sales of raw and waste materials; and (iv) the decrease in selling expenses from approximately RMB8.1 million for FY2019 to approximately RMB7.2 million for FY2020 which was mainly attributable to the decrease in freight charges due to the increase in proportion of sales to customers located within a shorter distance as well as the decrease in salaries and benefits to marketing staff in FY2020.

Our revenue increased from approximately RMB318.3 million for FY2020 to approximately RMB370.3 million for FY2021. Such increase was mainly due to (i) the increase in demand from some of our major customers; (ii) the increase in average selling price of our products upon renewal of certain framework sales agreements with our customers during FY2021; and (iii) our Group was adversely affected by the outbreak of COVID-19 in early 2020 as aforementioned; whereas our Group was under full operation and did not experience any business suspension or disruption due to the outbreak of COVID-19 in FY2021.

Our net profit decreased from approximately RMB42.2 million for FY2020 to approximately RMB35.7 million for FY2021 which was mainly attributable to (i) the increase in our administrative expenses from approximately RMB15.7 million for FY2020 to approximately RMB32.4 million for FY2021 mainly due to the [REDACTED] expenses of approximately RMB12.7 million incurred during FY2021, the increase in research and development expenses and staff costs, including directors' emolument; (ii) increase in our selling expenses from approximately RMB7.2 million for FY2020 to approximately RMB10.1 million for FY2021 mainly due to the lower selling expenses for FY2020 as discussed above; (iii) the decrease in other income from approximately RMB3.3 million for FY2020 to approximately RMB2.0 million for FY2021 which was mainly attributable to the decrease in income generated from sales of raw and waste materials; and partially offset by (iv) the increase in our gross profit from approximately RMB70.1 million for FY2020 to

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approximately RMB81.8 million for FY2021 which was mainly attributable to the increase in our revenue as aforementioned. For further details of the reasons for the fluctuation in our revenue and net profit, please refer to the paragraph headed “Financial information — Period-to-period comparison of results of operations” in this document.

Highlights of our consolidated statements of financial position

	As at 31 December 2019 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Non-current assets	34,762	31,863	28,607
Current assets	259,966	295,707	265,119
Inventories	40,701	37,438	50,099
Trade receivables	148,525	142,418	145,076
Bills receivable	32,600	9,228	—
Prepayments and other receivables	1,147	614	5,106
Amount due from a related party	1,550	—	—
Restricted cash	8,908	68,450	6,260
Cash and cash equivalents	26,535	37,559	58,578
Non-current liabilities	1,752	1,710	1,668
Current liabilities	192,475	222,678	191,061
Trade and other payables	149,416	199,632	128,258
Bank borrowings	24,545	21,532	10,017
Dividends payable	17,401	—	37,872
Lease liabilities	42	—	43
Amount due to related parties	—	—	13,051
Current income tax liabilities	1,071	1,514	1,820
Net current assets	67,491	73,029	74,058
Net assets	100,501	103,182	100,997

For further details, please refer to the paragraph headed “Financial information — Discussion on selected financial position items” in this document.

Our net current assets increased from approximately RMB67.5 million as at 31 December 2019 to approximately RMB73.0 million as at 31 December 2020. Such increase was mainly due to the combined effects of (i) the increase in our restricted cash as a result of increase in issuance of bills payable in respect of future settlement to suppliers; (ii) the increase in our cash and cash equivalents; and partially offset by (iii) the increase in our trade and other payables mainly attributable to the increase in bills payable for the purchase of raw materials from our suppliers which was in line with the increase in restricted cash.

Our net assets increased from approximately RMB100.5 million as at 31 December 2019 to approximately RMB103.2 million as at 31 December 2020, by approximately RMB2.7 million, which was mainly attributable to (i) the net effect of our net profit of approximately RMB42.2 million for FY2020 and our dividends declared of approximately RMB39.5 million for FY2020.

Our net current assets slightly increased from approximately RMB73.0 million as at 31 December 2020 to approximately RMB74.1 million as at 31 December 2021. Such increase was mainly due to the combined effects of (i) the decrease in trade and other payables; (ii) the decrease in bank borrowings; (iii) the increase in our cash and cash equivalents; partially offset by (iv) the increase in dividends payable; and (v) the decrease in our restricted cash. For further details, please refer to the paragraph headed “Financial information — Net current assets” in this document.

Our net assets decreased from approximately RMB103.2 million as at 31 December 2020 to approximately RMB101.0 million as at 31 December 2021, by approximately RMB2.2 million, which was mainly attributable to (i) the net effect of our net profit of approximately RMB35.7 million for FY2021 and our dividends declared of approximately RMB37.9 million for FY2021.

Cash flows

	FY2019 <i>RMB'000</i>	FY2020 <i>RMB'000</i>	FY2021 <i>RMB'000</i>
Net cash generated from operating activities	24,415	70,770	28,628
Net cash (used in)/generated from investing activities	(1,259)	(107)	37
Net cash (used in) financing activities	(20,178)	(59,639)	(7,687)
Net increase in cash and cash equivalents	2,978	11,024	20,978
Cash and cash equivalents at beginning of year	23,557	26,535	37,559
Exchange differences on cash and cash equivalents	—	—	41
Cash and cash equivalents at end of year	<u>26,535</u>	<u>37,559</u>	<u>58,578</u>

SUMMARY

Key financial ratios

	FY2019 or as at 31 December 2019	FY2020 or as at 31 December 2020	FY2021 or as at 31 December 2021
Revenue growth	33.7%	1.8%	16.3%
Net profit growth	9.5%	23.0%	(15.4)%
Gross profit margin	21.0%	22.0%	22.1%
Net profit margin	11.0%	13.2%	9.6%
Return on equity	34.1%	40.9%	35.3%
Return on total assets	11.6%	12.9%	12.1%
Current ratio	1.4 times	1.3 times	1.4 times
Quick ratio	1.1 times	1.2 times	1.1 times
Inventory turnover days	62.2 days	57.4 days	55.4 days
Trade receivables turnover days	158.7 days	166.8 days	141.7 days
Trade payables turnover days	168.7 days	177.9 days	138.6 days
Gearing ratio	24.5%	20.9%	10.0%
Net debt to equity ratio	Net cash	Net cash	Net cash
Interest coverage	29.7 times	42.3 times	52.0 times

For FY2019, FY2020 and FY2021, our Group’s gross profit margin remained relatively stable at approximately 21.0%, 22.0% and 22.1%, respectively, as the increase in our cost of sales was generally in line with the increase in our revenue growth.

Our net profit margin increased from approximately 11.0% for FY2019 to approximately 13.2% for FY2020. Such increase was mainly due to (i) the increase in gross profit margin; and (ii) the increase in our other income. Subsequently, our net profit margin decreased to approximately 9.6% for FY2021 mainly due to the net effect of the increase in revenue and gross profit, and the increase in administrative expenses.

Our return on equity increased from approximately 34.1% for FY2019 to approximately 40.9% for FY2020 mainly attributable to our Group’s enhanced profitability with the increase in our Group’s net profit margin. Subsequently it decreased to approximately 35.3% for FY2021 mainly due to the net effect of the increase in revenue and gross profit, and the increase in administrative expenses.

Our gearing ratio decreased from approximately 24.5% as at 31 December 2019 to approximately 20.9% as at 31 December 2020 and further decreased to approximately 10.0% as at 31 December 2021. Such changes in our gearing ratio was mainly due to the fluctuations in our total borrowings, given our equity base has remained relatively stable as at these reporting dates.

Our interest coverage increased from approximately 29.7 times for FY2019 to approximately 42.3 times for FY2020 and increased further to approximately 52.0 times for FY2021. Such increase was mainly due to the decrease in our bank borrowings during the Track Record Period.

For further details on the reasons for the fluctuation in our key financial ratios, please refer to the paragraph headed “Financial information — Key financial ratios” in this document.

CONTROLLING SHAREHOLDERS

Immediately after completion of the [REDACTED] and the [REDACTED] (without taking into account any Share that may be allotted and issued upon the exercise of the [REDACTED] or any option which may be granted under the Share Option Scheme), our Company will be owned as to [REDACTED]% by City Ease. City Ease is an investment holding company incorporated in the BVI and is wholly owned by Mr. Chen. As Mr. Chen through City Ease controls more than 30% of voting rights at general meetings of our Company, Mr. Chen and City Ease are regarded as our Controlling Shareholders within the meaning of the Listing Rules. For further details about our Controlling Shareholders, please refer to the section headed “Relationship with our Controlling Shareholders” in this document.

PRE-[REDACTED] INVESTMENT

On 12 April 2021, as part of our Reorganisation, Mr. Hu and the Pre-[REDACTED] Investor, entered into an equity transfer agreement, pursuant to which, Mr. Hu agreed to sell and transfer to the Pre-[REDACTED] Investor, and the Pre-[REDACTED] Investor agreed to acquire from Mr. Hu, 3.00% of equity interest in Hubei Qiangda at a consideration of RMB3.927 million. The consideration was agreed by the parties after arm’s length commercial negotiation. Immediately upon the completion of the [REDACTED] and the [REDACTED] (without taking into account any Share which may be allotted and issued upon the exercise of the [REDACTED] and any option which may be granted under the Share Option Scheme), the Pre-[REDACTED] Investor will own [REDACTED]% of the issued share capital of our Company. For further details, please refer to the paragraph headed “History, development and Reorganisation — Pre-[REDACTED] Investment” in this document.

[REDACTED] STATISTICS

Number of the [REDACTED]	:	[REDACTED] Shares (subject to the [REDACTED])
[REDACTED]	:	Not more than HK\$[REDACTED] per [REDACTED] and expected to be not less than HK\$[REDACTED] per [REDACTED] (excluding brokerage, Stock Exchange trading fee, FRC transaction levy and SFC transaction levy)

SUMMARY

	Based on an [REDACTED] of HK\$[REDACTED] per Share HK\$	Based on an [REDACTED] of HK\$[REDACTED] per Share HK\$
Market capitalisation <i>(Note 1)</i>	[REDACTED]	[REDACTED]
Unaudited pro forma adjusted consolidated net tangible assets per Share <i>(Note 2)</i>	[REDACTED]	[REDACTED]

Notes:

1. The calculation of the market capitalisation of the Shares is based on [REDACTED] Shares in issue and to be issued immediately after completion of the [REDACTED] and taking no account of any Shares which may be issued pursuant to the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme or Shares which may allotted and issued or repurchased by our Company pursuant to the general mandate and the repurchase mandate.
2. Please refer to Appendix II to this document for the bases and assumptions in calculating the figures.

[REDACTED] EXPENSES

Our Directors estimate that the total amount of expenses in relation to the [REDACTED] is approximately RMB[REDACTED] million (equivalent to approximately HK\$[REDACTED] million), comprising (i) [REDACTED]-related expenses, including [REDACTED] commission and other expenses, of approximately RMB[REDACTED] million (equivalent to approximately HK\$[REDACTED] million); and (ii) non-[REDACTED]-related expenses of approximately RMB[REDACTED] million (equivalent to approximately HK\$[REDACTED] million), including (a) fees paid and payable to legal advisers and reporting accountant of approximately RMB[REDACTED] million (equivalent to approximately HK\$[REDACTED] million); and (b) other fees and expenses, including sponsor fees, of approximately RMB[REDACTED] million (equivalent to approximately HK\$[REDACTED] million). Out of the amount of approximately RMB[REDACTED] million (equivalent to approximately HK\$[REDACTED] million), approximately RMB[REDACTED] million (equivalent to approximately HK\$[REDACTED] million) is directly attributable to the issue of the [REDACTED] and is expected to be accounted for as a deduction from equity upon [REDACTED]. The remaining amount of approximately RMB[REDACTED] million (equivalent to approximately HK\$[REDACTED] million), which cannot be so deducted, shall be charged to profit or loss, among which, approximately RMB12.7 million (equivalent to approximately HK\$15.0 million) has been charged during FY2021, while approximately RMB[REDACTED] million (equivalent to approximately HK\$[REDACTED] million) is expected to be incurred during FY2022. The [REDACTED] expenses are expected to represent approximately [REDACTED]% of the gross proceeds of the [REDACTED], assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the indicative [REDACTED] range) and the [REDACTED] is not exercised. Expenses in relation to the [REDACTED] are non-recurring in nature. Our Group’s financial performance and results of operations for FY2022 will be adversely affected by the estimated expenses in relation to the [REDACTED].

IMPACT OF THE OUTBREAK OF COVID-19 ON OUR OPERATIONS

There was an outbreak of COVID-19 in the PRC in early 2020. The PRC Government imposed a lockdown in Huanggang, Hubei Province from 23 January 2020 to 25 March 2020 (the “**Lockdown Period**”). Transport was severely restricted, public transits, airports and major highways were closed and all non-essential companies, including manufacturing companies like our Group, were ordered to suspend operations during the Lockdown Period.

In response to the requirements of the local government authorities, our business operations were suspended during the Lockdown Period. Our Group has resumed business operation in full scale since late-March 2020 and our Group had not experienced any material operational disruption thereafter due to the outbreak of COVID-19. Based on publicly available information, there has been an increase in the number of COVID-19 cases in various areas of the PRC during the period from March to early-May 2022, including in particular the Shanghai Municipality (the “**Recent PRC Outbreak**”). The Recent PRC Outbreak has been largely contained by late-May 2022 and Shanghai has lifted COVID-19 lockdown restrictions since 1 June 2022. Our Directors consider that the Recent PRC Outbreak has not resulted in material adverse impact on our business and financial performance up to the Latest Practicable Date because: (i) the COVID-19 lockdown restrictions in Shanghai have been lifted since 1 June 2022; (ii) except for a customer based in Shanghai which has temporarily suspended placing purchase orders with us during the Recent PRC Outbreak, our Group did not experience any significant reduction in purchase orders from other customers up to the Latest Practicable Date; (iii) such customer based in Shanghai was not one of our top five customers during the Track Record Period and it accounted for approximately 4.7% of our Group’s total revenue for FY2021, and our Directors believe that, based on our past experience, reductions in purchase orders from customers due to COVID-19 outbreaks would normally be only temporary and demands for our products from affected customers would generally resume eventually along with the containment of the outbreak in the region; (iv) up to the Latest Practicable Date, there has been no material impact on the supply of raw materials to us as a result of the Recent PRC Outbreak, as none of our suppliers has informed us of any material impact on their operations; and (v) up to the Latest Practicable Date, there has been no material impact on the operation of our Group’s production facilities, as Hubei Province has not experienced any major outbreak of COVID-19 recently despite the Recent PRC Outbreak. Our Directors further confirmed that none of our employees had been tested positive for COVID-19 as at the Latest Practicable Date. Our Directors believe that, based on information up to the Latest Practicable Date, the outbreak of COVID-19 would not have material impact on our business and financial performance in the long-run. For further details, please refer to the paragraph headed “Business — Impact of the outbreak of COVID-19 on our operations” in this document.

SUMMARY

LEGAL COMPLIANCE

During the Track Record Period, we had certain non-compliance incidents relating to the laws and regulations in the PRC. Our Group failed to apply for relevant construction permits before construction and obtain real estate certificates for five properties in our production facility and failed to make adequate social insurance and housing provident fund contributions for all our employees in accordance with certain legal and statutory requirements in the PRC during the Track Record Period. For further details, please refer to the paragraph headed “Business — Legal compliance” in this document.

LITIGATION AND CLAIMS

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our business, results of operations or financial condition.

DIVIDEND

For each of FY2019, FY2020 and FY2021, we declared dividends of approximately RMB42.5 million, RMB39.5 million and RMB37.9 million, respectively, to our then shareholders. Out of the dividends of approximately RMB42.5 million we declared in FY2019, approximately RMB15.9 million was declared out of the profit and total comprehensive income for the year ended 31 December 2017 and approximately RMB26.6 million was declared out of the profit and total comprehensive income for FY2018.

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 predetermined dividend payout ratio.

FUTURE PLAN AND USE OF [REDACTED]

The net [REDACTED] to be received by us from the [REDACTED] (assuming the [REDACTED] is not exercised) based on the [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] per [REDACTED] to HK\$[REDACTED] per [REDACTED], after deducting the related expenses in connection with the [REDACTED], are estimated to be approximately HK\$[REDACTED] million. Our Directors presently intend that the net [REDACTED] will be applied as follows: (i) approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the estimated net [REDACTED], will be used for constructing a two-storey factory building; (ii) approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the estimated net [REDACTED], will be used for acquiring four sets of advanced laminating machine and ten sets of automatic control system; (iii) approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the estimated net [REDACTED], will be used for enhancing our research and development capabilities by constructing a research and development centre, acquiring three types of advanced research and development equipment and four types of advanced testing equipment, and recruiting four additional research and development staff members; (iv) approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the estimated net [REDACTED], will be used for enhancing our enterprise resource planning system and infrastructure systems; (v) approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the estimated net [REDACTED], will be used for increasing our marketing efforts by establishing three sales centres in Shanghai Municipality, Yunnan Province and Henan Province; and (vi) approximately HK\$[REDACTED] million (equivalent to approximately RMB[REDACTED] million), representing approximately [REDACTED]% of the estimated net [REDACTED], will be reserved as our general working capital.

RECENT DEVELOPMENT

Our Directors confirm that, save as the expenses in connection with the [REDACTED], up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since 31 December 2021, and there had been no events since 31 December 2021 which would materially affect the information shown in our consolidated financial statements included in the Accountant’s Report.